DEVELOPMENT | SUSTAINABILITY | EXPANSION

VISION

CAPACITY

RESOURCES

LINKAGES

An Institutional Guide for Enterprise Development Organizations

Includes a Comprehensive Tools Section

Elaine Edgcomb and James Cawley, Editors

SEEP
The Small Enterprise Education and Promotion Network

AN INSTITUTIONAL GUIDE FOR ENTERPRISE DEVELOPMENT ORGANIZATIONS

JORGE BAANANTE
Pan American Development Foundation

LARRY FRANKEL
CARE, Inc.

KARIE BROWN
Katalysis: North/South
Development Partnerships

ELLEN PRUYNE
Plan International

ROSS CROULET
Opportunities Industrialization Council,
International

LARRY REED
Opportunity International

and

ELAINE EDGCOMB AND JAMES CAWLEY, Editors
The SEEP Network

The Small Enterprise Education and Promotion Network

New York

Printed in the United States of America.

Produced for The SEEP Network by:

PACT *Publications*
777 United Nations Plaza
New York, New York 10017

Library of Congress Catalog Card Number: 93-084252

Elaine Edgcomb and James Cawley, Editors

An Institutional Guide for Enterprise Development Organizations

ISBN 0-9637044-0-0

Printed in the United States of America

CONTENTS

ACKNOWLEDGMENTS		xi

PART I. THE GUIDEBOOK

ONE.	HOW TO USE THIS BOOK	3
	Introduction	3
	Background	3
	How to Use this Book	4
TWO.	KEY CONCEPTS AND RELATIONSHIPS	7
	Small Enterprise	7
	Sustainability	9
	Institutional Development	10
THREE.	WHERE ARE WE NOW AND WHERE DO WE WANT TO GO?	11
	A Framework for Institutional Development	11
	Using the Framework as a Diagnostic	18
FOUR.	THE DEVELOPMENT STAGE: CREATING AN EFFECTIVE PROGRAM	21
	D-1 Develop a Vision	22
	D-2 Develop Leadership at the Board and Executive Level	28
	D-3 Develop the Strategic Plan	35
	D-4 Create the Core Organizational Structure	42

D-5	Recruit, Train and Evaluate Staff	45
D-6	Set up Systems to Ensure Accountability	47
D-7	Adapt the Methodology During Implementation	62
D-8	Project Financial Requirements	64
D-9	Acquire Resources	69
D-10	Choose Partners	71
FIVE.	**THE SUSTAINABILITY STAGE: DEVELOPING A PROGRAM THAT CAN KEEP GOING ON ITS OWN**	**75**
S-1	Examine and Refine Vision	77
S-2	Develop Systems for Board Evaluation and Rotation	81
S-3	Plan for Chief Executive Succession	83
S-4	Standardize Systems for Increased Control	85
S-5	Refine Methodology	100
S-6	Develop and Maintain Personnel	106
S-7	Improve Cost Recovery	111
S-8	Improve Repayment Rates	114
S-9	Review Financial Viability Projections	116
S-10	Expand Donor Base for Non-Credit Activities	118
S-11	Establish a Niche	119
S-12	Join Associations for Learning and Policy Impact	121
SIX.	**THE EXPANSION STAGE: AIMING FOR SIGNIFICANT IMPACT**	**125**
E-1	Evaluate and Revise the Vision/Mission Statement to Express the Goal of Expansion	129
E-2	Strengthen Entrepreneurial Quality of Board and Executive	131
E-3	Undertake Long-Range Strategic and Financial Planning	133
E-4	Revise Methodology to Reflect Specialization	137
E-5	Re-form or Revise Organizational Structure	138

E-6 Strengthen Capacity for Financial Analysis and Management 145

E-7 Mobilize Financial Resources for Expansion 152

E-8 Establish and Implement a Policy Formation Strategy 160

POST SCRIPT 165

PART II. RESOURCES

TOOLS

1. Affiliate Agreement and Affiliate Agreement Monitoring Checklist 171
2. Board of Directors Development Matrix 193
3. Board of Directors Sources of Information 199
4. Borrower Records 203
5. Credit Program Financial Reporting System 219
6. Critical Incidents in Defining Small Enterprise Development Project Goals 231
7. Guidelines for Loan Policies and Procedures for Small Enterprise Development 237
8. Job Descriptions and Task Analysis for Small Enterprise Development-Related Positions 249
9. Personnel Evaluation Instrument 257
10. Program Director Selection Process Checklist 263
11. Sustainability Strategy Planning and Design 267

GLOSSARY OF KEY FINANCIAL TERMS 275

TABLE OF FINANCIAL FORMULAS 281

RECOMMENDED MANUALS, GUIDEBOOKS AND MONOGRAPHS 285

BIBLIOGRAPHY 297

LIST OF TABLES

1. Institutional Development in the Small Enterprise Sector: A Framework 12
2. Diagnostic Framework: Indicators of Institutional Development 19
3. Board Member Assessment Worksheet 32
4. Tools for Environmental Assessment: A Comparison 37
5. Credit Office Task List 44
6. Information Management Framework 50
7. Design Modification Worksheet 63
8. Assess a Partner 72
9. Board Retreat Agenda 80
10. Comparison of Cost and Income Structures 97
11. Loan Processing Audit 103
12. Map of the Credit and Training Sectors 120
13. Levels of Financing Available 154

LIST OF CHECKLISTS

1. Steps Toward a Vision 26–27
2. Steps to Board Development 30–31
3. Functions of a Manager 34
4. Policies and Procedures 40
5. Maintaining Vision 79
6. Simplifying Procedures 102
7. Expansion of Vision 130
8. Strategic Planning for Organizational Transformation 133
9. Replicability 139
10. Apex Membership Criteria 141
11. Requisites for Facilitation 141
12. Guarantee Fund Technical Issues 159
13. Policy Formation 163

LIST OF SAMPLES

1. Vision, Mission and Goals for Zambuko Trust, Zimbabwe 38
2. Action Plan for Zambuko Trust, Zimbabwe 41
3. Commonly Used Performance Indicators 48
4. Benefits of Partnership 72
5. Executive Director Job Description 84
6. CARE Impact Evaluation System 86
7. Computer Configurations 98
8. Models of Decentralization 104–105
9. Regional Training Centers 109–110
10. Models of Expansion 126
11. Issues in Microenterprise Finance Expansion 136

LIST OF FINANCIAL STATEMENTS

4.1 Cash Flow Projection 54

4.2 Budget vs. Actual Statement 55

4.3 Income and Expense Statement: Women's Association Fund of Orlandia 56

4.4 Balance Sheet: Women's Association Fund of Orlandia 57

4.5 Sources and Uses of Funds: Women's Association Fund of Orlandia 58

4.6 Portfolio Statistical Information: Women's Association Fund of Orlandia 59

4.7 Program Assumptions 65

4.8 Cost Assumptions 65

5.1 Program Information: Microenterprise Lending, Inc. 88

5.2 Balance Sheet: Microenterprise Lending, Inc. 89

5.3 Income and Expense Statement: Microenterprise Lending, Inc. 90

5.4 Sources and Uses of Funds: Microenterprise Lending, Inc. 90

5.5 Portfolio Statistical Information: Microenterprise Lending, Inc. 91

ACKNOWLEDGMENTS

This book is the culmination of a long process of research, writing, and consultation on the subject of institutional development in the small enterprise sector. It has engaged many members of the SEEP Network and their partners, and most particularly those that have participated in the Institutional Development Working Group since 1989.

As with other Network projects, the development of this Guidebook has been a truly collaborative effort. The authors drafted, circulated, and discussed their sections in round table sessions of the Working Group. Each chapter was strengthened through the revisions and additions of other writers as we moved the book closer to its final form. In this way, individual efforts are closely intertwined. Nevertheless, we wish to acknowledge the special contributions of each author.

Larry Reed is the primary author of Chapter Five on Sustainability. Ross Croulet, Karie Brown, Jorge Baanante, Larry Frankel, and Ellen Pruyne all contributed Tools to the Resource Section. Ellen also did the research and annotation for the Recommended Manuals, Guidebooks and Monographs, as well as drafted sections of Chapters Four, Five, and Six that related to program and financial accountability issues. We were primarily responsible for the balance of the Chapters, as well as for the book's final organization and editing.

There are other contributors as well whose names do not appear on the title page, but without whose efforts this book would not have been possible. They include Suzanne Kindervatter and Maria Otero, early members of the Institutional Development Working Group, who offered many helpful insights during the development and application of the framework used in this book, and Candace Nelson whose editorial assistance strengthened the content of Part I.

Special thanks must also be offered to Didier Thys, Christopher Gilson, and Judith Painter of Catholic Relief Services who offered us the opportunity and underwrote the costs of field testing the book with CRS staff in Latin America and Africa. To the greatest extent possible, we have incorporated recommendations from the CRS staff to improve the accuracy, readability, and usefulness of the book for field level practitioners.

We gratefully acknowledge our donors — the Ford Foundation which provided a special grant for the development and production of the book, and the Agency for International Development's Office of Private and Voluntary Cooperation whose core underwriting support of SEEP provided complementary funds for this effort. Grant officers, first Peggy Clark, then Lisa Mensah and Betsy Campbell of the Foundation, and Devorah Miller of AID deserve special gratitude for their patience and flexibility in supporting this project through to completion.

Every project of this magnitude requires significant administrative backing, and this one was no exception. Ruth Khan ably undertook the tasks of arranging work group meetings, organizing review manuscripts, administering grant funds, and following up specific assignments with members. She has been the project's principal cheerleader, and we have appreciated her positive and willing spirit.

Finally, we would be remiss if we did not acknowledge the many contributions of SEEP members and their partners, whose experience serves as the basis for the lessons and guidance contained in the Guidebook. We applaud their willingness to share both their triumphs and their tragedies, as well as their constancy and dedication to the working poor in the South and North. Their innovative spirit offers great hope for significant change in the lives of their clients in the years ahead.

Elaine Edgcomb
James Cawley
Editors

PART I

THE GUIDEBOOK

ONE.	How to Use this Book
TWO.	Key Concepts and Relationships
THREE.	Where Are We Now and Where Do We Want to Go?
FOUR.	The Development Stage: Creating an Effective Program
FIVE.	The Sustainability Stage: Developing a Program that Can Keep Going on its Own
SIX.	The Expansion Stage: Aiming for Significant Impact
	POST SCRIPT

CHAPTER ONE

HOW TO USE THIS BOOK

Introduction

This Guidebook to institutional development has been written with one main purpose: to assist private development organizations to think through and address a broad range of institutional issues as they implement micro and small enterprise development programs. The book is based on several years of discussion and writing by members of the Small Enterprise Education and Promotion (SEEP) Network's Institutional Development Working Group. SEEP is an association of North American private development organizations which support micro and small enterprise programs in the developing world. Its mission is to promote professional standards of practice, conduct an education program for practitioners, and create publications for field use.

The content of this book is the result of the collective experience of a large number of organizations — both members of the SEEP Network and their Southern partners. Its fundamental premise is that effectiveness in enterprise development requires more than knowing how to select and apply the right methodology; it requires understanding that the very practice of the sector brings with it a host of implications that affect the institution in all its aspects — from the broad sweep of its vision to the minutiae of its reporting formats. Organizations that recognize this and systematically attend to developing the whole institution in relationship to the imperatives of enterprise practice, will succeed. Those that do not will ultimately find themselves facing internal contradictions that impede effectiveness and lead to failure.

Background

The Working Group wrote or reviewed over 25 case studies of private development organizations at different stages of their evolution, and analyzed them for common themes and lessons. The group also participated in preparing two papers that summarize these points[1] and shared these findings in two seminars. This Guidebook takes that effort one step further by trying to offer a more practical roadmap for practitioner agencies that are trying to "grow" their organizations, just as they help clients "grow" their own businesses. In doing this, the book offers the user the following:

- A framework for understanding the institutional demands that small enterprise programming makes; the framework also serves as a practical tool for diagnosing an agency's level of institutional development and areas that require attention.
- An outline of the major tasks that institutions face at each stage of their development, along with a summary of key findings that have emerged regarding each.
- A variety of tools, tips, and case studies that offer the reader a starting point for work on many of the tasks outlined. Some tools and worksheets are included in Chapters One through Six. More substantive materials that represent practical methods used by SEEP members are also included in the Tools Section.
- A reference guide to other materials that offer more in-depth assistance on important questions that cannot be fully treated within the confines of this book.

How to Use This Book

It is important to emphasize that this book does not comprehensively address all the institutional development issues that an agency will face on its road to maturity. But it does offer a way for readers to think systematically about the issues their institutions face, and suggests practical steps to address them. To use the book, follow these steps:

- Read Chapter Two to understand the principles that underscore this book: it further explains the relationship between good enterprise practice, sustainability and institutional development.
- Read Chapter Three for a fuller introduction to the concept and framework of institutional development. Use the diagnostic in this chapter to analyze areas for organizational attention and action.
- Refer to those sections of Chapters Four, Five and Six most relevant to the identified areas or tasks. The Development Chapter (Four) largely addresses the issues associated with the first few years of an organization's life, or involvement with enterprise development. The Sustainability Chapter (Five) concerns itself with the maturing organization's efforts to secure an effective, long-term program, and the Expansion Chapter (Six) outlines the tasks and issues associated with scaling programs up to benefit large numbers of poor people. Nevertheless, it is understood that an organization in one stage may

[1] **Small Enterprise Development and Income Generating Activities Through Indigenous Nongovernmental Organizations: Towards a Strategy**, submitted to the International Labour Office, 1989, and **The Process of Institutional Development: Assisting Small Enterprise Institutions to Become More Effective**, GEMINI Working Paper No. 15, 1991.

still need to address tasks more closely associated with an earlier stage or later one. The book is designed for readers to utilize what most suits their needs.

- Use the Tools found in Part II: Resources to get additional support in accomplishing key tasks. The Tools include a variety of formats, sample documents, question guides, and sequenced planning processes to help readers with requirements such as board development, staffing issues, strategic planning, partner contracts, and credit program management.
- Refer to the Recommended Manuals, Guidebooks and Monograph for further assistance.

Two final points need to be made. The first is about language. While a Glossary is included at the end, it is important to clarify at least two terms that are used repeatedly throughout the book. One is private development organization, or PDO. Most often these organizations are called nongovernmental organizations. We prefer to use a term that describes more positively what these organizations are, rather than what they are not, and one that refers to both Northern and Southern agencies working in this important sector.

The other term is small enterprise development, or SED. In recent years, practitioners of self-employment and enterprise development have described the many levels at which assistance is provided with labels such as poverty lending (programs directed to the poor with fewest assets), microenterprise (directed to the tiniest firms of one or a few people), and small enterprise development (directed to somewhat larger firms and cooperative-based forms of work.) For ease of discussion, this book will generally use the last term to refer to work done at all three levels.

The final point is about the intended users of this book, the private development organizations of the North and South. The book is written primarily with the perspective of implementing agencies in mind and it is recognized that these take many forms. Within the SEEP Network alone, there are specialized agencies that focus exclusively on the practice of enterprise development; there are large multisectoral agencies that seek to integrate SED with other areas of work; and there are smaller agencies which have found unique ways to incorporate SED into a previously held, important mandate. Some focus exclusively on credit, some offer only technical assistance, and some combine a variety of services on behalf of their clients. While it is impossible to do this diversity justice, it is hoped that the book's essential points will be relevant to many of them. It is also hoped that for those whose role it is to facilitate partners rather than work directly, this Guidebook will provide useful concepts and tools for their important efforts.

CHAPTER TWO

KEY CONCEPTS AND RELATIONSHIPS

Many private development organizations find themselves at the historical convergence of three trends. The first of these is the emergence and increasing importance of small enterprise development within the community of agencies. Second is the emphasis on long-term sustainability of efforts in all sectors. And third is the growing acknowledgment that strong and mature institutions are the critical component in successful management of all development programs. Given the unique demands that effective, sustainable small enterprise development places on those who wish to do it well, it becomes evident that attention must be focused on the institutional development needs of the PDOs that take up these challenges.

The Guidebook is grounded in concepts that underlie each of these trends. This chapter will explain each one in order to build a foundation for the discussion points, illustrative examples and exercises the reader will encounter throughout the rest of the book. Finally, it will provide a brief commentary on partnership and examine how these trends impact those Northern and Southern PDOs who collaborate in small enterprise development.

Small Enterprise

The development activities conducted by PDOs today originated from post-World War II relief efforts. As activities spread from Europe to the South in the 1950s and 60s, organizations maintained a focus on relief and welfare. By the 1970s, however, PDOs sought to implement programs that would have greater impact over time. The move from relief to long-term development engendered a new focus for many institutions on directly improving the economic status of the poor — through increased income, job creation and the promotion of new business opportunities. Generically called small enterprise development (SED), this type of program has grown, diversified, and in a few cases, matured over the past 15 years.

The burgeoning small enterprise programs can be explained further by the following developments that occurred during roughly the same period:

- The growth of the informal sector in Southern economies led development practitioners to recognize its vital importance to the poor as a principal source of both employment and goods and services.
- The pursuit of more participatory forms of development responding to locally-defined priorities led agencies to heed repeated requests for new opportunities to increase income.
- The recognition of the critical contributions women make to household economic survival prompted efforts to improve their productivity and open new opportunities for nontraditional employment.

Today, SED programs target the economically disadvantaged engaged in productive activities that range from small scale agroindustry to the production and distribution of all basic goods and services. The terms "small" and "micro" often used to describe these enterprises are a matter of perspective. For SEEP, a microenterprise is typically an informal operation, often based in the home, with less than five employees. While small enterprises are often still rooted in the informal economy, they have more employees and may have premises such as a retail shop or workshop. Some programs assist group-owned enterprises or formally established cooperatives with 20 to 30 workers.

The methods used to promote SED are almost as diverse as the clients assisted: **financial services** including credit and savings; **training** that targets vocational skills and business management; and **technical assistance** with product development, marketing and financing are some of the methods most commonly employed. Of course, each of these broad rubrics embraces different approaches to answer questions such as: How should credit be delivered and on what terms? When should training be offered and which educational methods are most effective? What are the problem areas in this type of business? How can these be addressed most efficiently to assist the largest number of entrepreneurs?

Despite this diversity, certain lessons are emerging from this period of growth and development in the SED field. Some of these lessons are difficult ones for implementing institutions with values embracing community well-being and social change that seem to conflict with business principles. Nevertheless, there is a growing consensus that sustainable (and this is the key word) SED programming is built on the following principles:

1. A **vision** that clarifies who the organization seeks to serve and recognizes that they share a set of mutual rights and responsibilities.
2. A **methodology** that consists of clearly defined tactical steps to achieve program goals consonant with the organization's vision. The most effective of these emphasize simple concepts easily understood by clients, streamlined procedures, a stepped approach to credit or other services, group formation to support compliance and foster human development, and market-driven costing.
3. A **cost-consciousness** that targets eventual cost recovery from program income. While some services may require ongoing subsidies, any credit component would be the first to achieve self-financing. This cost-consciousness involves sound business practices; charging for services on the basis of their true costs and at the same time, keeping costs down through a wide variety of efficiency measures.
4. A **commitment to growth** that is essential to achieving both sustainability and adequate impact. The larger the client base of a credit program, the greater the revenues

from interest and fees. Growth helps a program pay its costs and at the same time achieve a broader impact among a target population with overwhelming needs.

5. **Expansion goals** that are aimed at developing the institutional and policy basis for permanent, broad-based services and impact.

Although these principles imply goals that can only be accomplished over time, their early integration into program design is essential for eventual attainment.

Sustainability

Sustainability encompasses several concepts and has been defined in different ways, depending on the development activity: it refers to the continuation of activities after the project ends; it often implies self-financing; it suggests that the flow of benefits continues through the impetus and resources of local institutions.

In the small enterprise sector, great emphasis has been placed on the notion of self-financing, especially as it applies to programs providing financial services; in fact, these programs are challenged to move toward two desired and difficult levels of self-financing:

Operational self-sufficiency is the first level, and it is achieved when internally generated income (from interest and fees) is equal to or greater than the expenses of operating a credit program;

Financial self-sufficiency is the second level, and includes recovering financial costs brought on by inflation. It is achieved when internally generated income covers direct operating and financial costs and is sufficient to maintain the real value of the credit portfolio.

While a number of programs have approached and achieved the first level of self-sufficiency, only a few have attained the second, since it requires a very high volume of clients and a strong, market-oriented approach. Nevertheless, as more PDOs understand and accept the goals embedded in these definitions, it is certain that the number of successful organizations will grow.

At the same time, these definitions are problematic for programs offering training and technical assistance, either with or without credit, because the potential for generating income from these services is not as great. However, even these programs can conceive of their inputs as part of a system that must perform. Goods and services must be in line with demand; they must be valued enough by users to generate the funds necessary to continue their existence; and the institutions providing these services must be able to elicit the complementary funding required from external sources in a timely and consistent manner.

If they can do this, balancing internal and external resources to cover costs and maintain the real value of the credit portfolio, then these institutions can be said to have achieved **sustainability**. While this standard is less rigorous than that implied in self-sufficiency, it represents a significant accomplishment for organizations used to a precarious existence. It represents a maturity in terms of resource acquisition and management that pushes market concepts to the limit, while acknowledging that the goal of creating a desired impact for clients may require more money than these enterprising poor have to give.

Institutional Development

If sustainability depends on local institutions with sufficient capacity to effectively manage and finance their activities over the long term, then institutional development is the process by which this capacity is introduced or strengthened. It is a complex process touching an organization's values, mission, program, structure and systems. Some PDOs engage in this process for themselves. It is also an increasingly important component of the technical assistance offered or exchanged between Northern and Southern partners.

Although a fuller presentation of the substance of institutional development is reserved for the next chapter, it is useful here to emphasize four key dimensions that reflect its general nature:

Process — Institutional development is not static, it is organic and evolving. It affects all facets of an organization and implies learning, adaptation and change.

Capacity — Institutional development involves human resources as well as organizational structure and systems. Both need to be strengthened in concert.

Impact — Institutional development is not a goal. It is a means to solve problems and improve capacity that will result in greater impact on the quality of people's lives.

Long-term — The ultimate goal of institutional development is a self-reliant organization that can sustain the flow of benefits and services to its members/clients over time.

Many PDOs who have recently entered the SED sector emphasize methodology — learning the what and how of delivering essential business services. But experienced agencies have learned that engaging in SED requires the more profound institutional change suggested by these concepts.

This process is becoming ever more urgent given that the responsibility for grassroots social and economic development is shifting to indigenous PDOs. The need to support this transition in ways that strengthen local institutions and build their capacity to engage in sustainable programming has led to the formation of North-South partnerships. Partnerships are formed when:

> ...organizations seek to mutually strengthen and sustain themselves. It (partnership) is an empowering process which relies on trust and confidence, solidarity of vision and approach, and it acknowledges mutual contribution and equality. Both partners have complementary roles, established through negotiations and subject to change as the partnership grows and circumstances change (Long, Daouda and Cawley 1990, page 124).

Although this definition of partnership may be more a statement of goals than a reflection of current reality, it does point to the need for clear understanding of the contributions each organization brings to the collaboration, mutual respect, and accountability between the partners. As Northern agencies are increasingly called upon to assist Southern partners develop institutional capacity in SED, they should be clear about this complex process and what it is they have to offer. For their part, indigenous PDOs must really want the assistance being offered. The pervasive and sensitive nature of institutional development will cause partnerships to flounder if they are not committed to the process.

CHAPTER THREE

WHERE ARE WE NOW AND WHERE DO WE WANT TO GO?

A Framework for Institutional Development

Institutional development is a complex concept because, in the life of an organization, it is a complex process. It involves change over time and a maturation of capacities that permit an organization to learn from experience, solve problems, and offer effective responses to the needs of those it has set out to serve.

To increase understanding of this process, SEEP's Institutional Development Working Group designed a framework that expresses these fundamental ideas and permits an examination of the principal elements involved. The framework embodies two notions:

- institutional development implies a process of achieving mastery in at least four distinct but related areas of endeavor; and
- the requirements for mastery change over time, as organizations develop their programs from the period of initial design and implementation, to the more mature stages of sustainability and expansion.

The framework lays out both the areas of endeavor and the developmental stages so that organizations can identify areas for improvement. It enables practitioners to analyze, understand, and **do something** about the organizations in which they find themselves; in short, it is a tool for self-assessment.

Table 1. — Institutional Development in the Small Enterprise Sector: A Framework

COMPONENTS	STAGES		
	DEVELOPMENT The period of start-up, initial design, testing and implementation of program methodology and organizational structure. Institution advances toward effectiveness.	SUSTAINABILITY The period of organizational growth and maturation. Institution advances toward efficiency and financial viability.	EXPANSION The period of scale-up. Institution expands its program by increasing clients and/or geographic coverage.
	PHASES Preparation, Start-up, Implementation ➧	Consolidation, Growth ➧	Transformation, Expansion
VISION (Mission & Commitment): An organization's ability to articulate and generate commitment for mission, goals and objectives, client population, approach, and desired level of impact. ***Key factors*** are Executive Leadership, Board of Directors, Strategic Planning, Approach.			
CAPACITY (Structure, Systems, Staff, Methodology): An organization's ability to structure itself; to develop systems for planning, implementing and evaluating its activities; and to recruit, train and retain staff. ***Key factors*** are Organizational Structure, Information Systems, Personnel Policies, Staff Development.			
RESOURCES (Mobilization and Management): An organization's ability to earn or raise sufficient revenue to cover expenses; to manage finances, maintain capital and ensure accountability. ***Key factors*** are Fundraising Policies and Practices; Credit Policies, Budgeting and Financial Projections, Accounting, Portfolio Management.			
LINKAGES (Learning and Action): The ability to develop and maintain productive relationships with relevant organizations in order to advance an institution's vision; to access information, assistance and resources; to advocate policy change. ***Key factors*** are Government Relations, Peer Networks, International PDO and Donor Partners.			

Components

The areas of endeavor or **components of institutional development** are vision, capacity, resources, and linkages. Each is defined as follows.

1. **Vision** is the ability to articulate and generate commitment to the mission, goals, client population and approach the organization pursues. It expresses a picture of the world which would result from the successful achievement of an organization's goals. It is important that vision grow out of, and respond to, locally defined needs. The vision must be compatible with the principles of SED programs.

2. **Capacity** is the ability to translate thinking into action. It is the institution's ability to organize itself to achieve its mission effectively and efficiently. Capacity requires:

   A **structure** through which people can channel their energy and creativity and that shapes and anchors the organization in the mold of the vision; is appropriate to and supports the organization's activities; is responsive to program and client needs; and ensures that decisions are made at appropriate levels with appropriate participation. Some elements of structure include:

   - constituent assembly
   - Board
   - decision making process
   - Executive Officer
   - responsibilities & accountability
   - departments

   Systems and procedures which ensure that the structure operates smoothly; that there is a timely flow of accurate and complete information; that staff and clients are treated fairly and justly; and includes:

   - administrative, program and personnel policies
   - program planning, monitoring and evaluation
   - information collection, storage, and retrieval
   - budgeting and accounting systems
   - feedback and adjustment
   - conflict resolution

   A **staff** who implements the programs and manipulates the systems to achieve the objectives of the organization; and who is motivated, committed and has the appropriate skills to meet organizational and program needs. A good staff is a function of an organization's ability to:

   - recruit and hire the right combination of skills and motivation
   - orient new staff and provide in-service training for all
   - develop and adhere to fair personnel policies

- establish and maintain a fair and reasonable salary scale
- develop other nonsalary incentives
- keep staff appropriately informed and involved in decision making processes

A **methodology** or organized set of tactical steps and choices which allow the organization to carry out its mission and achieve its desired outcomes. Elements of a SED methodology include:

- target population (e.g., economic sector of population, urban or rural, etc.)
- desired impact (e.g., jobs, income, goods and services produced)
- modes for organizing and servicing clients (e.g., solidarity groups, individuals)
- credit policies
- services offered and terms for those services (e.g., credit, TA, training)
- sequence of activities (e.g., training or savings before credit)
- accepted expectations and obligations for both the organization and its clients (e.g., demonstrated savings before joining program)
- defined roles and responsibilities (e.g., loans approved by board, or approved by loan committee)

3. **Resource capability** targets both acquiring and managing. An organization must earn or raise sufficient funds to cover expenses without compromising vision or program design. In the Development Stage, the organization develops **financial accountability** — reporting systems that track each grant dollar and can report appropriately to its donors. In the Sustainability Stage, the focus is on **financial control**. The institution must master the challenges associated with establishing cost centers, becoming cost effective, reducing subsidies, and achieving sustainability. In the Expansion Stage, the PDO must fully master the tasks associated with **financial management**. The goal is to effectively build, protect, and use the institution's capital. Although the framework suggests that financial management capability falls under resources, in reality it is interconnected with an institution's capacity in financial systems and procedures. Financial systems provide accurate and timely information from which financial management decisions are made.

   An efficient organization has achieved an assured flow of money that matches client demand and operational expenses. This component requires mastery of financial planning and management, and the systems to ensure accountability. Key factors include:

   - fundraising policies and practices
   - financial projection and cash flow
   - credit portfolio management

4. **Linkages** encompass the ability to build productive relationships with a wide variety of organizations and agencies. Linkage can be defined as the communication, interaction, and exchange of information and other resources on a regular and

reliable basis (Esman and Uphoff 1984, page 149). Establishing linkages serves three important functions. They assist an organization to:

> **Strengthen organizational capacity.** Linkages can help an organization acquire information, technical assistance, staff training, resources, and assistance with supplies and logistics.
>
> **Influence policy.** Because government agencies wield significant influence in the microenterprise sector, creating a healthier environment in which SED programs can function means influencing public policy and assisting government to better understand the sector. Networks and coalitions of organizations with common interests and goals, mobilizing the strength of their constituencies, can affect policy change much more effectively than a single organization working alone.
>
> **Increase legitimacy.** Establishing legitimacy within a community will help an organization accomplish its stated mission. Building relationships with others is one way the organization can demonstrate that it is an active member of the community, contributing to its overall improvement in ways that are appropriate to the social and cultural environment.

Linkages can include relationships with similar institutions at different levels (i.e., regional, national, international); institutions with similar functions but different clients (e.g., commercial banks); government institutions; and networks of agencies with mutual interests.

In summary, each component of the framework represents a distinctive organizational ability and involves an integral set of roles, policies, procedures and tasks that need to be accomplished in systematic and recurring ways. The components are interdependent. **Vision** informs an organization's structure and systems, its approach to resource acquisition, and how its identity is expressed to the external world. The **capacity** of staff, and the structure and systems by which they operate, affect how well a vision is transformed into action; how well **resources** are managed; and the quality of the organization's **linkages** to clients, key local institutions and donors. The nature of the issues faced in each component, and their impact on the organization, change over time and thus require constant attention. Failure to appropriately address any of these issues has the potential to seriously weaken an organization and reduce its effectiveness with clients.

Stages

DEVELOPMENT	SUSTAINABILITY	EXPANSION

The framework identifies three **stages** through which organizations progress as they refine and improve their SED programs. At each stage there are new challenges to master for each component.

1. **Development Stage:** This is the initial period during which an organization decides to undertake a small enterprise activity, makes major strides in crafting its methodology, and begins structuring itself to carry out the new mandate.

The discussion of this stage is relevant for new organizations just getting started as well as established organizations incorporating small enterprise development into their mandate for the first time. The development stage involves the **phases** of:

preparation — planning and laying the foundation of an organization and its program methodology;

start-up — model testing

implementation — executing a program ample enough to achieve visible levels of impact.

2. **Sustainability Stage:** This is the period when an organization achieves maturity, effectively implements its approach, attains a degree of financial viability, and is poised to grow.

   During this period an organization makes a transition from effective **implementation** in accordance with predetermined impact targets, to **consolidation** and **growth** of the program, reflected in a more efficient delivery of services, greater impact, and an increasing capability to reach more clients.

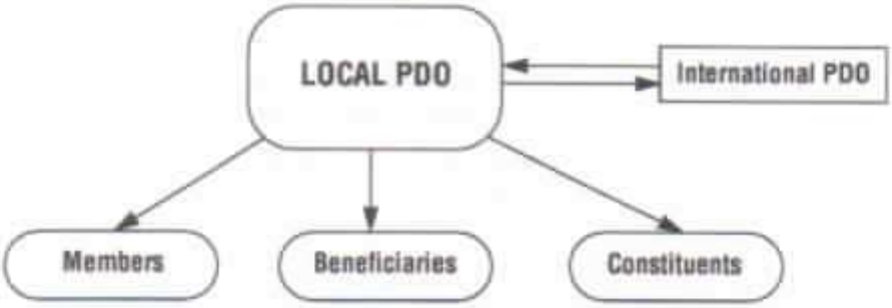
   The significant growth achieved at this stage derives from both an efficient application of the methodology, and the smooth functioning of a well developed structure and trained staff.

3. **Expansion Stage:** This is the period when an organization makes a **structural transformation** in order to reach a significantly larger number of clients.

   SEEP's definition of this stage is somewhat different from other definitions of expansion. While SEEP acknowledges that expansion implies a dramatic leap in the number of people served, it does not conceive of this stage solely in quantitative terms. For example, ACCION International identifies this stage as the capacity to reach 10,000 or more clients a year (Otero 1989, page 22). SEEP's definition would include other strategies for expansion such as advocacy work or policy changes that extend benefits far beyond one organization's client group, or assisting other institutions to implement effective SED programs. Whatever the strategy, indicators that the threshold has been crossed include: (a) a clear organizational choice to reach larger numbers; and (b) the consequent decision to embark upon some form of structural change in the institution to make that goal a reality.

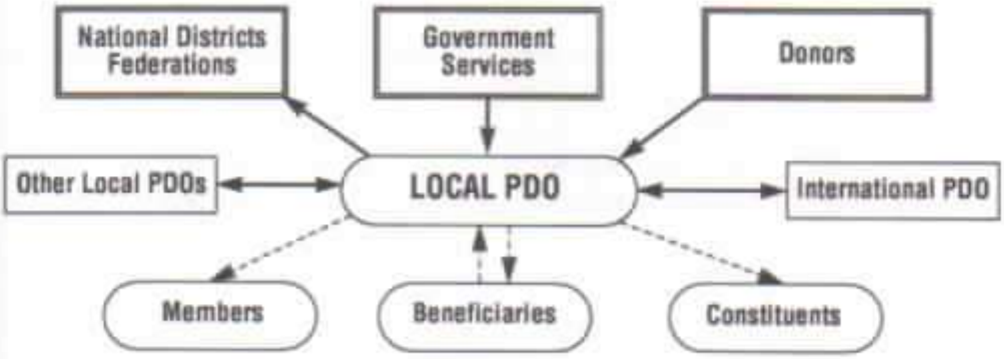
The framework enables one to outline how the tasks within each component (vision, capacity, resources, linkages) change as an organization moves from one stage to the next. The diagrams on the following page illustrate how an organization could become increasingly sophisticated in one of the components — linkages — through the different stages.

Development Stage



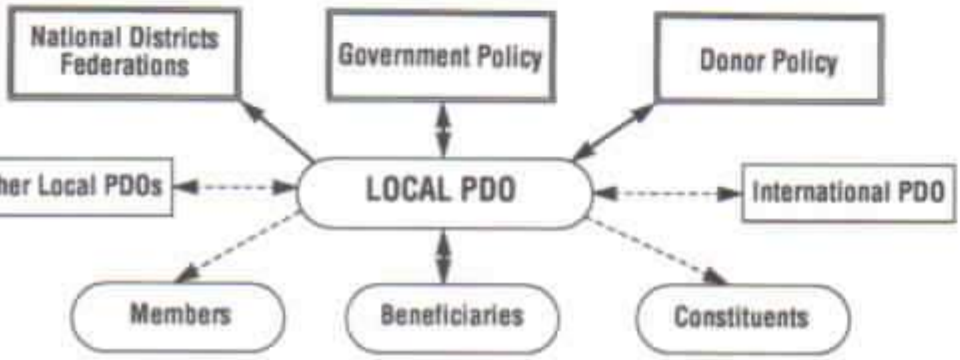
The local PDO focuses on creating linkages with its clients or constituency, and possibly a partnership with an international PDO.

Sustainability Stage



The local PDO maintains linkages with beneficiaries and a partnership with an international PDO, but also has relationships with other local PDOs. It may have vertically integrated with an association or federation, begun to form linkages with the government to access services, and established independent relationships with donors.

Expansion Stage



Local PDO strengthens affiliation with federation and other local PDOs, maintains partnership with international PDO, and uses linkages with government and donors to leverage resources and to influence policy.

Using the Framework as a Diagnostic

It is important to note that, on one level, the framework is an abstraction of reality, reflecting and highlighting key elements to facilitate thinking about the process of institutional development. In fact, the SEEP representatives who constructed and applied this tool recognize that the process can be much less continuous and more disjointed than the implied logical progression from one stage to the next. In reality, as an organization goes through the process of creating and strengthening its organizational abilities, it is forced to deal with many of these issues as they arise, rather than in the relatively orderly categories into which they have been assembled here.

Nevertheless, the framework's real value lies in its usefulness as a tool for analysis and planning. Organizations can use the boxes of the matrix to record their accomplishments, to assess how well they have addressed certain tasks, and to decide what areas demand immediate attention.[2] Whatever path an organization takes through the maze, the result should be better programs. Institutional development is not, after all, an end unto itself, but a means to achieve other ends.

On the next page is a copy of the framework with indicators of key accomplishments for each stage and component. For each indicator there is a corresponding task in Chapters Four, Five, and Six. Organizations interested in self-assessment and institutional strengthening can use this diagnostic to pinpoint areas for improvement, and then refer to those portions of the book that provide guidance to getting started.

[2] An additional, more detailed, diagnostic tool can be found in OIC's *Affiliate Agreement Monitoring Checklist: Operating Standards Assessment* found on page 184 in the Tools Section.

Table 2. — Diagnostic Framework: Indicators of Institutional Development

COMPONENTS	STAGES		
	DEVELOPMENT	SUSTAINABILITY	EXPANSION
VISION	a) Achievable SED vision defined, reflecting goals, clients, values b) Board and Executive leadership developed and contributing c) First strategic plan completed and implemented	a) Vision refined to mesh sustainability and poverty alleviation goals b) Systems in place for Board evaluation and rotation c) Strategic planning focused on institutional strengthening, program efficiency and financial stability.	a) Vision revised to reflect expansion goal b) Entrepreneurial quality of Board, CEO strengthened. Board makes major contributions to funding and linkages c) Long-range planning undertaken with strong financial component
CAPACITY	a) Core organizational structure developed to serve clients with minimal administration b) Core staff recruited and trained c) MIS evaluation and accounting systems in place to track progress toward targets related to operational performance indicators: client numbers, delivery costs, etc.; and to ensure accountability d) Methodology developed, tested, adapted and working effectively	a) Organizational structure stratified and decentralized to increase coverage and improve efficiency b) Quality staff retained with compensation, incentives, and training c) All systems, including MIS and impact evaluation, standardized to track numbers as well as impact at client level d) Methodology systematized and reaching increased targets for significant impact	a) Organization restructured significantly b) Specialized staff recruited c) Systems to handle expanded activity in place d) Methodology reflects specialization and operates efficiently
RESOURCES	a) Financial requirements projected, with a goal to achieve self-sufficiency in credit and cost recovery in other program components b) Resources acquired from grants and some internally- generated funds	a) Projections for financial viability revised b) Cost recovery improved, approaching 100% self-sufficiency for credit operation c) Borrowed funds accessed d) Resource base diversified and expanded	a) Structures for resource mobilization in place b) Financial analysis and management capacity strengthened
LINKAGES	a) Partners identified b) Contracts negotiated to meet institution's needs	a) Niche established b) Cooperative efforts with organizations developed c) Participation in learning associations established	a) Relationships with peers, donors, government reexamined b) Links to formal financial institutions established as needed c) Strategy to influence policy implemented

CHAPTER FOUR

THE DEVELOPMENT STAGE: CREATING AN EFFECTIVE PROGRAM

The Development Stage is a time of beginnings, a time for the intense work of translating a commitment to the poor into an effective program that provides opportunities for personal development, economic advancement and social support. This chapter provides guidance in working through the organizational challenges associated with this stage, and can be useful if:

- You are creating a new organization to support economic development of the poor
- You are adding a small enterprise development program to your organization's programs for the very first time
- You are changing focus from a social development organization to an economic development organization.

More experienced organizations that have used the institutional development framework to identify specific areas for attention may also find the ideas in this chapter helpful. Following are the major tasks to be addressed, in accordance with the framework:

Component		Development Stage Tasks
VISION	D-1	Develop a vision
	D-2	Develop leadership at the board and executive levels
	D-3	Develop the strategic plan
CAPACITY	D-4	Create the core organizational structure
	D-5	Recruit, train and evaluate staff
	D-6	Set up systems to ensure accountability
	D-7	Adapt the methodology during implementation
RESOURCES	D-8	Project financial requirements
	D-9	Acquire resources
LINKAGES	D-10	Choose partners

VISION

D-1 Develop A Vision

The importance of vision to an organization's success is hard to overstate, and it has long been recognized as a key concept in the corporate world. It is equally important in development organizations. In a SEEP study of 25 SED-oriented private development organizations, a definite connection was found between the clarity and motivating power of an organization's vision and its effectiveness at the field level. Given its significance, it is important to understand what vision is, what it is not, and how to develop one. We will look at what it can do when it is clear and concrete, what happens if the vision is cloudy.

What Vision is

For a small enterprise development organization, vision is the core statement that expresses what it sets out to do, for whom, and why. Vision reflects both the development philosophy of those who shape it and the reality of the poor whom the PDO serves. Vision has these additional characteristics:

- **Emotional commitment:** The vision is inspirational and motivates people to work toward it. It drives the organization to excellence
- **Perception of those served:** The organization serves clients (as opposed to beneficiaries) with whom the PDO shares a set of mutual rights and responsibilities
- **Integration of SED principles:** The vision conveys a commitment to SED principles of cost-consciousness, sustainability, and growth.

Although it is important to develop a written vision statement, it is more critical to live it. Unless the vision truly integrates an understanding of the demands that small enterprise development makes upon practitioners, it will not carry sufficient force to guide staff in their daily work, to govern management at critical points, and to serve as a clear beacon guiding organizational growth and expansion.

> Visions are aesthetic and moral — as well as strategically sound. Visions come from within — as well as from outside. They are personal and group centered. Developing a vision and value is a messy, artistic process. Living it convincingly is a passionate one, beyond any doubt (Peters 1987, page 486).

What Vision is Not

Vision is not equivalent to the statement of goals and objectives found in the project proposal, although these can and should reflect an organization's vision. Nor is it just the mission statement that resides in public documents and promotional materials. It is certainly not the pragmatic decision that some organizations take to pursue small enterprise programming because of its current interest to funders, local governments, and international organizations.

An Example

Tulay Sa Pag-Unlad, Inc. (TSPI), a PDO based in Metro Manila, Philippines, is an example of an agency that truly "lives" its vision, which is:

> To alleviate poverty in our midst by giving opportunities to help people help themselves through jobs created by TSPI assisted projects.
>
> To see self-sufficient families responding to the needs of their community and pursuing a collective vision and effort for its development.

This statement reflects TSPI's goal of poverty alleviation in the Metro Manila area, articulates its strategy as one of job creation (rather than self-employment), and links its economic aims to the social end of family-oriented community development.

In fact, TSPI's vision is greater than the sum of these words. It is a strongly Christian-inspired organization that directs its attention to small and medium scale business with the potential for growth because of its belief that not everyone can be an entrepreneur, and that jobs in large numbers are required to satisfy Manila's growing population. At the same time, its training and technical assistance to these businesses emphasizes social responsibility and worker rights, underscoring the organization's value orientation. This combination of economic hardheadedness and social consciousness had enabled TSPI to deliver a program that, by 1992, lent over $9.7 million, creating over 56,611 new jobs. By 1988 over 90 percent of its operating expenses had already been covered by interest charges and fees.

TSPI's history also reflects how vision can, and should, respond to changes in the context within which an organization works. In 1984, TSPI's Board had begun to consider national expansion plans, but these ideas were given added push — and emotional fervor — by the People Power Revolution that deposed Ferdinand Marcos in 1986 and brought Corazon Aquino to power. Her call on PDOs and the private sector to join forces to alleviate poverty led TSPI to initiate a plan to establish a partner agency in each of the 15 regions of the country. Their goal was to lend $30 million to 25,000 small businesses and to create 150,000 new jobs. So the vision of poverty alleviation and the work of TSPI have grown to encompass this larger aim. While experience has caused them to reduce these ambitious goals, to date they have helped develop six provincial partners, which by the end of 1989 had created 2,483 jobs and benefitted more than 9,000 people directly.

How to Develop a Vision

Sometimes it seems that vision can only be the inspiration of a charismatic leader — and it is something one either has or does not have. Muhammad Yunus, founder of the Grameen Bank, is a prime example — a visionary who captured the attention of a nation and the international development community with his powerful concept of banking for the poor. And Tom Peters, noted management consultant and author of books such as **In Search of Excellence** and **Thriving on Chaos: Handbook for a Management Revolution**, writes that "no precise path to finding one [a vision] can — or — should be described. The process of discovery is personal, and the essence of the art of managing/leading in chaotic times (Peters 1987, page 486)".

Yet vision can also be the product of an inspired team and for most of us, teamwork will be the way we develop a concept and build emotional commitment to it. If greater clarity and commitment are required to drive an organization to excellence, some ideas that may help can be found in *Checklist 1. — Steps Towards A Vision* on page 26.[3]

What a Vision Can Do for You

An organization sparked by a clear and powerful vision can overcome great odds, especially in this early and difficult stage of formation. One such example is the Asociación para la Organización Empresarial Femenina de El Salvador (OEF/ES), which started as a project of the Overseas Education Fund/International to promote income generation for low-income women. Faced with diminishing funds from the U.S. partner, the local staff advocated forming a permanent, indigenous organization to continue their mission. To achieve this goal, four of the original seven staff worked for eight months — without pay — operating a program for clients, contracting out training services, and writing proposals. After one year, OEF/ES had secured enough funding to purchase vehicles and pay reduced salaries. The executive director believes that the strong shared commitment among the staff and the well articulated mission were major factors in the organization's survival (Bath et al 1990).

And If the Vision is Not Clear?

In SEEP's study of 25 PDO's, there were several examples of what can happen when the vision is not clear. They include:

Contradictory visions: One PDO found that its new SED mission seemed to contravene previously held Christian principles which were the underlying philosophy of the organization. Certain practices such as charging market interest rates, or applying sanctions for late or nonpayment, contradicted notions of charity and church service which imbued staff.

[3] For a more detailed approach to Step 3, please refer to *Critical Incidents in Defining Small Enterprise Development Project Goals* in the Tools Section on page 231.

Misdirected efforts: Another organization found itself taking on programs tangential to its mandate in an effort to capture resources to support its administrative structure. These programs required experience and capacities which staff did not possess, and they ultimately resulted in losses, not only within these add-on efforts, but also within the core lending program.

Preexistent organizations often have the greatest difficulty reorienting their vision to be compatible with the requirements of effective SED programming. This is especially true for religious bodies with a strong charitable and social commitment to the poor. Board members and Executive staff (and operational staff as well) may have little experience with business, or may have an aversion to fiscal practices that appear to take advantage of the already disadvantaged. In these instances, several tactics may work to expand people's points of view:

1. **Visits to other programs** can help the participants see why certain operating principles are necessary to keep the operation viable. Conversations with clients can reveal how much they appreciate the services the programs provide, and how willing they are to meet their responsibilities to maintain access to the service.
2. **Examine the consequences of program design decisions** that are incompatible with recommended practices. For example, financial projections (discussed later in this chapter and Chapter Five) can be used to demonstrate how difficult it will be to achieve viability without cost-based interest rates and fees.
3. **Consider establishing a separate, secular organization** to avoid mixed missions and messages. The religious organization may fear applying rigorous terms for program admission and penalties for noncompliance, because they violate its mission for charity to all. At the same time, a client in arrears to his church may feel unable to participate in church services or other functions because of his financial difficulties. A separate organization can more rigorous in its criteria, and safeguard client relationships with their churches.

Checklist 1. — Steps Toward a Vision

Step 1. Consult with some potential clients

- ❑ Ensure that everyone key to formulating the vision (Board, staff, advisors) gain first-hand knowledge of clients and their context.
- ❑ Use individual and group interviews to gain an understanding of how these potential participants perceive the barriers to and opportunities for income generation or business development.

Step 2. Visit other programs

- ❑ Understand what visions guide their Boards and staff.
- ❑ What types of program goals do they pursue?
- ❑ What operational policies flow from their vision and goals?
- ❑ Reflect on how these choices relate to your organization's values and capacities.

Step 3. Decide what you want to accomplish

It may be useful to have all key stakeholders complete a vision clarification exercise. Using a list of vision/values statements, such as the one below, ask each participant to rank the most important statement in each pair:

- ❑ The key to economic development is encouraging businesses that have the opportunity to grow and create jobs for others.
- ❑ The key to economic development is supporting many people with self-employment activities that can provide some income increase.

- ❑ It is important that the organization develop a program that operates on the basis of sound business practices.
- ❑ It is important that the organization develop a program that reflects solidarity with clients, more than concern itself with profit and loss.

- ❑ It is important that the organization be open and responsive to all in need.
- ❑ It is important that the organization carefully identify those who can best use the services provided.

- ❑ It is important to reach large numbers of those who need help.
- ❑ Numbers are less important than the quality of assistance.

(continued on next page)

- ❑ In implementing a credit program, the most important thing is serving people in need.
- ❑ The most important thing is creating a financial service with the capacity to sustain itself.
- ❑ The organization should implement a variety of SED projects responsive to community needs.
- ❑ The organization should become expert in one method.

Tally the results to see how closely all agree. If there are serious differences, this is the time to reconcile them and determine whether the organization has sufficient grounds to go forward.

Step 4. Write it out

Assign a few people to write a formal statement for others to review.

Step 5. Check it against the criteria for a good vision which:

- ❑ Expresses achievable goals that constitute real change.
- ❑ Grows out of locally-defined needs.
- ❑ Defines who the organization should serve and why.
- ❑ Views them as active clients with rights and responsibilities.
- ❑ Reflects the value orientation of the group which is compatible with small enterprise principles.
- ❑ Can be understood, embraced and articulated by all concerned.

Step 6. Develop ownership of the vision

Plan to integrate the vision into everything the organization does.

- ❑ Obtain formal ratification of the statement by the Board.
- ❑ Use it as a touchstone for all major decisions.
- ❑ Incorporate it in public statements. Develop a "slogan" or other simple expression of the main idea that can be communicated to clients and others.
- ❑ Incorporate the vision in staff training programs.
- ❑ Reflect on its meaning at Board and staff retreats, and check its relevance to current conditions.

D-2 Develop Leadership at the Board and Executive Level

Some organizations begin with the vision of a leader, who then becomes the Executive Director and gathers staff around him. Board members are recruited, and the Board is eventually established. Other organizations are created by key people who envision the organization, raise start-up funds, and then find executive leadership to develop it in accordance with their plans. Two North American PDOs have found boards so crucial to the right formation of small enterprise organizations that their strategies emphasize their creation and development as the very first steps. But no matter how an organization is created, both elements — Board and Executive — are crucial to its effectiveness.

Why Is the Board of Directors Important?

An active Board of Directors should:

- Provide a locus for the vision of the organization
- Develop and approve organizational policies and goals
- Guide strategic planning
- Ensure excellence among management and staff
- Oversee accountability and good stewardship of the organization's resources
- Create linkages to key outsiders in the government, private sector, and donor community
- Raise funds and other resources
- Provide legitimacy to the organization.

What Happens If Board Development Is Neglected?

The SEEP study of PDO cases found that in the SED community, Board development has generally been given insufficient attention. Boards are often thought of as a time-consuming burden, or as usurping the mandate of management and staff. But just as often, weak boards have hampered the ability of organizations to operate efficiently, become sustainable, or expand. A review of PDO cases provided some concrete examples, including:

The case of the stalled program: One Caribbean-based organization lost a year's work during the Development Stage because its Board did not fully comprehend, and consequently, was not fully committed to the goals of the program. It took changes in membership, and special technical assistance, to develop the direction and energy required to implement a substantive loan program.

The case of limited vision: Two organizations succeeded in developing credit programs with some degree of success, but were blocked from expansion by members who did not feel the need to reach larger numbers. In one case, Board members had been recruited for their sense of stewardship or guardianship of the organization's assets. They felt no responsibility to increase that base for further service. In the second case, barriers caused by the Board's lack of vision were compounded by the absence of policies for regular rotation of members who held their positions for life, or until they chose to resign.

What to Do

If you are creating a new board, or seeking to breathe new life into an old one, consider some of the *Steps to Board Development* outlined in Checklist 2 on the page 30.[a]

The Importance of the Right Executive Director

In addition to the Board, the Executive Director is equally important in the leadership equation. SEEP's case studies identified the charismatic leader as a key element in the early success of many SED organizations. Two cases illustrate these leadership qualities. As one SEEP case writer reported:

> Abraham Ndofor, the Manager of CamCCUL, has been at his current post for 19 years. He has an MBA from American University in the United States which he earned in 18 months with no grade lower than an A. He tells prospective employees that nobody in the organization works harder than himself and no one spends more time in extremely isolated, rural credit unions. He is correct on both scores…he now has a hand-picked, capable, committed staff which will do virtually anything for him (SEEP 1989, Frankel, page 1).

In another example, in Kingston, Jamaica, Paul Miller became the Executive Director of the Agency for the Selection and Support of Individuals Starting Trade (ASSIST) in 1988. He came to the SED field with a Masters of Divinity and a career in agro-exporting and politics. From 1976 to 1980 Paul was the Deputy Minister of Community Development and served as the International Secretary of his party. From the outset, Paul had a national vision for ASSIST. He used his extensive network of contacts to build an active and dedicated Board of Directors and to access resources for expansion. Paul recruited a highly qualified staff and molded their commitment into performance through a combination of high expectations and increasing levels of responsibility (King 1992). Both of these men exemplify the qualities most needed for the chief officer of an SED institution which include:

- High level of commitment to the organization
- Charisma
- Combination of social commitment and management skills
- Demanding of excellence in themselves and those around them

[a] For assistance in completing a thorough diagnostic of a Board's institutional development needs, refer to the Board Standards Assessment Form contained in the *Affiliate Agreement and Affiliate Agreement Monitoring Checklist* on page 189 or the *Board of Directors Development Matrix* found on page 193.

Checklist 2. — Steps to Board Development

Step 1: Upgrade Your Own Knowledge of Board Development

Identify resources to develop the Board, to orient and train members to become a core unit in accomplishing the organization's mission. Learn about:

- ❑ Board function
- ❑ Roles and Responsibilities
- ❑ Committees
- ❑ Board recruitment
- ❑ Officers
- ❑ Meetings: what and how
- ❑ Board – staff relations
- ❑ Methods for training Board members

Step 2: Design Board Policies, Structure and Procedures to Support the Organization's Work

Key policies include:

- ❑ Board membership, size, criteria, terms of office, elections
- ❑ Establishment of roles and responsibilities of Board in such areas as:
  - external relations
  - personnel
  - fundraising
  - resource stewardship
  - mission and goal setting
  - organizational structure
  - evaluation/program review
  - strategic planning

Structural decisions include defining:

- ❑ Board officers
- ❑ Board committees: Executive, Finance, Personnel, etc.

Procedures include:

- ❑ Board agenda and meeting schedules
- ❑ Staff communication channels
- ❑ Committee operations
- ❑ Selection procedures for Board Members and Executive Director

Please see the Recommended Manuals, Guidebooks and Monographs for references that provide guidance on these matters.

(continued on next page)

Step 3. Select New Board Members Carefully

- ❑ Identify the skills and characteristics your Board requires
- ❑ Review current Board member qualifications to identify those that are represented on the Board and those which are lacking. Consider the actions required to recruit the members you need. The assessment worksheet on page 32 provides a sample list of the qualifications, and a method for rating candidates.

Step 4. Build an Understanding of the Organization's Vision and Program Among all Board Members

This is an ongoing process that should be directed to current and incoming Board Members. Executives and staff should:

- ❑ Provide regular reports on program operations
- ❑ Provide opportunities for Board Members to meet program clients. The Tulay Sa Pag-Unlad Board, in its Development Stage, had a policy that all new clients would be visited by at least one Board Member.
- ❑ Organize occasional training sessions for the Board to keep them informed about client group, methodology, credit program structure, etc. Training can also serve to increase members' capacity to function together as an effective Board.

See the *Board of Directors Sources of Information* tools used by Opportunities Industrialization Centers International, page 199.

Step 5: Acknowledge the Board and Include Them in the Organizational Culture

- ❑ Emphasize the importance of a good Board Chairman
- ❑ Create awards and recognitions for member contributions
- ❑ Include Board Members in publicity
- ❑ Respond to members' personal needs when planning retreats

Table 3. — Board Member Assessment Worksheet

DESIRED SKILLS AND CHARACTERISTICS	WHO POSSESSES?	STILL NEEDED?	POTENTIAL CANDIDATES
Skills			
1. Knowledge of the Small Enterprise Development Sector			
2. Knowledge of the Client Community			
3. Financial Management Experience			
4. Fundraising			
Characteristics			
1. Performance orientation			
2. Government linkages			
3. Private business community linkages			
4. Emotional commitment to the organization's mission			
5. Time availability (OICI Board of Director manual suggests 10 hrs: monthly)			

- Ability to foster an organizational environment that attends to the personal and professional needs of staff
- Ability to nurture responsibility and leadership of staff

These qualities are always found in those executives who, like Muhammad Yunus of the Grameen Bank, give birth to an idea that translates into an organization of great impact. But if an organization is initiated by the Board, or if a program is developed within the structure of a preexistent institution, then great care must be taken to identify candidates that exemplify these qualities or all will be lost. The Tools section contains a format recommended by OICI to assist Boards in making this important decision.[5]

Sometimes in the Development Stage, an Executive will be strongly charismatic, but tend to have less interest or experience in the more pragmatic aspects of creating a substantive program. And the tasks of a leader are many. To do this well involves a variety of management functions. Some of these, when applied in the context of an SED program, may challenge even well qualified executives. Organizations which work in a partnership relationship have found a few solutions to increasing capacity. These have included:

- Supporting "apprenticeships" at more experienced organizations for several months' duration
- Identifying specific training opportunities: two centers supported by SEEP member agencies, one in the Philippines and one in Colombia, provide examples of the type of training that might be available. See *Sample 9. — Regional Training Centers*, pages 109–110, for more information.
- Participating in meetings of affiliates sponsored by the lead partner. These network gatherings provide an opportunity for executives to meet with each other, learn from the experience of more seasoned counterparts, and address a wide range of issues. SEEP's 1989 study of effective SED PDOs highlighted the importance of indigenous and regional networks to building local organizations. While these networks serve many purposes, one of them is to nurture and support strong executive leadership for new organizations (SEEP, 1989).

On the other hand, no one person can be expected to do it all. The leader is part of a broader system that is built around a vision to which everyone is committed. That leader must foster or respond to an organizational culture that relies on the motivations and contributions of all involved.

[5] See *Program Director Selection Process Checklist* on page 263. Please note that the term for chief executive officer varies and includes executive director, program director, program/project manager, and president. For the purpose of this tool, the term program director is used.

Checklist 3. — Functions of a Manager

1. Planning:

- ❒ forecasting: anticipating future conditions, problems and opportunities
- ❒ establishing objectives
- ❒ programming: establishing sequence and priority of action steps
- ❒ scheduling
- ❒ budgeting
- ❒ establishing procedures
- ❒ developing policies

2. Leading:

- ❒ decision making
- ❒ communicating
- ❒ motivating
- ❒ developing people

3. Organizing:

- ❒ developing organizational structure
- ❒ delegating
- ❒ establishing relationships

4. Controlling:

- ❒ establishing performance standards
- ❒ performance measuring
- ❒ performance evaluating
- ❒ performance correcting

— from **Supervisors and Managers Manual**, Opportunities Industrialization Centers International

D-3 Develop the Strategic Plan

Strategic planning is the process by which an organization's vision is translated into a set of long term goals and objectives, and a course of action that will lead to their accomplishment. For an organization in the Development Stage, it is an exercise that can help clarify how the program will provide services to clients, and what organizational steps will be taken to begin building an effective institution. The final product should be a working document that defines the central features of the program.

There are a variety of approaches to strategic planning, but almost all contain these six elements:

1. An **environmental assessment**: What is the problem which the organization has decided to address? What are the causes of the problem, and the factors (socio-economic, political, cultural, policy, environmental) that affect it?
2. An **organizational assessment**: What unique contribution can the organization make to solving the problem? What are its own strengths and weaknesses? What steps does it have to take to build its capacity to contribute effectively?
3. **Strategic goals**: What are the principal ends to which the organization and its program will be directed?
4. **Methodology**: What approach will the organization use to achieve its goals?
5. **Objectives and Action Plan**: What more specific, intermediate steps are planned to implement the methodology and to achieve the goals?
6. **Resources**: What resources — human, financial, and material, are required?

Fortunately, SED practitioners can utilize tools, and the experiences of others to make some of these organizational choices easier to accomplish.

Approaches to Environmental Assessment

SED organizations have at least three options for analyzing the environment and its relationship to program strategy.

A Focus on the Potential Clients: This is the most common. The tool of choice is some form of survey of individuals and groups that will help determine the needs of those businesses to be assisted.

A Focus on Community or Regional Economic Development Needs: Some organizations begin with a more open look at what their chosen region or communities require to spark a process of economic development. This approach identifies business opportunities that both present options for self-employment and/or job creation and respond to residents' needs for goods and services. Generally the result is a set of business ideas that require further feasibility analysis.

A Focus on Sectoral Needs: This approach takes into account specific industries or subsectors of the economy in which large numbers of microenterprises are concentrated. Examples include rattan furniture in Indonesia, beer brewing in Botswana, blacksmithing in Zimbabwe, and palm oil in Ghana. Subsector analysis is a diagnostic method that examines the universe of businesses in an industry to identify those special places in the supply-production-distribution chain where one change could be made to benefit many producers. This change might be in the way a product is distributed, or a regulatory decision made by government affecting an entire class of producers.

These methods can be used in combination with each other. A needs assessment may indicate that targeted clients are seeking new ideas for productive activities. Or, it may reveal that large numbers of them are concentrated in one or several industries. Other forms of assessment can then help further develop the organization's analysis of the problems of its potential clients.

Table 4, on the following page, can help an organization decide which approach to environmental assessment would serve its purposes best.

Organizational Assessment

An organization needs to match this environmental assessment with an assessment of its own strengths and weaknesses in the areas needed for SED programming. The *Institutional Development Framework Diagnostic*, found on page 19, was developed specifically for this work. The indicators are based on the experience of many PDOs, and can help an organization determine what it should focus on.

Strategic Goals

The above assessments, together with the organization's vision, lead to formulating strategic goals. Vision drives the organization to "reach for the stars," and strategic goals will guide the agency's efforts to do just that over the next three to five years. Decisions to be faced in formulating goals include:

Who will the program benefit? While the vision will have made that clear in a general way, the organization will need to specify clients defined by geography, gender, type of business, association, or other program-related criteria.

Will the intervention be direct or indirect? Will the organization work directly with the intended beneficiaries? Or, will it assist another organization that serves as intermediary?

What impact is expected? Will the program target:

- income increases
- employment creation
- productivity gains

Table 4. — Tools for Environmental Assessment: A Comparison

FOCUS	TOOL	MOST USEFUL FOR	KEY POINTS
I. Potential Clients	needs assessment individual and group surveys	determining status and needs of potential clients and their businesses	• identifies characteristics and needs of very small business owners • learns their plans for business development • obtains their perception of community economic conditions; community leadership, and available services
II. Community or Regional Economic Needs	community demand analysis	assisting community in identifying potentially feasible economic activities	• identifies potential business opportunities • identifies resources (natural and manufactured) available for business activities • assesses nature of demand for goods or services within the community: housing pattern, population, physical facilities, market demand • assesses availability of infrastructure and services needed to conduct business activities
III. Economic Subsector	subsector analysis	meeting the needs of large numbers of poor concentrated in specific economic sectors identifying opportunities for policy change	• identifies important economic activity • defines principal functions in the sector: supply – production — wholesale – retail and cooperative/competitive relationships • studies regulatory environment and macroeconomic factors that affect subsector • identifies "leverage" points in system of production and distribution where change can benefit large numbers of micro-businesses

N.B. **RESOURCES:** small enterprise survey form in **An Operational Guide for Micro-Enterprise Projects** (Cambridge: ACCION International, 1988); community demand/resource analysis in Shirley Buzzard and Elaine Edgcomb, eds., **Monitoring and Evaluating Small Business Projects: A Step by Step Guide** (New York: PACT, 1987); Steven Haggblade and Matthew Gamser, **Field Manual for Subsector Practitioners** (Bethesda: Development Alternatives, Inc., 1992)

- consumer savings
- availability of goods and services at the community level
- greater equity within the economic system for small producers?

These decisions are interrelated. For example, a decision to emphasize job creation can lead to working with owners of small businesses rather than the poorest of poor. A commitment to introducing women to new business opportunity will probably mean targeting income rather than jobs. Is the organization better able to provide intensive assistance targeting significant gains to a few, or a limited range of services to produce smaller gains for the many? Would helping a smaller number of medium size businesses produce goods that are really needed by the broader community be consistent with your organization's vision?

Sometimes these decisions can uncover sharp differences in perspective among key members of the institution which need to be resolved to create a clear, effective program. CARE's *Critical Incident in Defining Small Enterprise Development Project Goals* in the Tools Section, on page 231, provides an exercise for considering these differences, using neutral cases, before addressing the real issues internally.

Sample 1. — Vision, Mission and Goals for Zambuko Trust, Zimbabwe

I. Vision: Our vision is a nation where all people have the dignity of being able to provide for their own needs and the needs of others.

II. Mission: Our mission is to be a bridge between the underprivileged and opportunities for enterprise and income generation in our society. We are committed to:

- Christ's commission that all people might have life in all its fullness; and
- creating a professional business organization, based on biblical principles and supporting people in microenterprise.

III. Goals:

1. To create employment and generate income for the underprivileged through microenterprise business activities in Zimbabwe.
2. To become a self-supporting viable organization.
   - A. To facilitate the creation and expansion of microenterprises.
   - B. To facilitate the creation of employment opportunities within microenterprises.
   - C. To promote the transition of successful microenterprises from the informal to the formal sector.
   - D. To ensure that women are equal recipients of loans and services provided.

Define Program Methodology

An organization's methodology is the set of tactical steps and choices it makes to achieve its goals. For an SED organization or program, the selection of the appropriate methodology is critical. In the last ten years, many effective methodologies have been developed and tested. A number of them, especially credit methodologies, have demonstrated their capacity to deliver services to clients in cost-efficient ways. The SEEP review of 25 case agencies revealed that those who adapted one of these tested methodologies completed the work of the Development Stage more quickly and effectively. The Executive Director of one of these agencies, the Asociación para la Organización Empresarial Femenina de El Salvador, noted:

> ... the best thing we got from OEF and what we will always be grateful for is the training and practice of the participatory methodology. It would have taken us years of struggling in the dark to develop anything nearly as useful (Bath et al 1990, page 4).

In another example, AVANCE in Costa Rica, using methods and materials developed by its Northern partner, ACCION International, grew rapidly "reaching over five times as many clients as other programs operating longer periods of time" (SEEP 1989, Stearns, page 6).

It is important to emphasize, however, that no methodology can be imported into a program without adaptation to local contexts and an agency's organizational realities. This adaptation is one of the important tasks of the first year. But the work will be easier if the most appropriate is selected in the first place. In making that decision, or in creating a new methodology altogether, consider these questions:

Significant Impact: Does the methodology have the potential to achieve real gains in terms of the goals established?

Scale: Will it be able to serve large numbers, or indirectly and positively have an impact on large numbers of people?

Responsiveness: Can it meet client needs in a simple, streamlined way?

Cost-effectiveness: Can the methodology be implemented at a reasonable cost? If a credit fund is involved, does it have the possibility of achieving self-sufficiency?

Fit: Can the methodology be implemented with the organization's structure and capabilities? Or, can the organization reasonably expect to develop the capacities required? Is it compatible with agency vision and values?

If the answer to these questions is positive, then the work of design adaptation can begin with the development of initial policies and procedures. These may be developed in a simple format first, to guide the early implementation of the program. It is expected that they will undergo regular review and modification. *Checklist 4* on page 40 provides a sample listing of the types of issues that need to be considered in developing or adapting a methodology. The Tools Section contains a question guide that can assist Boards and staff in thinking through each of these areas more completely.[*]

[*] See *Guidelines for Loan Policies and Procedures for Small Enterprise Development*, page 237.

Objectives and Action Plans

The organization must develop an action plan that will outline the specific steps necessary to implement the methodology effectively and begin delivering services. It should identify short term program and organizational objectives (see sample on following page).

The action planning, and the preparation that follows, is a step that should not be shortcircuited. Several SEEP members found that one to two years was required before a program could actually start up. That period encompassed development of vision, and identification of committed leadership, structuring the organization, and designing systems and procedures for program implementation.

Resource Requirements

The final task in planning is to determine the resources that will be required to implement the program. In addition to initial budget estimates, practitioners of SED should be thinking about long-range sustainability goals from the outset. Financial projections of expenses and income are a critical part of this resource planning, since they influence the program design. D-8, page 64, contains a simple approach to making these projections and checking the initial feasibility of the planned program.

Checklist 4. — Policies and Procedures

- ❑ Client Eligibility Characteristics
  - age/sex
  - location
  - experience
  - reputation
  - business type, size, status, ownership
- ❑ Loan Characteristics
  - purpose
  - amounts
  - terms
  - interest rates
  - fees
  - security
  - client contribution
- ❑ Loan Policies
  - repayment/rescheduling
  - delinquency and default
- ❑ Procedures
  - application
  - review and approval
  - disbursement/collection
- ❑ Services
  - type/sequence/frequency
  - follow up
- ❑ Roles and Responsibilities
  - client
  - staff

Sample 2. — Action Plan for Zambuko Trust, Zimbabwe

By 31 March 1992:

...The office is set up by 1 January and is fully operational by I February.

...The Executive Director takes up his post by 1 January and support staff by 1 February [including] Projects Officer, a secretary and a general helper.

...The Executive Director will have visited Get Ahead in South Africa, and arrangements will have been made [for] training at the Asia Resource Center...

...A minimum of 20 loans are made by 31 March 1992.

...Interest rates and other charges are set at market levels and reviewed regularly.

...Clients will receive guidance and basic training in business principles and practices...

...The Board will meet every month with an 80 per cent attendance and all Board members will carry an active portfolio of responsibility which has been clearly defined.

...The budget is achieved and all expenditure is held within the agreed limits.

By 31 March 1993:

...A branch office to control a local program is established with training facilities.

...Staff training is completed and the policies and program of the Trust are fully developed and expressed in a written manual.

...A minimum of 200 loans are made.

...The budget is established and agreed by the 31st of March 1992 and is achieved...

...An accounting system is selected, installed and is fully functioning by 1 July.

CAPACITY

In the SEEP study of SED organizations, it was found that structures and systems during the Development Stage tended to have similar characteristics: they were fluid, often personalistic, and based more on common commitment and understanding than on documentation. Portfolio data and management information were kept manually, rather than by computer. The structures were flexible and responsive in consonance with the learning/adapting stance that an organization took during its early days. Many organizations did not formalize their systems until the Sustainability Stage.

While this represents a pragmatic approach to the reality of an organization at this stage (more concerned with "getting on with it" than with building methodically), some attention to initiating systems at this point can pay off substantially later on. The following four tasks contain recommendations for structure/systems work that should be considered.

D-4 Create the Core Organizational Structure

Focus on establishing the work units and staffing that can support the achievement of strategic goals. Define lines of authority, work rules, and job descriptions that enable people to know what is important, focus on it, and work together effectively. In a new organization, it is likely that the number of staff will be small and the structure relatively flat. OEF/El Salvador had a team of seven in its early years. Zambuko Trust, a new Zimbabwe PDO, started with a central office staff of four and planned to add branch office staff in the following year. Working Capital, a North American PDO providing loans to small business people in the New England states, initiated operations with a director and assistant. Enterprise agents, employed by cooperating community organizations, rounded out the team.

Starting with streamlined organizational structures like these in which the focus is more directly on work with clients, makes good sense. Pay particular attention to defining the job descriptions of front-line staff — the loan officers, advisors, promoters. These job descriptions, like the other policies and procedures, will be subject to change during the first year, but it is important to begin with as clear a definition of the tasks as possible when the program commences.

Table 5, on page 44, provides a summary of the tasks that need to be considered in determining a job description for a credit officer. Under each category there are options to choose from, depending on the methodology used and the benefits of each. Each option also incurs costs. In considering the options, list the costs and balance them against the benefits to make appropriate selections. In certain categories more than one option may be chosen.

In the same manner, task lists can be developed for other types of front line staff, such as technical advisors, trainers, management advisors, etc. The Tools Section contains a sample of these job descriptions. The tool, based on work by Opportunities Industrialization Centers International, further demonstrates how task analysis can be used to clarify what staff are expected to do, and the relative importance of the tasks assigned.[7]

Another important function to have in place from the outset is accounting. If an SED program is created within a preexistent organization, this function may be handled by current staff. If a new organization is created, accounting services will be necessary on either a full or part-time basis, depending on program size.

A small cadre of leadership, field staff, accounting staff and support personnel are all that is required to commence operations. This small group, infused with the missionary spirit of the Development Stage and working as a team, will provide the best structure for the responsive, adaptive approach to implementation that is necessary to make the methodology work. The team can work together to perform the environmental assessments required, flesh out the policies and procedures that will guide their work, and develop systems for accountability and information control. The better they are able to work as a team and respond flexibly to what they learn, the more quickly the organization will begin to pick up speed in its operation. As it does, it will grow to the next stages of organizational development which will include greater differentiation of function:

- A head credit officer to guide the others
- A full time accountant, if one was not needed earlier
- A monitoring/evaluation (or information management) specialist
- A communications/fundraising officer, and so forth.

[7] See *Job Descriptions and Task Analysis for Small Enterprise Development-Related Positions*, page 249.

Table 5. — Credit Officer Task List

TASKS	BENEFITS
Promotion: 1. conduct survey 2. initiate client contact	1. knowledge of target group 2. attract clients, publicity
Initial Contact: 1. information requests handled individually 2. periodic information meetings	1. clients feel well received 2. time savings, consistent information
Loan Analysis: 1. officer assists client with application 2. visit to workplace 3. financial analysis forms 4. collection of client baseline data 5. verification of guarantee information	1. information is more accurate 2. verify important information 3. detailed analysis 4. basis for impact evaluation 5. secures loan
Client Training and Technical Assistance: 1. one-on-one training 2. group training	1. focus on specific client needs 2. saves time; creates solidarity group
Loan Approval: 1. credit officer makes decision 2. credit committee makes decision	1. less bureaucratic 2. more control and consistency
Loan Disbursement: 1. signature of contract 2. verification of conditions precedent 3. loan disbursement	1. formalizes relationship 2. insures compliance
Follow-Up: 1. enforces repayment procedures 2. client visits 3. follow-up training and TA	1. maintain fund performance and reputation 2. maintain relationship, strong presence 3. monitoring; noncredit support services
Evaluation and Monitoring: 1. data collection, data treatment, reporting, decision making	1. provides program with knowledge and tools to adapt services to the needs of the clients
Administration: 1. management meetings 2. annual planning process 3. employee performance evaluations 4. employee training	1. collective management of operational plan 2. defines specific objectives and indicators 3. insures and rewards performance 4. maintains effectiveness and morale

— from Mark Flaming, **Informal Sector Credit Workshop Manual: Dar Es Salaam, Tanzania, 23–28 February 1992** (Winnipeg: Mennonite Economic Development Associates, 1992)

D-5 Recruit, Train and Evaluate Staff

It is clear from the preceding that how these functions are handled will have significant influence on the organizational culture. Only the right people can bring the program to life and work to achieve the vision.

The small staff must demonstrate a high degree of commitment to the vision of the organization, and a willingness to work in a learning environment where uncertainty is likely, flexibility required, and experimentation necessary. They should also be responsive to an organizational culture where incentives may be less material and related more to achieving the desired impact with clients.

A mix of social development and business skills is also important. The nature of this mix has been debated in the development community for some time. Because graduate level MBAs often do not bring to the job the appropriate social and communication skills or the commitment to this client population, one program manager in Latin America says he prefers to recruit staff with the vision of "ex-priests and ex-communists." On the other hand, can ideological commitment compensate for lack of business experience or technical skills needed to analyze loan applications or provide business advice to clients? To date, there is no resolution to this debate. Each agency has to find its own way, but three steps may help:

1. **Prioritize what's important to the organization:** Tototo Home Industries in Kenya, for example, recruited members of its rural women's groups to work as field agents assisting women's businesses. First and foremost, they wanted field staff who would work and live in rural areas over the long term, and who could communicate well with village women. Consequently, they had to invest in significant staff training to build the business skills field agents lacked.

2. **Test candidates before offering permanent employment:** Some organizations recruit a larger number of candidates than they will require, and offer them all an opportunity to participate in training designed to introduce them to the basic skills required to serve as front-line staff. The training serves as a screening process to select the best.

   ADEMI, a Dominican PDO, requires those field worker candidates who pass the interview stage to enter a two-month training and trial period:

   > During the process, the candidate studies the adviser's manual and accompanies one of the advisers with ADEMI experience.... During the first two weeks, the adviser/trainer, coordinator, and manager observe and evaluate the candidate, answering questions and discussing impressions. Practical experience has shown that the capability, skills, acceptance, and aptitude of the candidate can usually be gauged in the first 48 hours of work.... candidates who survive the first two weeks stay on as advisers...(Lewin 1991, pages 87-88).

3. **Provide on-going opportunities for learning that will help staff learn from their experience:** Much of the training that occurs during this stage will be on-the-job. Although there may be very little time for much else, the following options will help build staff skills:

   - *Expose staff to the work of more mature programs.* Work with international partners and donors to identify more experienced local organizations to visit, or other training workshops open to staff.
   - *Create a cycle of learning – action – joint reflection – action.* Integrate participation into the organizational culture by creating a place where people are challenged to think critically about their work, to share those critiques, and to work jointly for improvement.
   - *Use mentoring to link the newest staff with the more experienced.*

   In all training, and in reflection sessions, emphasize the vision and values of the organization. Be sure that staff understand why specific tasks, such as close follow-up on repayment, are important, and how they link to the overall goals of the organization.

4. **Use performance evaluation to reinforce expectations regarding how jobs will be accomplished:** It is important that staff know what is expected of them, and receive feedback on how well they accomplish their work. The systems of performance evaluation used in the corporate business world have generated criticism from PDOs for their focus on competition and merit as defined by bottom line profit. Yet a small enterprise organization must accomplish two things: motivate all staff to give the most effective and efficient service possible; and build a team that can work together in a demanding, growing organization. To do that, performance evaluation should have these characteristics:

   - Simple: Each staff person should have a few, clear objectives for his work.
   - Participatory: Each staff person should participate in defining these objectives.
   - Frequent feedback: Feedback on performance should be regular and informal. Don't wait for a year-end review to let someone know how she's doing.

   If feedback has occurred regularly during the year, the annual review should not contain any surprises. This should be an opportunity for the staff person to evaluate himself. For her part, the manager should comment on both the tangible objectives and the intangible ways that the staff person contributes to the development of the team and organization (e.g, teamwork, innovation, flexibility). In Honduras, the Organización de Desarrollo Empresarial Femenino (ODEF) identifies 11 such factors and uses a scale to measure each one. The Tools Section contains a sample of this evaluation format.[5]

In all cases, the purpose of personnel evaluation is to reinforce the notion that commitment, excellence and learning are prized in the organization, and will be recognized in both material and nonmaterial ways.

[5] See *Personnel Evaluation Instrument*, page 257.

D-6 Set Up Systems to Ensure Accountability

Personnel performance evaluation provides an organization with one important method of accountability for achieving its goals. However, an institution requires more information on financial and operational performance to evaluate its effectiveness. One key objective in the Development Stage is to set up management information systems. Once these systems are in place, the information itself is useless unless it results in improving the performance of the institution. Such improvement only occurs when staff are individually and collectively held accountable for their performance. Therefore, the other key objective in this stage is to achieve accountability among staff using the information generated from the management information system.

To accomplish these two objectives, a series of subtasks must be completed:

1. Establish performance indicators.
2. Conduct a baseline survey.
3. Set up a program information system.
4. Set up an accounting system.
5. Develop a budget.
6. Develop a cash flow projection.
7. Generate financial statements.
8. Analyze financial performance.
9. Analyze operating efficiency.

1. Establish Performance Indicators

These are required to measure the institution's performance in terms of both operational efficiency and program effectiveness (commonly called "impact"). It is imperative to establish these before operations begin, so everyone knows what it is that the organization is trying to achieve and how it is going to be measured.

Operational efficiency indicators measure results over which the institution has direct control, i.e., what the institution accomplished in its program which can be determined from its own internal records. Effectiveness or "impact" indicators, on the other hand, are more difficult to measure, because they involve results over which the institution has no direct control and which may be influenced by other environmental factors. They are also more difficult to collect because they involve changes which occur outside the institution. However, the institution must try to measure both types of indicators if it wishes to assess its effectiveness in improving clients' lives, as well as its efficiency in running its programs.

Sample 3. — Commonly Used Performance Indicators

Operational Efficiency	Effectiveness or "Impact"
Number of clients • in total • by gender • by enterprise type	Increase in clients' income Number of jobs created Number of new businesses
Number of loans	New goods and services in community
Size of loan portfolio	Increases in access to and sources of credit
Repayment and delinquency rates	Decreases in infant mortality
Number of trainings	Increases in education
Number of clients receiving training or technical assistance	

2. Conduct a baseline survey

Once impact indicators are established, they need to be measured in the community or client population to determine the initial level. This can be done through a baseline survey. The institution's impact on the client population will subsequently be assessed through changes in the levels of these indicators. This measurement, called an impact evaluation, will be addressed in the Sustainability Stage (S-4, page 85).

3. Set up a program information system

This system collects information on program operations and on individual clients. It is used to measure changes in the efficiency indicators, and possibly some of the effectiveness indicators as well. It should also collect information for all other anticipated purposes, including planning, managing and monitoring the program, developing fundraising proposals, reporting to donors, lenders, government, etc., and representing the institution's program to other constituencies. It is worth investing the time now to set it up well as it will save time and effort later in reconstruction and revision.

In setting up the system, organizations need to think clearly about two sets of issues. The first asks what information is required and by whom. To answer these questions, it may help to complete a worksheet such as that which appears as Table 6 on page 50 and has been completed for a sample credit program.

The second set involves examining the information needed and deciding:

- Who will collect it
- When (how often)

- How will it be recorded (documentation)
- How will it be summarized and analyzed
- How the information will flow.

For a credit program, the information flow might be developed similar to the diagram found on page 51. An example of a very simple system, based on a flow like this, is described in two tools developed by Save the Children Federation and included in the Tools Section.[9]

For other components, such as a training program or provision of technical assistance, separate records to track activity by training session or staff visit can be developed, or incorporated into borrower records if there is a direct linkage between programs. Whatever the case, it is important that the documents used to collect this information can be quickly and easily filled out by staff and/or clients and that they can be processed to generate the desired data in a timely and accurate manner.

4. Set up an accounting system

An accountant is needed to set up a system to collect, record and summarize the financial transactions of the institution. The system can be set up either as a manual or a computerized one. Although it is easier to computerize at the start, rather than later when the institution is fully operational, it may not be financially or logistically feasible at this stage. Computerization of the financial system will become necessary during the Sustainability Stage. (For a discussion on setting up a computerized system see page 97.)

A simple double-entry cash or accrual system should be sufficient at this stage. This means that income statement accounts (revenues and expenses) and balance sheet accounts (assets, liabilities and equity) will be generated, but amounts due and owed will be recorded very simply or not at all. Using a cash basis, amounts due would not be recorded until they were actually received. This approach is preferable if you do not wish to reflect any income until the cash is actually in hand. For example, loan interest due from borrowers in a credit program would not be recorded until received. Likewise, amounts owed others would not be recorded until actually paid.

In a simple accrual system, on the other hand, amounts that become due (e.g., from borrowers) and amounts owed would be recorded, even though the funds have not yet changed hands. The advantage of this approach is that income and expenses are recorded in the accounts when an agreement with debtors or creditors is made, and an asset or liability is recorded which indicates expected future inflow and outflow of funds. The choice of a cash or accrual system at this stage should depend on whether there is risk associated with recording and counting on income not yet received, and whether the accountant is capable of setting up and using an accrual system. If an accrual system is not used, separate records will need to be kept on amounts due and owed.

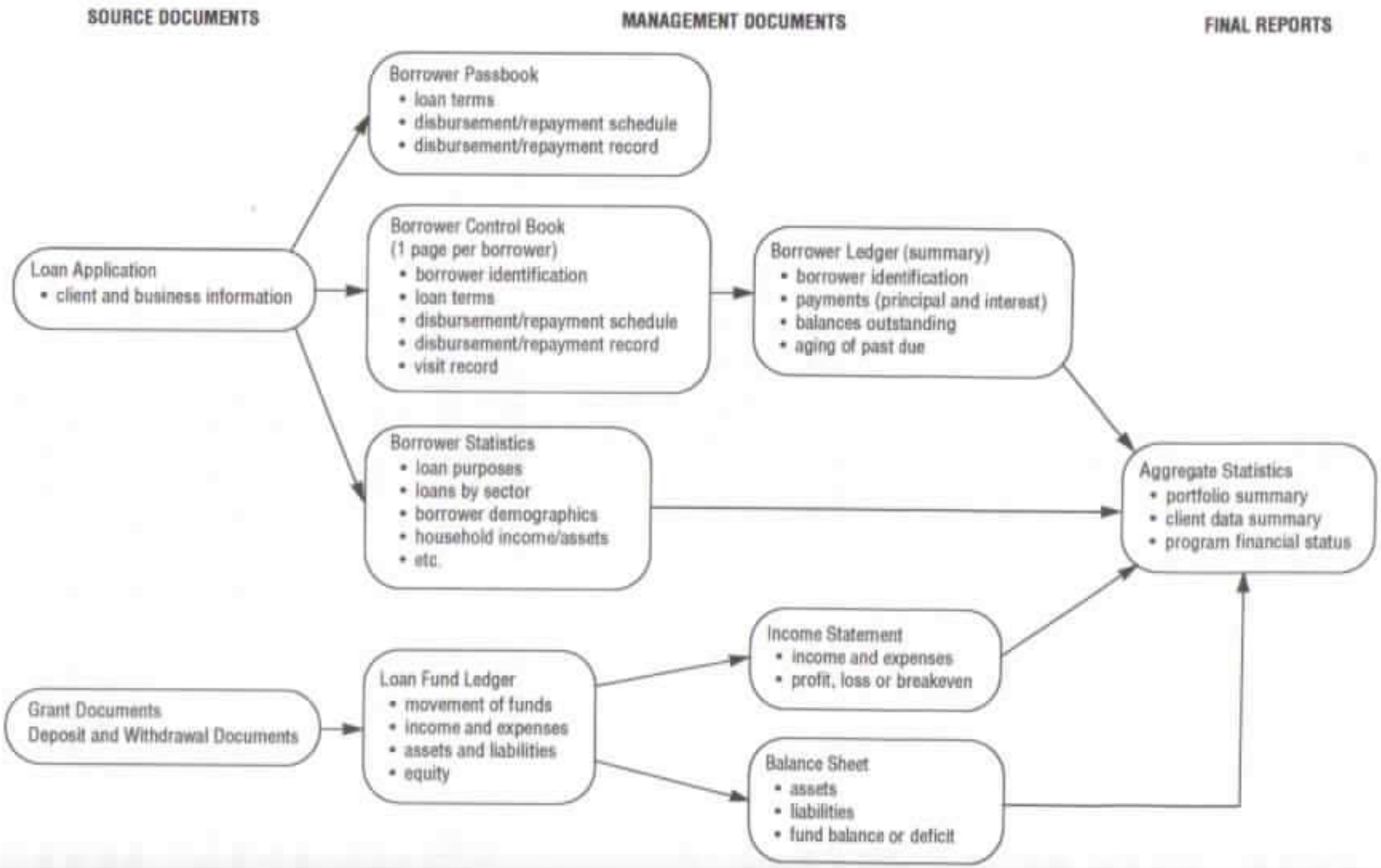
[9] See *Borrower Records* and *Credit Program Financial Reporting System*, pages 203 and 219.

Table 6. — Information Management Framework

MANAGEMENT AREA: WHO HAS NEED FOR INFORMATION?	FOR WHAT PURPOSE	SPECIFIC DATA TO BE COLLECTED
Operations		
Credit Officer:	loan analysis, client follow-up, and impact assessment	personal and business data; loan info: terms, disbursement/repayment schedules and record; loan status; list of late loans impact indicators
Secretary:	loan contract preparation	client identification data and loan terms
Credit supervisor:	loan approvals assess loan fund performance assess client impact	loan analysis aggregate borrower performance aggregate loan fund performance impact indicators
Financial Management		
Accountant/Bookkeeper:	financial control: transactions control, account balances, client account performance	receipts; disbursements; beginning and end balances
Financial Director:	financial performance	transaction summaries; projections for income and expenses; cash flow; income statement; balance sheet; and loan fund statistics
Program and Institutional Management		
Board of Directors:	management of long-term institutional strategy	financial reports and projections; performance assessments; impact on client and family development, business development, and community development
Executive Director:	management of operational plan	same as above

— adapted from Mark Flaming, **Informal Sector Credit Workshop Manual: Dar Es Salaam, Tanzania, 23–28 February 1992** (Winnipeg: Mennonite Economic Development Associates, 1992)

Management Information Flow for a Credit Program



The necessary books include a journal and a ledger, or a combined journal-ledger. Subledgers for individual program components, such as the credit program, are recommended to track income and expenses by component. This subledger information can be used to assess and project viability for each component, which is necessary for moving toward institutional sustainability. In the Sustainability Stage, these subledgers form the basis for accounting by cost center.

A sample loan fund ledger for a start-up credit program is contained in the Tools Section.[10] (This is actually a hypothetical subledger for the credit component of the Orlandia Field Office of Save the Children, an international PDO.) This fund closes its books every quarter, and the ledger shows entries for the first three months of operation, July to September 1989.

Finally, there are two crucial accounting issues that need to be addressed if the institution has a credit component:

- At what point will delinquencies and defaults will be recognized and recorded; and
- Whether a loan loss reserve will be established, or whether loan losses will be covered directly out of the retained earnings of the institution.

5. Develop a budget

The budget, which is used to guide operations during the first six to twelve months, should be based on income and grants the institution is reasonably certain it will receive. If there are funds which may be received, but which are not yet assured, it is best not to include them in the operational budget. This can be handled by preparing a separate budget which shows how they will be used if received, and then revising the current operational budget once they are in fact received. If they are included in the current operational budget and spent based on this budget, and the funds do not materialize, the institution may be in serious financial trouble. (In other words, don't spend what you don't yet have!)

The budget should also reflect the program decisions that were made, based on financial projections, that will lead the organization toward developing a sustainable program. Although 100 percent operational self-sufficiency (i.e., program income covering program expenses) is extremely difficult to reach, the objective in this stage is to move in that direction. A method for developing financial projections is presented in D-8, page 64.

6. Develop a cash flow projection

Having a budget to guide the institution's operations is not enough. The budget shows what funds will flow in and out of the institution during the period, but not the timing of those flows. In order to ensure that funds are available when needed, a cash flow projection is required. This shows expected cash balances, inflows and outflows, and allows staff

[10] The examples used in this chapter come mostly from the formats and accompanying instructions in the *Credit Program Financial Reporting System* developed by Save the Children Federation, Inc. Please see the Tools Section, page 219 for more on this system.

to anticipate cash surpluses and deficits. It then becomes possible to take measures to invest cash surpluses to earn additional income, and to borrow extra funds or delay payments to cover cash deficits. Failure to develop cash flow projections can mean lost income from investments or increased costs from bank overdrafts, higher interest on emergency loans, or lost vendor discounts.

Financial Statement 4.1, on page 54, shows a cash flow projection for an established credit program, and demonstrates that their income should cover all anticipated expenses throughout the year without any difficulty.

7. Generate financial statements

These reports tell whether or not the institution is in line with the budget and financial projections, and point out those areas which need special management attention. The basic financial statements include the following:

- Budget vs. actual statement which shows where spending was over and under budget
- Income statement, otherwise known as a profit-and-loss (P & L) statement, which shows all income earned and expenses incurred during the period, and the net profit or loss when expenses are subtracted from income (these should also be prepared for each component if there are subledgers)
- Balance sheet, which shows the financial position of the institution at the end of the period, as represented by the assets the institution owns, the liabilities it owes, and the difference between these two, the equity of the institution
- Sources and uses of funds statement, which shows cash inflows, outflows and balances for the period.

Financial Statements 4.2, 4.3, 4.4, and 4.5 on pages 55–58 show how each of these statements is used to assess an institution's performance. The last three are from the Women's Association Fund, whose loan fund ledger was referred to earlier.

8. Analyze financial performance

In this stage, the focus is two fold: first, on assessing the profitability of the institution and each of its components, to begin to gauge movement toward self-sufficiency; and second, on understanding what the financial numbers can tell about the effectiveness of the methodology.

4.1 — Cash Flow Projection

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
INCOME FROM PORTFOLIO													
Application fee	4,500				4,500				4,760				13,760
Processing Fee	25,000				22,500				23,800				71,300
Interest on Loans	9,378	7,101	4,788	2,421	9,378	7,101	4,788	2,421	9,920	7,511	5,065	2,561	72,433
Interest on Funds in the Bank	1,875			1,875			1,875			1,875	7,500		
Subtotal	38,878	7,101	6,663	2,421	36,378	8,976	4,788	2,421	40,355	7,511	5,065	4,436	164,993
INCOME FROM GRANTS AND DONATIONS													
Grants			50,000										50,000
Other Donations													
Subtotal	0	0	50,000	0	0	0	0	0	0	0	0	0	50,000
OTHER INCOME													
Training Fees													
Other Income													
Subtotal	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL INCOME	**38,878**	**7,101**	**56,663**	**2,421**	**36,378**	**8,976**	**4,788**	**2,421**	**40,355**	**7,511**	**5,065**	**4,436**	**214,993**
EXPENSES													
CREDIT PROGRAM EXPENSES													
Salaries	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	30,000
Rent	625	625	625	625	625	625	625	625	625	625	625	625	7,500
Utilities	313	313	313	313	313	313	313	313	313	313	313	307	3,750
Office Supplies	313	313	313	313	313	313	313	313	313	313	313	307	3,750
Transportation	469	469	469	469	469	469	469	469	469	469	469	466	5,625
Depreciation	313	313	313	313	313	313	313	313	313	313	313	307	3,750
Loan Loss Reserve	750	750	750	750	750	750	750	750	750	750	750	750	9,000
Other Expenses	156	156	156	156	156	156	156	156	156	156	156	159	1,875
Subtotal	5,439	5,439	5,439	5,439	5,439	5,439	5,439	5,439	5,439	5,439	5,439	5,421	65,250
TRAINING EXPENSES													
Salaries	833	833	833	833	833	833	833	833	833	833	833	837	10,000
Rent	208	208	208	208	208	208	208	208	208	208	208	212	2,500
Utilities	104	104	104	104	104	104	104	104	104	104	104	106	1,250
Office Supplies	104	104	104	104	104	104	104	104	104	104	104	106	1,250
Transportation	156	156	156	156	156	156	156	156	156	156	156	159	1,875
Depreciation	104	104	104	104	104	104	104	104	104	104	104	106	1,250
Other Expenses			313				312						625
Subtotal	1,509	1,509	1,822	1,509	1,509	1,509	1,821	1,509	1,509	1,509	1,509	1,526	18,750
TOTAL OPERATING EXPENSES	**6,948**	**6,948**	**7,261**	**6,948**	**6,948**	**6,948**	**7,260**	**6,948**	**6,948**	**6,948**	**6,948**	**6,947**	**84,000**
FINANCIAL EXPENSES													
Interest on Borrowed Funds			12,500			12,500			12,500			12,500	50,000
TOTAL INCOME	**38,878**	**7,101**	**56,663**	**2,421**	**36,378**	**8,976**	**4,788**	**2,421**	**40,355**	**7,511**	**5,065**	**4,436**	**214,993**
TOTAL EXPENSES	**6,948**	**6,948**	**19,761**	**6,948**	**6,948**	**19,448**	**7,260**	**6,948**	**19,448**	**6,948**	**6,948**	**19,447**	**134,000**
Cash in Bank	31,930	32,083	68,985	64,458	93,888	83,416	80,944	76,417	97,324	97,887	96,004		
NET/(LOSS)	**31,930**	**32,083**	**68,985**	**64,458**	**93,888**	**83,416**	**80,944**	**76,417**	**97,324**	**97,887**	**96,004**	**80,993**	**80,993**

Assessing Profitability

- The **budget vs. actual statement** tells what spending projections were correct and incorrect. It is not enough to note these areas; why this over and under-spending occurred must be understood in order to project more accurately in the future.

4.2 — Budget vs. Actual Statement

WOMEN'S ASSOCIATION FUND OF ORLANDIA

Sample Credit Program: Year ending December 31, 1992

Operating Expenses	*Budget*	*Actual*	*Difference*
Loan Officer Salaries	10,000	13,000	(3,000)
Training Expenses	5,000	4,500	500
Transportation Costs	1,000	1,200	(200)
Bad Loan Expense	500	400	100
Administrative Expenses			
Administrative Salaries	3,000	3,200	(200)
Utilities	500	450	50
Office Supplies	100	90	10
Bank Charges	100	80	20
TOTAL	**20,200**	**22,920**	**(2,720)**

ANALYSIS

The greatest overexpenditure in this institution's budget is the loan officer salaries category. This may have been due to the inability to hire qualified staff at the projected amount, or because more staff were hired than originally planned. As this is a recurring expense, managers will have to be sure that the 1993 budget can absorb the higher amount. If not, additional funds will have to be raised or staff will have to be reduced.

- The **income statement** for the institution gives an overall picture of self-sufficiency, which is based on the profit or loss in each component plus the institution's overhead. The income statements for each component, if prepared, will tell how well costs in that component are covered by income, i.e., what effect that component has on institutional self-sufficiency.

4.3 — Income and Expense Statement

WOMEN'S ASSOCIATION FUND OF ORLANDIA

For the Quarter Ending September 30, 1989 (in pacas)

REVENUES:		**EXPENSES:**	
Interest on loans to borrowers:		*Operating expenses:*	
Received	26.50	Salaries	00
Earned but not received (1)	00	Rent	00
Total Interest	26.50	Utilities	00
Fee Income	75.00	Travel	00
Interest Earned on bank deposits	00	Bank service charges	100.00
Other Revenues	00	Other	00
Total revenues:	**101.50**	**Total operating expenses:**	**100.00**
		Interest expenses:	
		Interest paid on member savings	00
		Interest paid on loans from banks	00
		Total interest expense	00
		Bad loans expense (2)	00
		Total expenses	**100.00**

Profit (Loss) (3) 1.50

ANALYSIS

(1) **Interest earned, but not received:** This amount should be small, certainly low in comparison to interest received. If it is high, it indicates that borrowers are not paying as they should be. Since this amount is zero, it indicates the fund is collecting all interest due.

(2) **Bad loans expense:** This shows how much was actually written off the books as uncollectible. For this fund, it is zero, as to be expected when a loan fund first starts up.

(3) **Profit/Loss:** The positive number here indicates that the loan fund covered all its costs and did not lose value (except possibly due to inflation) during the period. However, this number is close to zero because staff salaries and other costs were picked up by the institution. If they were charged to this component, it would clearly not be self-sufficient.

- The **balance sheet** gives a picture of the financial health of the institution at the end of the accounting period. Various balances need to be examined in relation to one another to determine if any are too high or too low. Current and previous balance sheets need to be compared to see whether they are moving in a healthy or unhealthy direction. Analyzing the balance sheet is an important way to identify financial problems before they get out of hand.

4.4 — Balance Sheet

WOMEN'S ASSOCIATION FUND OF ORLANDIA

September 30,1989 (in pacas)

ASSETS		**LIABILITIES AND FUND EQUITY**	
		LIABILITIES:	
Current assets:		Current Liabilities:	
Cash on hand	1,000.50	Accounts payable	00.00
Bank balances	2,726.50	Member savings	00.00
Other	00.00	Interest payable	00.00
		Other:	00.00
Total current assets(1)	3,726.50	Total current liabilities(1)	00.00
Loans outstanding		Loans from banks or other	
(principal only)	2,275.00	financial institutions	00.00
Interest receivable(2)	00.00	Total Liabilities:	00.00
Other assets:	00.00		
		LOAN FUND EQUITY:	
		loan fund capital	6,000.00
		retained earnings(3)	1.50
Total other assets:	00.00	Total loan fund equity:	6,001.50
Total Assets:	**6,001.50**	**Total Liabilities and Equity:**	**6,001.50**

ANALYSIS

(1) **Current assets divided by current liabilities (current ratio):** this number should be equal to or greater than one, indicating that current assets are sufficient to cover current liabilities. A number less than one means that other assets may have to be liquidated, or funds borrowed, to meet current liabilities as they become due. This loan fund has no current liabilities, and therefore is in an excellent position in this regard.

(2) **Interest receivable:** this number indicates how much earned interest the fund is waiting to receive. The objective is to get this number down to zero, so that all borrowers are paying their interest and principal on time. In this case, interest receivable is zero, so the fund is managing this area well.

(3) **Retained earnings:** this number indicates how much the loan fund has increased or decreased in value since it started (or since accounts were set up). A positive number indicates that all expenses have been covered by income, and a negative number the reverse. It does not indicate if value has been lost due to inflation. Also, the retained earnings amount on the balance sheet must equal the retained earnings amount at the beginning of the period plus the profit or loss on the income statement. As can be seen above, the amounts equal one another.

- The **sources and uses of funds statement** tells whether there were any problems with cash flow during the period, and whether income and uses of funds were in line with projections. Analysis of this statement will help project cash flows better for future periods, and identify areas where cash flow problems have arisen in the past. A sample analysis of these statements for the Orlandia Women's Association Fund is presented below.

4.5 — Sources and Uses of Funds

WOMEN'S ASSOCIATION FUND OF ORLANDIA

Quarter ending September 30, 1989 (in pacas)

SOURCES OF CASH	
Transfer from SCF	5,000.00
Loan repayments	225.00
Interest on loans	26.50
Grant from UNDP	1,000.00
Total sources	**6,251.50**
USES OF CASH	
Loans to borrowers	2,425.00
Bank charges	100.00
Total uses	**2,525.00**
INCREASE (DECREASE) IN CASH	**3,726.50**

ANALYSIS

The Women's Association Fund started up in this period with $5,000 in capital, and later received an additional $1,000 from UNDP. If this $6,000 in capital is removed, there was actually a net outflow of $2,273.50, mostly in the form of loans to borrowers. 40% of the capital was lent out in the first three months, which the managers should compare against their projections of lending activity during this period. Whether loan repayments and interest receipts were as expected also depends on these projections. Attention should probably be directed to bank charges, which appear high given the cash balances the Fund is keeping in the bank.

- Finally, **the loan fund quarterly statistics statement** can be put together to give a statistical portrait of a credit program, using information from the financial and program information systems. In this case, the Women's Association Fund derives information from its balance sheet and borrower records for reporting to one of its funders.[11]

Assessing Operational Effectiveness

An institution's effectiveness and efficiency can be analyzed using information from both the financial statements and program information system. At this stage, it is recommended that the analysis be kept simple and focus primarily on the repayment and delinquency status of the credit portfolio. In the next stage, how to conduct more sophisticated analysis of the credit portfolio and institution, particularly in terms of sustainability, will be covered. (See S-4, page 85.)

The analysis is best conducted using ratios, which allow you to compare your institution's performance against other institutions and against industry standards. In terms of the repayment and delinquency status of the credit portfolio, no single ratio or measure gives a full picture of the impact of late loan payments on the credit program. Use three or four

[11] For an illustration, see the Statistics Statement in *Credit Program Financial Reporting System* in the Tools Section, page 230.

different measures to get a complete picture of the severity of any problem in this area and the degree of risk it poses to the overall loan portfolio. Following are five formulas for analyzing repayment and delinquency performance. Each one conveys a different piece of information about the impact of delinquent payments on the portfolio.[12] To illustrate these formulas, the portfolio statistical information from the borrower records (see below) of the Women's Association Fund as of the end of September 1990 was used.[13]

4.6 — Portfolio Statistical Information

WOMEN'S ASSOCIATION FUND OF ORLANDIA

Quarter ending September 30, 1990 (in pacas)

Payments received during quarter	550
Payments due during quarter	610
Loans outstanding (end of quarter)	4,800
Loans outstanding (average for quarter)	5,000
Payments past due (end of quarter)	60
Total loans outstanding with payments past due	480
Loans outstanding with payments 31-60 days past due	150
Loans outstanding with payments 61-90 days past due	80
Loans declared nonrecoverable (written off) during period	25

Formula 1. — Repayment Rate

$$\frac{\textit{Payments Received Last Quarter (or Month)}}{\textit{Payments Due + Past Due Last Quarter (or Month)}}$$

EXAMPLE 1

With payments of 550 pacas in the quarter, and 610 due, the Women's Association Fund exhibits a performance just at the bottom line of acceptable performance:

$$\frac{\textit{Payments Received}}{\textit{Payments Due}} = \frac{550}{610} = 90\%$$

The Repayment Rate tells how much of the money that was due the institution by borrowers was actually paid. This rate measures the performance of the institution in recovering loan payments. Credit programs should strive for a repayment rate above 90%.

The Repayment Rate does not measure the amount of risk in the portfolio. The following three formulas measure portfolio quality by measuring the percentage of the portfolio that is in arrears.

[12] For a more detailed discussion of various measures of repayment and delinquency, see Katherine Stearns, **Methods for Managing Delinquency** (Bethesda: Development Alternatives, Inc., 1991), which is discussed in Recommended Manuals, Guidebooks and Monographs, page 291.

[13] Borrower records are a tool for managing and reporting a credit program's transactions in conjunction with the loan fund ledger. For a complete explanation see *Borrower Records* in the Tools Section, page 203.

Formula 2. — Arrears: Amount Past Due Rate

$$\frac{\textit{Principal Past Due}}{\textit{Amount Outstanding}}$$

The Amount Past Due Rate indicates the percentage of the total loans still outstanding that should have been repaid. Credit programs should strive to keep this rate below 10%.

EXAMPLE 2

For the Women's Association Fund, this formula provides a very positive indicator of performance:

$$\frac{\textit{Principal Past Due}}{\textit{Amount Outstanding}} = \frac{60}{4{,}800} = 1.25\%$$

The Amount Past Due Rate is the formula most credit programs use when they report their arrears publicly. However, it may understate the actual risk to the portfolio because it only counts the late portion of delinquent loans, treating the remaining portion of the loan as if it were part of a healthy portfolio. If a borrower has missed several repayment dates, the entire loan is at risk, not just the late portion.

Formula 3. — Arrears: Portfolio at Risk Rate

$$\frac{\textit{Outstanding Balance of Loans with Payments Past Due}}{\textit{Amount Outstanding}}$$

The Portfolio at Risk Rate indicates what portion of the portfolio is made up of loans that have missed one or more payments. It counts all loans that have missed at least one payment as being at risk. Credit programs should strive to maintain an exposed portfolio rate of under 20%.

EXAMPLE 3

Using this formula, the Women's Association Fund does not show as positive a performance as when using the first:

$$\frac{\textit{Outstanding Balance}}{\textit{Amount Outstanding}} = \frac{480}{4{,}800} = 10\%$$

Still, it falls within an acceptable range for a program in the Development Stage.

The Portfolio at Risk Rate may overstate the delinquency problem if there are borrowers that pay regularly but pay late. Another weakness of this formula is that it groups late loans together, while a loan that is 100 days past due is much more risky than a loan that is only 31 days past due. To know more about the riskiness of the portfolio, it is necessary to break down the arrears by the number of days payments are late.

Formula 4. — Aging of Arrears

$$\frac{\textit{Outstanding Balance of Loans with Payments 31–60 Days (61–90, etc.) Past Due}}{\textit{Amount Outstanding}}$$

EXAMPLE 4

Looking at the period of 31to 60 days, the Women's Association Fund has 3% of its loan funds outstanding with loans past due for this time:

$$\frac{\text{Outstanding Balance of Loans}}{\text{Amount Outstanding}} = \frac{150}{4{,}800} = 3\%$$

This formula and an aging report gives a much fuller picture of the riskiness of the portfolio. The greater the proportion of loans in the later categories, the riskier the portfolio. Credit programs should strive to maintain the majority of their loans in arrears in the 31-60 days category. Loans over 120 days should be examined to determine if they should be declared nonrecoverable and written off as losses.

Formula 5. — Loan Loss Rate

$$\frac{\textit{Amount Declared Nonrecoverable for Period}}{\textit{Average Outstanding Balance for Period}}$$

To use this formula requires calculating the Average Outstanding Balance for the Period (month, quarter, year). To do this, use formula 6.

Formula 6. — Average Outstanding Balance

$$\frac{\textit{Total Outstanding Balances at the End of Each Period (Month, Quarter)}}{\textit{Total Number of Periods (Months, Quarters)}}$$

At this early stage of its program the average outstanding balance for the Women's Fund has been calculated at 5,000 pacas. For an illustration of how average outstanding balances are calculated for a longer term program, see Example 12 in Chapter Five, page 93.

EXAMPLE 5

The Fund has declared a very small portion of its loan funds nonrecoverable:

$$\frac{\text{Amount Declared Nonrecoverable}}{\text{Average Outstanding Balance}} = \frac{25}{5{,}000} = 0.5\%$$

The Loan Loss Rate indicates the percentage of loans that have been written off or declared nonrecoverable. This formula is only useful if the organization has a clear policy on when loans should be declared in default (e.g., after 120 days of no payment activity) and follows it rigorously. Many credit programs are able to report no loan losses only because they never declare any loans nonrecoverable. Credit programs should establish clear policies on writing off loans and try to maintain a loan loss rate below 5%.

D-7 Adapt the Methodology During Implementation

While the choice or design of a methodology is made during strategic planning (see D-3), its implementation will require some trial and error. Information from the management information system will help the institution identify which changes in the methodology are required and why. Some are needed to address client demands, such as adjusting the mix of services (e.g., training and credit), or the terms of loan repayment to fit better with the borrower's business cycle. Others may be needed to respond to poor portfolio performance — i.e., high rates of delinquency or default. Finally, emergencies brought on by political upheaval or natural disasters may prompt program adjustments.

Two cases illustrate the point:

> Working Capital, the U.S.-based microenterprise program committed to using a minimalist credit approach to achieve scale, found that its first borrower groups seemed to require more attention and technical advice from enterprise agents than was initially planned. This "reality check" on the program's design assumption has forced the organization to reconsider operational costs, and seek modifications in its first year.
>
> In Kenya, Tototo Home Industries introduced peer lending, but found that the borrower groups did not operate as smoothly and independently as assumed by the methodology. They had to introduce training in group dynamics to build a foundation for the groups to carry out their basic responsibilities in the lending process.

In **The Hidden Beast: Delinquency in Microenterprise Programs**, Katherine Stearns (1991) emphasizes that microenterprise programs can control their problems, no matter how "uncontrollable" their causes may seem. A program must monitor factors such as natural disasters, changes in government policies, personal crises, and downturns in the local economy and adapt its methodology to compensate. For example, compulsory emergency or insurance funds have helped member organizations of the Asociación de Grupos Solidarios, in Colombia, anticipate and respond to the personal crises of their borrowers that often lead to default. Emergency grace periods on outstanding loans may be an appropriate response to a disaster affecting large numbers of borrowers.

To monitor implementation and refine methodology, use a worksheet, like the one on the following page, to pinpoint areas for improvement.

Table 7. — Design Modification Worksheet

1. DESIGN DECISIONS	ACTION REQUIRED
A. Client Outreach: Are we reaching the right people? Is the program attractive to them, as evidenced by demand for the service we offer?	
B. Client Selection: Do our screening procedures work? Do the guarantees support loan repayment?	
C. Incentives and Penalties: Are the incentives for fulfilling responsibilities attractive? If the program provides loans, do we offer ready access to subsequent loans? Are our penalties sufficiently costly?	
D. Client contact: Do our field workers have adequate follow-up time with clients?	
E. Information: Do our field workers have adequate and timely information to monitor clients? Do we have the right global information to identify trends and be able to respond to them? Do the forms clients and staff use gather the right information clearly and easily?	
F. Assumptions: Are there design assumptions that have not been proven to be true ? Do our clients have needs that we did not anticipate? How does this affect the program?	
2. UNCONTROLLABLE FACTORS	
A. Emergencies: Does our system for addressing clients' personal emergencies work?	
B. Context: Are there social, political, or economic factors that require us to modify our methodology?	

D-8 Project Financial Requirements

Funds to implement SED programs are most often secured through proposals in which the organization establishes the merits of its request based on the logic of the program design, its track record, and its legitimacy with client groups. In SED, an important part of program logic is demonstrated by resource planning, including projections for self-sufficiency. Donors look for:

- The costs associated with satisfying client needs
- The relationship between expected demand and available resources
- The structure of fixed and variable costs that support the delivery of services
- How the program is designed to progressively recover costs.

If an organization plans to operate a credit program, financial viability projections can be critical to building this logical case. They are a useful management tool to communicate:

how **efficient** it plans to be in the use of funds (by the ratios anticipated for field workers per clients; cost per loans; per service);

how **fiscally responsible** it aims to be in protecting the funds entrusted to it (by projected interest rates and repayment rates); and

how **self-sufficient** it seeks to be (by the planned growth in interest and fee income in relationship to operational costs).

Projecting financial requirements for a credit program is basically the same as projecting financial requirements for any program or institution. It primarily involves estimating expected income and expenses to ascertain if there will be a surplus, breakeven or deficit situation during a specified period. This can be determined using the following formula:

Formula 7. — Surplus/(Deficit)

Revenue – Expenses = Surplus/(Deficit)

[Note: 0 = Breakeven]

A surplus or breakeven result indicates that income is expected to cover all costs, both variable and fixed. A deficit indicates that adjustments are required in the program design to achieve breakeven, or if this is not possible, then there is a requirement for additional financing. In the early years of a program, this type of subsidy is certainly expected; as the program matures, however, calculations should demonstrate that subsidy is declining to approach and achieve breakeven.

Projecting financial requirements for a credit program becomes trickier than for other types of programs because: 1) many assumptions about program operations have to be made; and 2) many variables are interrelated with one another. The step-by-step example of how to project financial requirements in a simple credit program is presented below and provides a "back of the envelope" way to determine if a given program design has a chance to succeed financially within a few years of operation.

Step 1. **Design the credit program:** Assume you are setting up a simple credit program offering only one type of loan, in this case working capital loans to existing microbusiness enterprises. You want to find out if the program has a chance of becoming viable at the end of three years. Your first step is to write down your design assumptions, upon which other calculations will be made. In this case, the credit program is designed as follows:

4.7 — Program Assumptions

Average loan size:	$1,000
Loan term:	1 year
Interest rate:	10%
Target: borrowers by the end of the first year	5,000

Step 2. **Determine basic operational expense levels:** Financial projections cannot be made without determining what amounts may be expended in the various cost categories. Expected expenses for both fixed and variable costs must be determined. Fixed costs are those costs which will not vary despite changing levels of activity in program operations. Variable costs, on the other hand, will vary directly with the level of program activity. Consider all the costs that will be involved in running your program, decide for each cost if it will be fixed or variable, and estimate in what way each will be calculated. Set down these expense assumptions as illustrated in the following example:

4.8 — Cost Assumptions

Salary per position:	$10,000
Fixed costs:	
3 fixed staff positions	
Other fixed expenses (overhead)	$10,000
Variable costs:	
Loan officers (1 loan officer/200 borrowers)	
Support staff (1 position per 10 loan officers)	
Rent per staff position	$500
Other variable costs per staff position	$1,000

As you can see from this example, expenses can fall in either the fixed or variable category, depending upon the assumptions. In this case, rent is considered to vary according to staff size, but in many situations it would be fixed according to the size of the space.

Step 3. Project operational revenues: The next step is to use the program design variables to project the revenue the program is going to generate when it is fully operational at the end of three years. First, project the value of the loan portfolio.

Formula 8. — Loan Portfolio Value

Number of Borrowers	***x***	***Average Loan Size***	***=***	***Value of Loan Portfolio***

Then, using the loan portfolio value, you must project how much interest income is going to be generated:

Formula 9. — Interest Income

Value of Loan Portfolio	***x***	***Interest Rate***	***=***	***Interest Income***

Of course, this formula assumes that the program will succeed in lending to its target number of borrowers for the period, and receive all the interest income due from borrowers by the end of the period. These assumptions will generally not be valid, and projections will need to incorporate assumptions regarding when lending and repayment activity will occur during the period. This will require adjustments which are not demonstrated in this simple example. For this example, the projected operational revenues would be as follows:

EXAMPLE 6

5,000 Borrowers	*x*	*$1,000 Average Loan Size*	*=*	*$5,000,000 Portfolio Value*
$5,000,000 Portfolio Value	*x*	*10% Interest Rate*	*=*	*$500,000 Interest Income*

The assumption here is that the credit program is not generating any other income besides interest on loans. This number of $500,000 is therefore total revenues for the credit program during the period.

Step 4. Project fixed costs: Next, project fixed costs for the credit program. This basically involves looking at the assumed operational expense levels from Step 2 and calculating total fixed costs for the period. For example, in this case, fixed costs would be as follows:

EXAMPLE 7

Staff salaries:		
3 fixed staff positions x $10,000/position	=	$30,000
Other fixed costs:		10,000
Total fixed costs:		**$40,000**

Step 5. Project variable costs: After fixed costs, you need to project variable costs. These are typically more complex to calculate than fixed costs because they involve interrelationships among numbers and tiered levels of assumptions. In this example, which is fairly straightforward, the variable costs would be projected as follows:

EXAMPLE 8

Variable Costs

Loan Officer Salaries	
$\frac{\text{5,000 borrowers}}{\text{200 borrowers/loan officer}}$ = 25 Loan Officers	
25 loan officers x $10,000/loan officer =	$250,000
Support Staff Salaries	
25 loan officers x 1 support staff/10 loan officers = 2.5 support staff	
(Note: Assume in this case that one person is hired half-time rather than full-time.)	
2.5 support staff x $10,000/position =	$25,000
Rent	
3 fixed staff + 25 loan officers + 2.5 support staff = 30.5 total staff	
30.5 total staff x $500 rent/staff person =	$15,250
Other Variable Costs	
30.5 total staff x $1,000/staff person =	<u>$30,500</u>
Total Variable Costs =	**$320,750**

It is difficult to give specific formulas for calculating variable costs, because they depend on the assumptions you make concerning interrelationships among the variables. However, if you can follow the logical progression in the above examples, you should be able to figure out how to calculate the variable costs in your own program.

Step 6. Calculate total costs: The formula for calculating total costs is:

Formula 10. — Total Costs

Fixed Costs	+	***Variable Costs***	=	***Total Costs***

So, in this example, total costs are calculated as follows:

EXAMPLE 9

Variable Costs	=	*$320,750*
Fixed	=	*<u>40,000</u>*
Total Costs	=	**$360,750**

Step 7. Calculate surplus or deficit: The formula for this was given at the beginning of this section. In this example, it would be calculated as follows:

EXAMPLE 10

Revenues	–	*Expenses*	=	*Surplus/(Deficit)*
$500,000	–	*$360,750*	=	*$139,250*

The number is positive, indicating that the credit program would produce a surplus of $139,250 during its third year. If this number were negative, it would indicate that the credit program needed to borrow or raise funds equivalent to the deficit amount if it maintained its current design. At this point, it would be important to review the numbers used in the design assumptions to see if any changes were possible that would either reduce costs, or increase income (by increasing interest rates, for example.)

When projecting financial requirements, variables, and interrelationships between variables should be set up so they reflect the credit program as realistically as possible. In effect, a model of the credit program is being set up. This model can be very simple or very complex, depending on the actual complexity of the credit program's operations and how much effort has been put into making the model realistic. If it is anticipated that the model will be fairly complex, or if it is desired to be able to change assumptions to see what impact those changes have on the projected financial requirements, it would be well-advised to create a model on the computer where calculations can be done much more easily.[14]

Another way of developing financial projections, with a view to determining the breakeven portfolio size for different programs, is discussed in S-9 on page 116.

[14] **Microenterprise Credit Programs: Projecting Financial Viability** is a computer program with manual designed by the SEEP Network for developing these more detailed calculations. See page 291 for a review of this material.

D-9 Acquire Resources

The SEEP review of 25 cases of small enterprise development programs found that resource mobilization was a challenge, and stumbling block, at every stage of an institution's development. In the Development Stage, some organizations found it difficult to consistently raise the funds required in a sufficient quantity. In the Sustainability Stage, some found it hard to sustain the interest of their early funders. At the Expansion Stage, the challenge has been to find enough resources to fuel the scale-up required, and to firmly achieve self-sufficiency.

The cases studied yielded the following lessons:

1. **Make sure budgets are as cost efficient as possible:** Institute tight expenditure policies and budgeting controls in such areas as equipment procurement and maintenance, communication costs, travel and per diem. Our study of SED organizations found that the most successful of them could be characterized as *results oriented, cost conscious, business minded and efficient*. The extent to which these qualities are valued has a direct effect on choices of structure, staffing, and systems.

2. **Recognize the importance of local fundraising early on:** Many Southern organizations look to external markets exclusively, and this strategy makes them dependent on financing systems that often seem capricious and inappropriate. One organization's dependence on a sole donor almost led to its demise when the two entities had a disagreement. A local cadre of support is an important antidote to this dependence. Building that support is the responsibility of the Executive Director and the Board. (And that is one reason why Board development is such an important element in an organization's maturation.) Use the Board to help make connections with the broad array of possible local donors: individuals, corporations, community groups, and national government agencies.

3. **Plan to diversify external funding support by the end of the Development Stage:** During the initial program years, develop a track record of competence and build a solid reputation. In program reports, use key numerical data to document accomplishments and justify further investment. Build critical fundraising skills including proposal and report writing, donor research, public relations, negotiation, and accounting methods that accurately relate program expenses to funding sources.

   The importance of these fundraising skills can not be underestimated. For several organizations, important programs could not get access to adequate resources because they could not produce sophisticated reports or proposals. Because this capability is so vital to the future of partner organizations, several SEEP members focus significant attention and resources on building the fundraising capacity during the early phases of partnership.

4. **Build the self-financing capacity of the institution:** In general, this means focusing on moving the credit program to self-sufficiency in line with the projections that have been developed and fine-tuned through experience. Training and technical assistance functions will be harder to pay for, although some costs may be offset by instituting training fees.

   Caution is urged when considering income generating schemes that depend on establishing and running enterprises. While some large institutions like Bangladesh Rural Advancement Committee (BRAC) can manage commercial enterprises and use the revenues to support their programs, others have had serious problems with this approach. Staff are easily siphoned away from the development project that the enterprise is intended to support, resulting in financial losses rather than gains.

5. **Keep the vision of the organization paramount:** Several case organizations failed to do this in the search for funds and ended up receiving money for initiatives that were either not their priority, or not in their area of expertise. This danger increases during the next stage when programs are growing and in need of larger amounts of funds; hence the importance of a vision continually renewed and supported by a strategic plan. Saying no to certain opportunities is the mark of an organization that knows where it is headed.[15]

[15] For more detailed information on fundraising and other financing strategies, see Recommended Manuals, Guidebooks and Monographs.

D-10 Choose Partners

As the institutional development framework suggests, the cultivation of linkages — with clients and other organizations — is an important element in an SED organization's formation, and a key contributor to the accomplishment of its mission. During the Development Stage, an organization gives priority to building linkages with clients because their trust is the foundation of the program's legitimacy. Next, the organization should identify those resource institutions it will need to rely on in order to serve clients. In the current climate of international development, Northern and Southern PDOs are turning to each other to meet mutual needs.

Choosing a Partner

Experience to date shows several paths to identify and choose partner agencies. Some agencies follow established criteria, while for others, the choice is either more intuitive or a function of circumstances. Some agencies have made a strategic decision to establish and build new local institutions for SED initiatives rather than work through existing ones. ACCION International, in "Institutional Profile: A Tool for Selecting Affiliates" (undated), cites the following disadvantages of trying to develop sustainable credit programs within existing organizations:

- The program is perceived as an add on
- There is a preference for what is known over what is new
- Knowledge of the technology of microenterprise development is low
- Paternalism vs. self-sufficiency [is the dominant value].

On the other hand, many organizations prefer to work with their existing partners, or with institutions that already have good relationships with the target communities.

Whichever path is chosen, the road to productive partnerships is built on mutual respect and a clear understanding of what each organization will contribute and how each expects to benefit. Defining the roles and responsibilities of the partners is achieved through an assessment — either formal or informal — of the elements outlined in Table 8 on page 72. These are questions to help each organization assess the other.

Sample 4. — Benefits of Partnership

For Indigenous Organizations

1. Technology transfer
2. Institutional Development
    - board development
    - strategic planning
    - systems
    - training
3. Access to resources
4. Internal and external linkages with donors and other PDOs

For International PDOs

1. Legitimacy within country
2. Introduction to and credibility with clients
3. Knowledge of context
4. Cost effectiveness
5. Access to funds from donors committed to working with local organizations

Table 8. — Assess a Partner

	Northern PDO Asks:	Southern PDO Asks:
Vision	Does this organization share our vision?	Does this organization share our vision?
Leadership	Quality of leader? Role of Board ? Open to change?	Is organization stable and respected? What is SED capacity?
Institutional Development	Can we offer what organization needs? Is it committed to changes we propose to introduce?	What can they offer us? Do we want it? What will it cost us?
SED Standards	Commitment to goals of self-sufficiency?	Commitment to goals of self-sufficiency?
Resources	Level of funding needed by both? Can we raise this amount? How much can they raise?	What funds do we need? How much will they provide? How will it help us raise add'l. funds?

Establishing a Contract

Once achieved, agreement on mutual rights and responsibilities must be made explicit in a written, contractual form. Negotiations and contract language should reflect the respect each party bears for the other, and the common commitment to developing a successful program. At a minimum, contracts should define:

- The common mission or goals to which both sides ascribe;
- The programmatic objectives that will be achieved, and the responsibilities of each to making that happen;
- The financial resources that will be raised; by whom and for which purposes;
- How resources will be managed and accounted for;
- The standards and responsibilities for reporting and monitoring.

Sample contracts in the Tools Section show different ways that these have been executed between SED partners, and the details that have been found to be important.[16]

Monitoring the Relationship

The agreements and terms established at the outset should be reviewed over time to ensure that the relationship still serves both partners. One SEEP member, Opportunity International, has found it useful to establish a one-year pilot arrangement with new partners where the good faith and accomplishments of both sides are tested before a longer term agreement is ratified. In one case, the pilot year resulted in dissatisfaction on both sides. The Northern side felt that

> ...the Board did not have a complete understanding of their responsibilities and the level of commitment required of them. [It] had not retained a staff with the appropriate skills and experience.
>
> For its part, the Southern partner felt that the Northerners were culturally insensitive and had not provided an adequate level of support (SEEP 1989, Reed, page 9)

A sequence of steps was initiated as a consequence of this pilot year evaluation, and five years later, the two organizations remain joined in a mutual and growing effort.

A sample evaluation tool is also included in the Tools Section. It suggests a way of monitoring this most important relationship.[17]

This completes the review of the Development Stage. An organization that has thoughtfully addressed the tasks discussed here is well placed to face the challenges of Sustainability.

[16] See *Affiliate Agreement and Affiliate Agreement Monitoring Checklist*, page 171.
[17] See *Affiliate Agreement Monitoring Checklist*, page 184.

CHAPTER FIVE

THE SUSTAINABILITY STAGE: DEVELOPING A PROGRAM THAT CAN KEEP GOING ON ITS OWN

Organizations at the end of the Development Stage have created a vision and implemented a methodology that achieves the desired impact on the lives of the people who participate. If these organizations operate credit programs, they will be able to generate loans and achieve repayments on a consistent basis. The Sustainability Stage brings a new challenge — to make an effective program efficient. During this stage the organization learns to keep itself going out of resources it generates on its own, both through earned income and effective fundraising.

To go from the Development Stage to the Sustainability Stage an organization must make a number of important transitions. These include moving from:

- Running as a small, intensely personal organization, to operating as a larger organization with clearer lines of authority
- Being led by ideas and concepts, to being guided by the hard reality of what works and does not work
- Managing based on daily personal interaction with clients, to managing based on reports and projections from subordinates who have regular interaction with clients.

Numbers become very important at this stage of development. Is the program financially viable? How many clients can it reach? How many people have received training? What is the cost per client, trainee or amount lent? What is the average increase in income per client? The organization can become overwhelmed with numbers. Success in the Sustainability Stage requires knowing what numbers to keep track of and how to interpret them in light of the vision and mission.

Sustainable organizations have developed systems to keep track of their activities, learn from their results, and adapt and refine their methods to better reach their goals. They maintain personnel who understand their functions and can perform them successfully. They show steady improvement in key performance indicators like clients served, loans made, people trained, and repayment rates. They have learned how to package their "product" for donors so that they are not dependent on any one source of funds.

The Sustainability Stage can seem quite boring. An organization is not propelled by the visionary force of the Development Stage, nor is it swept up in the excitement of mushrooming growth of the Expansion Stage. But in many ways, the Sustainability Stage is the most important, for if the program cannot achieve sustainability, impact will begin to dwindle. And without sustainability, the institution will never lay the groundwork for rapid expansion.

This chapter will be most useful if:

- You have been operating an enterprise development program for sometime and want to improve its performance;
- Your major donor is no longer willing to cover most of your costs;
- You want to make sure your program can continue over the long term; and/or
- You are an organization in the Development Stage and are planning ahead.

Following are the major tasks to be addressed in the Sustainability Stage, in accordance with the framework:

Component	Sustainability Stage Tasks	
VISION	S-1	Examine and refine vision
	S-2	Develop systems for board evaluation and rotation
	S-3	Plan for Chief Executive succession
CAPACITY	S-4	Standardize systems for increased control
	S-5	Refine methodology
	S-6	Develop and maintain personnel
RESOURCES	S-7	Improve cost recovery
	S-8	Improve repayment rates
	S-9	Review financial viability projections
	S-10	Expand donor base for non-credit activities
LINKAGES	S-11	Establish a niche
	S-12	Join associations for learning and policy impact

S-1 Examine and Refine Vision

One of the key tasks of the Development Stage was to create a vision. Vision remains important in the Sustainability Stage, but now the results of the program must be examined in light of the vision, and the vision evaluated in light of the results. This task is critical to the long-term sustainability of an organization and if neglected, may lead to undesirable consequences.

How Vision is Lost

Read the following example to see what may result when this happens:

A Cautionary Tale

Imagine a small enterprise development organization started by visionary leadership whose goal is to lift desperately poor people out of poverty, and enable them to support themselves and their families. In the Development Stage, vision propels this organization. The initial staff join the organization because of a shared commitment to serving the poor. All the staff have the opportunity to develop personal relationships with the people they are serving. Board Members visit projects and get excited by seeing the difference the program makes in people's lives. While operations may be a bit haphazard at times, excitement and energy provide momentum to the organization.

Over time, the organization grows bigger. It hires more staff and standardizes its operations. The new personnel are hired more for technical competence than for commitment to the vision. Staff positions become more defined and less flexible. Original staff members, who once worked directly with the poor now find themselves managing other people instead. Some of them leave the organization, upset that they no longer have direct contact with the people they want to help. As staff become more numerous and more skilled, Board Members become less and less involved in the organization, coming together only for board meetings that at one time took place monthly, but now only occur twice a year.

The original funders of the organization begin to decrease funding levels, requiring the organization to cover more and more of its costs. The imperative to become financially viable seizes the organization. Staff and Board meetings become filled with financial projections and statistical summaries of results. The organization decides to make larger loans to more well-to-do clients, justifying this decision on the grounds that the income earned from these clients will subsidize the work with its real target group. As pressure for financial viability increases, more and more of the portfolio goes to wealthier clients.

(continued on page 78)

(continued from page 77)

In the midst of this process the Chief Executive decides to leave. She no longer finds the work as motivating as she once did. The Board replaces her with a financial manager who concentrates on the bottom line. After a few months on the job, he decides to rid the portfolio of all of its high cost clients. He calculates the cost of generating and monitoring one loan and the minimum size of loan needed to cover those costs. He suspends all lending below that level. He succeeds in making the program fully self-supporting, and is roundly praised by the Board and donor agencies.

The Board holds a special ceremony to honor the achievement of financial self-sufficiency. At the ceremony one of the Board Members asks the Chief Executive what is happening in the desperately poor community where the organization began its work. He is stunned when the Chief Executive tells him that the organization can't afford to work in such hopeless areas.

Looking at a compass shows that if you make one hundred and eighty small misdirections of one degree you are going backwards. Organizations lose vision in the same way, by making a series of small decisions that move the program only slightly off course. Over time these small misdirections mount up, sending the organization in a direction much different than what was originally intended.

The organization in the cautionary tale followed a pattern that is all too familiar to many of us. It took many steps that are a necessary part of the Sustainability Stage. It standardized its procedures, increased the number and improved the capabilities of its staff, projected its financial viability, and improved cost recovery. Yet in the process, it lost its vision. Is it possible to attain sustainability without losing vision? If so, how is it done?

Maintaining Vision

Before modern navigational equipment, ships maintained their course by constantly checking their position in relation to a fixed point, such as a star. An organization's vision must be that fixed point. The organization must continually measure its performance in relation to that vision.

Becoming a sustainable organization and maintaining vision are not necessarily incompatible. Many organizations have developed sustainable sources of income that cover all their costs without departing from their mission. These organizations have developed systems for measuring their activities and results against their vision.

The box on the following page gives a *Checklist for Maintaining Vision*. Organizations should use it to see if their structures and systems promote the maintenance of vision. If an organization does not score well on this checklist, it may want to adopt some of the methods utilized by organizations that have successfully stayed on course. Here are some of those methods:

Checklist 5. — Maintaining Vision

- ❒ Can staff members at all levels state the vision of the organization?
- ❒ Do new staff receive thorough training in the vision and mission of the organization?
- ❒ Has the organization developed critical indicators of program impact? Have these indicators been improving?
- ❒ Does the organization spend as much time reviewing its impact on the target group as it does reviewing financial projections?
- ❒ Do the staff and Board ever take an extended period of time away from the organization to reflect on the results of the program in relation to its vision?
- ❒ Do Board Members have any contact with clients?
- ❒ Do staff members other than loan officers have any contact with clients? Do they know the impact of the program?
- ❒ Would the original clients of the program still qualify? If not, why not?
- ❒ Do clients have any role in shaping the methodology of the program?
- ❒ Has the organization turned down any funding because donor requirements would have caused them to stray from their vision?

1. **Communicate the vision throughout the organization:** The vision should be more than a statement printed on the annual report. It should be known and understood by every staff member. Organizations that maintain their course take time to orient new staff members and reorient existing staff members to their vision and mission.
2. **Take time for reflection:** Many organizations hold staff and Board retreats to reflect on the performance of the organization in light of its vision. Table 9 gives an example of an agenda for one of these retreats.
3. **Measure impact:** To maintain vision, many organizations have developed key indicators to assess whether or not their program is attaining its mission. These may include percentage increases in client income, number of new jobs created, or change in the health and well-being of the family. S-4, page 85, discusses the issue of impact evaluation more directly.
4. **Involve clients:** The further staff and Board Members are removed from the clients, the easier it is for them to lose the vision of the organization. Many organizations overcome this by developing mechanisms for interaction between clients and the staff and Board. These include:
   - Having clients make presentations at Board meetings (ASSIST, Jamaica)
   - Requiring that Board Members visit a certain number of clients each year (TSPI and its Partner Agencies in the Philippines)
   - Holding celebrations that include clients (ACUDE, Peru).

Table 9. — Board Retreat Agenda

BOARD RETREAT AGENDA			
	Friday	Saturday	Sunday
Breakfast			
Morning Session		Review of performance to date: Have we accomplished our goals? Why or why not?	Refining the vision: Has our experience caused us to change our vision or to recommit ourselves to the original vision?
Lunch			
Afternoon Session		SWOT Analysis: strengths, weaknesses, opportunities, threats	Set objectives for the coming year
Dinner	Dinner with Board Members and spouses		
Evening Session		SWOT Analysis continued	

Beyond direct contact with the staff and Board, it is important that clients also have a role in shaping the methodologies and goals of the organization that is serving them. Credit unions and community banks address this by having clients manage programs. Some organizations with voluntary Boards maintain places on the Board for successful clients (ASPIRE, Dominican Republic). Others delegate responsibility for many aspects of program operations to the clients themselves, such as screening loans and making collections (Grameen Bank, Bangladesh; KMBI, Philippines; PRIDE, Kenya).

S-2 Develop Systems for Board Evaluation and Rotation

The imaginary organization in the cautionary tale found that, as it became more professional, the Board began to lose interest. This is a common occurrence as organizations move from the Development to the Sustainability Stage. In the Development Stage the Board is often heavily involved in determining the mission and vision of the organization and establishing policies. At the Sustainability Stage the setup work is done, the excitement of the startup is over, and the staff can function effectively with little Board oversight. What is left for a Board to do?

Actually, the Board continues to play a critical role at this stage, but often a less glamorous one. Some of the key tasks of the Board at this stage are:

- **Guarding the vision:** The Board is the group ultimately responsible for maintaining the vision of the organization. They must hold the staff accountable for achieving results in keeping with the mission of the organization, and they must evaluate all new initiatives in light of the organization's vision.
- **Financial oversight:** The Board is ultimately responsible for the financial integrity of the organization. It must make sure that accurate and timely reports are submitted on a regular basis. In many cases, the Board is also responsible for retaining outside auditors to review the financial records and controls of the organization.
- **Review of policies and procedures:** The initial set of policies and procedures drawn up in the Development Stage need to be updated to reflect the activities of the larger and more standardized organization in the Sustainability Stage. The Board must work with staff to develop these policies and procedures.
- **Fundraising:** Board Members can work with the staff in raising funds for the organization. Board Members can use their contacts with private sector businesses and/or government organizations to help secure funding and diversify the funding base.
- **Special initiatives:** The Board can also be useful in assisting the staff with special initiatives that improve the performance of the program. Examples of this include Board Members who help to arrange subcontracting links between microenterprises and larger businesses, or Board Members who use their contacts with other PDOs to help organize a project that addresses many needs of a community at the same time (e.g., credit, health, education and sanitation).

Maintaining Board involvement and interest at this point requires a structure for obtaining maximum efficiency from Board input, a system of accountability for individual Board Member performance, and a method for reenergizing the Board with new membership.

Structure: Many organizations divide their Boards into committees so that Board Members can focus their attention on areas where they have the most expertise. Common committees include finance, credit (for reviewing larger loans), human resources, fundraising and executive (for deciding Board level issues between Board meetings). Committees can handle most of the short-term responsibilities of the Board, requiring less frequent meetings of the full Board.

Accountability: Many organizations have found that they can aid Board performance by establishing a minimum set of standards for Board Members, and evaluating Board Member performance against those standards. These standards must be developed by the Board itself.[18]

Rotation: One nonperforming Board Member can set the tone for the whole Board, and diminish overall Board performance. On the other hand, Board Members who get too involved can burn out over time and lose interest in the organization. The Board needs a mechanism for removing nonperforming Board Members and for providing relief to high performers to avoid burnout. Many Boards address this by establishing a rotation system. At TSPI in the Philippines, Board Members are elected to 3-year terms. A Board Member may be elected for a second 3-year term if he or she has maintained Board performance standards. After two consecutive 3-year terms, a Board Member is required to take a year off from the Board. After the year off, the Board Member can stand for election to another term.

[18] The *Board of Directors Development Matrix* in the Tools Section, page 193, provides a sample self-evaluation format that can help Board Members decide on, and assess themselves against appropriate standards.

S-3 Plan for Chief Executive Succession

Another key responsibility of the Board is to hire the Chief Executive Officer and conduct an annual review of his or her performance. In the Cautionary Tale, the original Chief Executive decided to leave the organization as it began to achieve sustainability. This occurs in many organizations because: a) the original Chief Executive is a visionary who lacks the management skills necessary to direct and lead a larger, more standardized organization; and/or b) the original Chief Executive is motivated by the challenge of a start-up, but has little interest in the more routine activities of a sustainable organization.

The Board must be aware of these dynamics and plan for them. The strategies the Board adopts depend on the nature of the organization and the capabilities of the Chief Executive. The transition from visionary leadership to professional management does not always require a change of Chief Executive. Some possible alternative responses include:

- Having the Chief Executive take management training courses at the organization's expense
- Hiring a Chief Operating Officer to work under the Chief Executive and handle the day-to-day operations of the organization.

If the Chief Executive resigns or the Board decides he or she must be replaced, the Board must carefully consider what skills and qualities they want in a new Executive Director. They should rewrite the job description based on what the organization has become, and where they want it to go in the future (see *Sample 5*, page 84). Usually the Board will want to hire a person with a demonstrated capability for managing a professionally-run organization. However, the Board must also keep in mind that they want a person committed to the vision and mission of the organization, otherwise they can end up with an efficient program that achieves little impact.[18]

Once the new Chief Executive is hired, the Board should provide him or her with a thorough background in the history of the organization and its guiding principles. If the new Chief Executive does not have extensive experience in small enterprise development, the Board would do well to locate workshops, seminars or courses that can give the new Chief Executive background in this field. *Sample 9*, on pages 109–110, gives an example of a course of this type offered by the Center for Community Transformation in the Philippines.

[18] For additional assistance with this task, see the *Program Director Selection Process Checklist* in the Tools Section, page 263

Sample 5. — Executive Director Job Description

An Example from Opportunities Industrialization Centers, Cameroon

Job Title: Program Director

Definition: The overall administration of the operation of the human resource development training center involving major responsibility for leading, planning, organizing and controlling all phases of the program to ensure efficient and effective attainment of goals and objectives. The Program Director is accountable to the Board of Directors.

Duties:

1. Plans, leads, organizes and evaluates the day-to-day activities of program staff in accordance with Board policies and guidelines.
2. Develops and implements systems for monitoring and evaluating staff performance and program progress as it relates to achieving the organization's goals and objectives.
3. Develops and maintains harmonious working relationships with the Board, public, and among staff.
4. Develops and implements plans and activities for program involvement with community, business and government as directed by the Board.
5. Assists the Board of Directors in initiating, planning and executing resource mobilization activities, including development of program support groups, submission of proposals to donors, fundraising activities and income-generating projects.

Qualifications:

1. Completion of Master's Degree (or equivalent) at an accredited college or university. An individual will be sought with a substantial amount of experience (five years) in human resource development programs, supervising staff, and program administration.
2. A candidate will be sought who has demonstrated a facility to work effectively with representatives of various institutions, both public and private.
3. The incumbent would be sensitive, mature and of sound mind and body to the extent that these qualities can be measured.

S-4 Standardize Systems for Increased Control

The key objective in the Development Stage was to put systems in place that assured accountability; in the Sustainability Stage, it is to solidify operational control. The challenge in this stage is how to handle the growth of the institution's operations as it moves toward greater self-sufficiency, while at the same time achieve greater control over operations by focusing attention on factors affecting its efficiency and effectiveness. A checklist of the subtasks that need to be accomplished includes the following:

1. Evaluate impact
2. Improve program information system
3. Upgrade the accounting system and staff
4. Conduct more rigorous financial analysis
5. Computerize the system

1. Evaluate impact

At this stage of an organization's development it is critical to have a system for measuring the impact of its program. In the Development Stage, program managers can see firsthand the impact the program has on its clients. As the program grows larger, managers have less day-to-day contact with clients, and are no longer able to gauge impact in the same way. The organization needs to develop a system that will give program managers and the Board accurate information on the program's impact.

It is recommended that an organization establish performance indicators and conduct a baseline survey in the Development Stage. During the Sustainability Stage, it is important to review the impact of the program according to these indicators and ask the following questions:

- Do the indicators chosen provide the information needed to make decisions about the program? Do they need to be changed or expanded?
- Is the information received from the program information system worth the effort needed to obtain it? Can the process be streamlined in any way and still provide the essential information needed to make decisions?
- Has the impact been improving over time?
- Is there any correlation between changes in program methodologies, target groups, lending locations, etc., and the impact of the program?

During this stage, the organization should also consider conducting more extensive evaluations of the impact of the program on the quality of life of its clients. It would be prohibitively expensive to do this with every client, so a sample is recommended. This sample group should represent the makeup of the overall client population in key areas such as gender, location, and type and size of business. SEEP's **Step By Step Guide** (Buzzard and Edgcomb 1987) gives a detailed description of how to choose indicators and conduct surveys with this sample group.

This type of impact evaluation shows how client's lives have changed after becoming involved with the program. However, these changes may or may not be a result of the program's activities and may have occurred even if the clients had not become involved. To determine what changes occurred as a result of the program requires a control group. A control group is a collection of people who have not participated in the program, but have the same characteristics as the sample group of program participants. Comparing the changes in the control group with the changes in the sample group over time will show which results came about because of the program, and which occurred because of other factors.

The box below describes an impact evaluation system using control groups, that was developed by CARE for its Small Enterprise Development programs.

Sample 6. — CARE Impact Evaluation System

CARE believes that it is essential to look at the whole household economic picture to get a true sense of the impact of any one activity. Concentrated at the lower end of the income spectrum, many of CARE's program participants shift household resources between multiple economic activities in very complex ways. For these households, economic diversification is their risk management strategy. In this context, business income is not a reliable proxy for household income because it does not capture the opportunity cost of activities foregone.

To grapple with these measurement complexities, CARE is designing a comprehensive evaluation system to track both business income and household economic assets. It contains five models: a single product cost structure model; a multiple product cost structure model; a labor-based model; and two household surveys. Together they constitute a menu of measurement options that can be adapted to varying levels of effort and investment in evaluation. All rely on memory recall, because in all but a handful of project environments, records will either be nonexistent or unreliable.

Of the two household surveys, one concentrates on the CARE-assisted activity specifically; the other is a comprehensive household survey that measures key assets, investment of time in a range of economic activities, and returns. Still in the process of field testing this survey, CARE confronts several issues, including quality of data and frequency of collection. This survey is time intensive and complex. It will need to be administered frequently enough to get reliable recall but infrequently enough to ensure a manageable data collection process (Frankel in NEXUS, June 1992).

2. Improve program information systems

During the Sustainable Stage, the organization reaches a much larger number of clients. The information system should be upgraded to handle this increase in volume and provide timely reports needed for managers to make decisions.

Tracking this information may be relatively easy when the program is small, but it becomes more and more difficult as the number of clients increases. Organizations in the Sustainability Stage need to do two things: review the system designed in the first stage to see if it is providing all the information required for management and impact monitoring (see D-6, page 47); and computerize the system. This task will be discussed below. When these tasks are done well, the system should be able to generate a variety of program reports, such as the samples for Microenterprise Lending Incorporated, found in the boxes 5.1 through 5.5, pages 88–91.

In addition to global reports such as these, the system should be designed to collect, aggregate, and report information by cost center. Cost centers may be local offices of the program, or specific program components. This cost center approach will allow evaluation of the contribution each area of the institution is making toward its self-sufficiency, efficiency, and effectiveness. This should be done in both the financial and program information systems.

In the program information system, records are revised to incorporate items that identify the cost center, and if possible, the specific program officer servicing that particular client or loan. This information should not just be collected and summarized. It must be used to assess the performance of each cost center and program office to identify how operations can be improved. It should also be incorporated into the staff's performance evaluation system as a means for motivating better work.

3. Upgrade the accounting system and staff

A single accountant or small accounting staff may no longer be capable of handling the scale and complexity of the institution's financial operations. In this stage, it is time to consider upgrading the financial staff by hiring an operations or financial manager who not only will supervise the accounting staff, but will also oversee upgrading and computerization of the management information systems, introduction of the impact evaluation system, and institution of more rigorous financial and statistical analysis.

The financial system needs to be upgraded to accommodate accounting by cost center and also by fund (known as fund accounting) if the institution is receiving funding from different sources. If a cash basis for accounting was used in the Development Stage, a transition to an accrual basis will be required to more accurately reflect the financial position of the organization. If reserve funds for loan losses and depreciation have not been set up, they will now be required.

4. Conduct more rigorous financial analyses

In the Development Stage, financial analysis focused on assessing performance as reflected in the financial statements and the repayment and delinquency ratios of the credit component. In this stage, the analysis must go a little farther.

First, it is important to look at profitability by cost center, assessing what impact each cost center has on the overall profitability and self-sufficiency of the institution. This is done by reviewing the profit and loss statements for each cost center. Second, it is more important to look closely at the overall performance of the credit program using operational ratios related to costs and income. These ratios will give a complete picture of how well the credit program is moving toward self-sufficiency. To illustrate this type of analysis, the example of Microenterprise Lending Incorporated will be used. It's Income and Expense Statement (Profit and Loss), Balance Sheet, Cash Flow Statement, and Portfolio Information are provided here.

5.1 — Program Information

MICROENTERPRISE LENDING, INC.	
Number of Loans Made	2,700
Value of Loans Made	$1,350,000
Number of Loans Made to Women	1,755
Value of Loans Made to Women	$607,500
Number of Loans to Groups	1,080
Value of Loans to Groups	$540,000
Number of Jobs Created	1,800
Number of Training Sessions	30
Number of Participants	810
Number of On-Site Visits	5,400

5.2 — Balance Sheet

MICROENTERPRISE LENDING, INC.
Assets, Liabilities & Fund Balance

Current Assets			**Liabilities**	
1	Cash and Investments	$50,000	10 Loans Payable	$300,000
			11 Other Liabilities	$0
Loans Outstanding				
2	Loans Outstanding	$450,000	12 Total Liabilities	$300,000
3	Less Provision for Bad Debt	($9,000)		
			Fund Balance	
4	Net Loans Outstanding	$441,000	13 Fund Balance Prior Yr.	$150,000
Fixed Assets			14 Plus Retained Earnings	$81,000
5	Equipment	$50,000	15 Current Fund Balance	$231,000
6	Less Depreciation	($10,000)		
7	Net Equipment	$40,000	**16 Total Liabilities and Fund Balance**	**$531,000**
Other Assets				
8	Other	$0		
9	**Total Assets**	**$531,000**		

5.3 — Income and Expense Statement

MICROENTERPRISE LENDING, INC.

INCOME

Income from Loan Fund

17 Interest on Loans	$157,500
18 Fees on Loans	
19 Interest from Funds in Bank	$7,500
20 Total Income from Loan Fund	$165,000

Income from Grants and Donations

21 Grants	$50,000
22 Other Donations	$0
23 Total Donated Income	$50,000
24 Other Income	$0
25 TOTAL INCOME	**$215,000**

EXPENSES

Credit Program Expenses

26 Salaries	$30,000
27 Rent	$7,500
28 Utilities	$3,750
29 Office Supplies	$3,750
30 Transportation	$5,625
31 Depreciation	$3,750
32 Other Operating Expenses	$1,875
33 Total Credit Program Expense	$56,250

Training Expenses

34 Salaries	$10,000
35 Rent	$2,500
36 Utilities	$1,250
37 Office Supplies	$1,250
38 Transportation	$1,875
39 Depreciation	$1,250
40 Other Operating Expenses	$625
41 Total Training Expenses	$18,750
42 Total Operating Expenses	$75,000

Financial Expenses

43 Interest Paid on Borrowed Funds	$50,000

Loan Loss Expenses

44 Loan Loss Provision	$9,000
45 TOTAL EXPENSES	**$134,000**
46 Gain (Loss) for Period	*$81,000*

5.4 — Sources and Uses of Funds

MICROENTERPRISE LENDING, INC.

Sources of Cash

47 Interest Received	$165,000
48 Principal Payments Received	$1,323,000
49 Grant Funds	$50,000
50 Sale of Assets	$0
51 Other	$0
52 Total Sources	$1,538,000

Uses of Cash

53 Operations	$70,000
54 Repayment of Borrowed Funds	$50,000
55 Interest Payments	$50,000
56 Loans	$1,350,000
57 Other	$0
58 Total Uses	$1,520,000
59 Increase (Decrease) in Cash	$18,000

5.5 — Portfolio Statistical Information

MICROENTERPRISE LENDING, INC.

60 Number of Loans Outstanding			900
61 Value of Loans Outstanding			$450,000
62 Average Amount Outstanding (past yr.)			$430,000
63 Number of Loans in Arrears			135
64 Value of Payments in Arrears			$36,000
65 Value of Outstanding Balances of Loans in Arrears			$54,000
66 Defaulted Loans			$9,000
Aging Report	**Arrears**	**% of Loans in Arrears (65)**	**% of Loans Outstanding (61)**
67 30 Days Past Due	27,000	50%	6.0%
68 60 Days Past Due	13,500	25%	3.0%
69 90 Days Past Due	10,800	20%	2.4%
70 120 Days Past Due	2,700	5%	0.6%
71 Payments Expected in Past Month (Due plus Past Due)			$112,500
72 Payments Received in Past Month (Due plus Past Due)			$106,875
Ratios			
73 Operating Self-Sufficiency			123%
74 Repayment Rate			95%
Arrears			
75 Amount Past Due Rate			8%
76 Portfolio at Risk Rate			12%
Loan Information			
77 Average Loan Size			$500
78 Average Loan Term (months)			4
79 Nominal Rate of Interest			25%

Delinquency and Repayment

Example 11 on page 92 shows the calculations of repayment, delinquency and loan loss ratios, as introduced in the Development Stage. They present an initial understanding of the performance of MLI. (Numbers in parentheses correspond to various numbered lines in the financial statements).

EXAMPLE 11

MICROENTERPRISE LENDING, INC.
Repayment, Delinquency Default Performance

Formula 1 — Repayment Rate: $\dfrac{\textit{Payments Received Last Month}}{\textit{Payments Due + Past Due Last Month}}$

Example:

MLI received $106,875 in loan repayments in the past month. In the same period, $112,500 in loan repayments came due (including the late portion of past due loans). MLI's repayment rate is 95%.

$$\frac{(72)\ \$106,875}{(71)\ \$112,500} = 95\%$$

Formula 2 — Arrears: Amount Past Due Rate: $\dfrac{\textit{Principal Past Due}}{\textit{Amount Outstanding}}$

Example:

MLI had $450,000 in loans outstanding. It has $36,000 in payments that are more than one month past due. Its delinquency rate is 8%.

$$\frac{(64)\ \$36,000}{(61)\ \$450,000} = 8\%$$

Formula 3 — Arrears: Portfolio at Risk Rate: $\dfrac{\textit{Outstanding Bal. of Loans with Payments Past Due}}{\textit{Amount Outstanding}}$

Example:

The total outstanding balance of MLI's past due loans is $54,000; therefore, its Exposed Portfolio Rate equals 12%.

$$\frac{(65)\ \$54,000}{(61)\ \$450,000} = 12\%$$

Formula 4 — Aging of Arrears:

$$\frac{\textit{Outstanding Bal. of Loans with Pmts. 31-60 days (61-90 etc.) Past Due}}{\textit{Amount Outstanding}}$$

Example:

MLI has broken down its past due loans into the following categories:

Aging Report Past Due	Amount	% of Loans in Arrears	% of Loans Outstanding
31-60 days	(67) $27,000	50%	6.0%
61-90 days	(68) $13,500	25%	3.0%
91-120 days	(69) $10,800	20%	2.4%
120 days	(70) $2,700	5%	0.6%

To calculate the % Arrears, the denominator is the value of outstanding balances of loans in arrears, line 65.

To Calculate the % of Portfolio, the denominator is the value of loans outstanding, line 61.

The Aging Report gives a much fuller picture of the riskiness of the portfolio. The greater the proportion of loans in the later categories, the riskier the portfolio. MLI's Aging Report shows its delinquencies are not as serious as they could be. The amount past due by more than 120 days represents a very small percentage of the total portfolio.

Formula 5 — Loan Loss Rate: $\dfrac{\textit{Amount Declared Nonrecoverable for Period}}{\textit{Average Outstanding Balance for Period}}$

Example:

MLI suffered loan defaults totaling $9,000 over the past year, while its average value of loans outstanding over the year was $430,000. MLI has a loan lost rate of 2%.

$$\frac{(66)\ \$9,000}{(62)\ \$430,000} = 2\%$$

The Loan Loss Rate and several other formulas use the Average Amount Outstanding, rather than the current Amount Outstanding, as the denominator. The Average Amount Outstanding is used for all formulas that cover activities over more than one month because it gives a more accurate picture of portfolio activity over the period.

Formula 6 (repeated): Average Amount Outstanding

$$\frac{\textbf{Total of the Outstanding Balances at the End of Each Month (Quarter)}}{\textbf{Total Number of Months (Quarters)}}$$

EXAMPLE 12

The amount outstanding for MLI for each month in the past year is given below. MLI's Average Amount Outstanding for the year is $430,000.

Outstanding Balance at the end of:

January	$390,000
February	$380,000
March	$390,000
April	$400,000
May	$440,000
June	$420,000
July	$440,000
August	$450,000
September	$470,000
October	$460,000
November	$470,000
December	$450,000
Total	$5,160,000

Average Amount Outstanding (62) $430,000

Relationship of Income and Expenses

Besides knowing the status of the portfolio, an organization must assess the extent to which its credit program is able to cover its costs with income earned by the portfolio. To do this, first determine what percentage of expenses are covered with earned income. This percentage is known as the Self-sufficiency Rate.

Formula 11 — Operating Self-Sufficiency Rate

$$\frac{\textbf{Total Income from Loan Fund}}{\textbf{Total Expenses}}$$

EXAMPLE 13

MLI earned income from interest and fees of $ 157,500, and from late payments and bank interest of $ 7,500, giving it $ 165,000 in income from the Loan Fund (Income and Expenses Statement lines 17-19). Its total expenses are $ 134,000. This gives it an Operating Self-sufficiency Rate of 123%.

Income from Loan Fund	(20) $165,000	=	123%
Total Expenses	(45) $134,000		

Thus, MLI's operating incomes exceeds its expenses by 23%. Why would a microenterprise program that seeks to help the poor want to run a profit? Keep reading.

Although the MLI program seems more than self-sufficient when analyzed in this manner, it is important to understand that this approach captures only direct expenses. There are other costs, such as inflation, which affect the long-term viability of the program. To understand these costs and how they relate to income, use the formulas that follow.

Costs — Three types of costs are incurred when delivering credit. First are operating expenses. Second is the cost of capital, the amount that is paid for the money being used. Third is the money lost through loan defaults. The formula for calculating the loan loss rate is found in Example 11, Formula 5. Formulas for the other two rates are given below.

Formula 12 — Operating Cost Rate

Credit Portion Only	***Credit Program Expenses*** / ***Average Amount Outstanding***
All Operating Expenses	***All Operating Expenses (credit plus training)*** / ***Average Amount Outstanding***

EXAMPLE 14

MLI incurred expenses of $56,250 for its credit program (line 33 of the Income and Expense Statement), and $75,000 for all of its operations (line 43). This gives MLI an Expense Rate of 13% for the credit portion of its program and 17% for its total program.

Credit Program Expenses	(33) $56,250	=	13%
Average Amount Outstanding	(62) $430,000		
All Operating Expenses	(42) $75,000	=	17%
Average Amount Outstanding	(62) $430,000		

Formula 13 — Cost of Capital and Devaluation

1. Cost of Capital

$$\sum \frac{\text{Amount of Loan A}}{\text{Total Loan Fund}} \times \text{Interest Rate of Loan A} +$$

$$\frac{\text{Amount of Loan B}}{\text{Total Loan Fund}} \times \text{Interest Rate of Loan B} +$$

$$\frac{\text{Amount of Loan C}}{\text{Total Loan Fund}} \times \text{Interest Rate of Loan C} +$$

2. Cost of Capital and Devaluation

$$\left(\frac{\text{Donated Funds in Loan Fund}}{\text{Total Loan Fund}} \times \text{Inflation Rate}\right) + \text{Cost of Capital}$$

EXAMPLE 15

MLI operates in a country with 25% per year inflation and has a loan portfolio of $500,000, made up as follows:

(A) $200,000 loan from the Regional Development Bank at 15% interest

(B) $100,000 loan from the Central Bank at 20% interest

(C) $200,000 in donated funds

($450,000 of these funds are lent out, $50,000 are in the bank)

1. **Cost of Capital:** MLI's cost of capital is .10

(a) $\frac{\text{Amount of Loan A}}{\text{Total Loan Fund}} \times \text{Interest Rate A} = \frac{\$200{,}000}{\$500{,}000} \times .15 = .06$

(b) $\frac{\text{Amount of Loan B}}{\text{Total Loan Fund}} \times \text{Interest Rate B} = \frac{\$100{,}000}{\$500{,}000} \times .20 = \underline{.04}$

Total Cost of Capital .10

2. **Cost of Capital and Devaluation:** MLI's Cost of Capital and Devaluation is .20.

(c) $\frac{\text{Donated Funds}}{\text{Total Loan Fund}} \times \text{Inflation Rate} = \frac{\$200{,}000}{\$500{,}000} \times .25 = .10$

Cost of Capital + Cost of Devaluation = .20

.10 + .10

Combining the Operating Cost Rate, Cost of Capital and Devaluation, and Loan Loss Rate gives the total costs of delivering credit expressed as a percentage of the average loan portfolio.

Formula 14 — Portfolio Cost Rate

Operating Cost Rate	+	***Cost of Capital and Devaluation***	+	***Loan Loss Rate***

EXAMPLE 16

MLI's Portfolio Cost Rate equals:

Operating Cost Rate	=	17%	(Example 14)
Cost of Capital & Deval	=	20%	(Example 15)
Loan Loss Rate	=	2%	(Example 11)
Portfolio Cost Rate		39%	

Income — On the income side, the information system should generate the Portfolio Yield Rate. This formula is given below:

Formula 15 — Portfolio Yield Rate

$$\frac{\textit{Total Income from Loan Fund}}{\textit{Average Amount Outstanding}}$$

EXAMPLE 17

MLI earned $ 165,000 in operating income (line 20 of the Income and Expense Statement) last year. This gives it a Portfolio Yield Rate of 38%.

Total Income from Loan Fund	(20) $165,000	=	38%
Average Amount Outstanding	(62) $430,000		

In this example, MLI's portfolio Cost Rate (including devaluation) totals 39% (from Example 16), while its Portfolio Yield Rate totals 38%. This means that the program cannot quite cover all of its costs out of earned income. When devaluation is excluded, the Portfolio Cost Rate is reduced to 29%, meaning that the program can cover its operating costs, cost of capital (excluding devaluation) and loan losses, and make a large, but not sufficient, contribution to the costs of devaluation.

Table 10 gives the Portfolio Size, Operating Cost Rate, Average Cost of Capital, and Portfolio Yield Rate for several different programs. In this table, the Operating Cost Rate of programs with portfolios of over $500,000 ranges from 13% to 18%. For smaller programs this ratio ranges from 20% to 35%. The **Financial Management of Micro-Credit Programs** guidebook, published by ACCION says "Most programs with over $300,000 in loans on the street should be able to work with a spread [the difference between the Portfolio Yield Rate and the Average Cost of Capital] of between 18 and 30 percent a year. Programs with over a million dollars in loans should be able to work within a spread of 12 to 24 percent a year (Christen 1990, page 48)."

Table 10. — Comparison of Cost and Income Structures

		Portfolio Size (000s)	Operating Cost Rate	Cost of Capital	Portfolio Yield Rate	Effective Interest Rate
BRI	Indonesia	$535,040	13.0%	12.0%	30.1%	32.0%
NDF/J	Jamaica	$6,250	17.0%	3%	22.5%	39.4%
ACEP	Senegal	$2,570	14.4%	0%	16.5%	28.0%
ADEMI	Dom. Rep.	$2,119	14.6%	18.5%	44.6%	74.0%
IDH	Honduras	$618	17.6%	1%	19.2%	25.5%
AGESAL	El Salvador	$201	23.6%	1%	20.0%	21.0%
FAPE	Guatemala	$197	34.6%	0%	35.8%	NA

Notes

1. Effective Interest Rate is the rate of interest paid by the client including all fees and additional charges.
2. Data for ACEP, IDH, AGESAL and FAPE is from 1991. Data for BRI and NDF/J is from 1990. Data for ADEMI is from 1989.

5. Computerize the system

With all this information to generate the obvious question is, should the information system be computerized? The answer is yes. For most organizations with 200 or more clients it will be less costly, less time-consuming, and more accurate to have a computerized information system.

However, a few cautions are in order before computers are seen as the panacea for all information needs. First, computer systems are only as good as the information fed into them; remember the rule "garbage in, garbage out." Second, the computer must process the information in such a way that key variables are easily found and understood by program decision makers. Third, there are still situations where it is impractical to use a computer, such as remote areas without electricity, or countries with exorbitant duties on computer equipment and very low wage rates. While computers can speed the process of generating program information, they are not essential to running a good small enterprise development program. Remember that most banks in the U.S. did not start computerizing their systems until the 1960's, and they made a lot of loans before then.

After deciding whether to computerize the information system, the next question is how much of it to computerize. Not all functions in all locations need to be carried out on the computer. This is especially true of organizations with widely scattered branch offices. These organizations may have centralized computer services that record written information sent in by the branches.

The next decision is what type and how many computers to buy. A computer expert should be consulted for advice on appropriate computers, monitors, printers and other equipment necessary to meet the organization's needs. *Sample 7. — Computer Configurations* gives some ideas on hardware for a centralized credit program serving 1,000 clients. Programs with more clients, or who computerize their branch offices, will need to consider more equipment.

Sample 7. — Computer Configurations

Here are some minimum hardware considerations for a program with up to 1,000 clients.

Computer 1 — For Financial Reporting (Loan Portfolio Management and Accounting)

386 or 486 Computer with at least 80 megabyte hard disk or above
Monochrome Monitor
Wide Carriage (132 Column) Printer
Uninterruptable Power Supply

Computer 2 — For Correspondence and Documents

386 Computer with at least 80 megabyte hard disk or above
Monochrome Monitor
80 Column Printer
Uninterruptable Power Supply

If funds are available and you plan on writing newsletters and designing forms on your computer, here is an additional recommendation:

Computer 3 — For Desktop Publishing

386 Computer with at least 80 megabyte hard disk or above
VGA Monitor
Laser or Bubble Jet Printer
Uninterruptable Power Supply

Software

Software is the most critical element in a computerized information system. Unfortunately, there are no off-the-shelf packages specifically designed for small enterprise credit programs. A number of agencies have developed their own software packages, but these are usually designed specifically for the methodology and systems of that agency and are not applicable to other organizations. Organizations wanting to computerize their information systems are left with the following options:

1. **Buy off-the-shelf programs designed for larger financial institutions** — Some organizations utilize software designed for banks or large credit institutions. The advantage to this is an immediately available program that has been tested and proven in the marketplace. The disadvantages are the high cost ($10,000 – $50,000) and having to work around a program that is not specifically tailored to organizational needs.

2. **Develop integrated software** — Many organizations have hired software developers to write programs specifically designed for them. This results in an integrated program that requires a minimum amount of input. However, it takes a long time to write a program (often a year or more), and can be expensive (costs vary by country and programmer, but often range from $5,000 to $15,000). There is also the possibility that software bugs may generate inaccurate data.

3. **Adapt a program developed by another small enterprise development organization** — Instead of developing its own program, an institution could adapt a program developed by another organization. The advantages of this option are having a program available more quickly and at lower cost (most organizations do not expect to cover the full development costs in one sale). The disadvantages are that you have a relatively untested product designed for someone else. If the program doesn't work properly it may be difficult to get the original author to make corrections. For this reason, this option is not recommended unless: a) the methodology employed by the buying organization and the one that developed the software are relatively similar; b) the buying organization has access to the author of the program; and/or c) a local software developer has reviewed the source code of the program and feels comfortable making corrections or alterations.

4. **Develop some agency-specific software for portions of the information system and link it with other off-the-shelf packages** — This solution is employed by some agencies. Most often they develop their own portfolio management system and then integrate it with a commercially available accounting package. This is cheaper and quicker than developing an integrated package. However, this system often requires duplication in the entry of information and thus is not as accurate as an integrated system that only requires numbers to be entered once.

S-5 Refine Methodology

Some developing organizations experiment with different methodologies in order to find out what works best for their clients. Others start with a well-defined methodology and adapt it as they see how clients respond. In either case, information gained from experience, combined with growing numbers of clients and increasing cost consciousness, cause organizations to revisit and refine their methodology in the Sustainability Stage.

ADEMI, in the Dominican Republic, provides an example of this process. When ADEMI began in 1983 it provided both solidarity group loans and individual loans to clients, with the bulk of its lending going to fund the working capital needs of traders in solidarity groups. ADEMI's experience showed that it had a greater impact on income generation and employment creation through individual loans to slightly larger microenterprises. It also found these to be less costly to generate, since they did not require a group formation process. ADEMI began to phase out its solidarity group program, so that by 1987 it was making only individual loans.

Institución de Desarrollo Hondureño, in Honduras, is an example of an organization that made the transition in an opposite direction. IDH began in 1979, making large fixed asset loans to individual businesses. Expansion caused it to move downward, making smaller loans to poorer clients for shorter terms. However, it found that the systems it had developed for making large fixed asset loans were too expensive and time consuming for the smaller, shorter-term loans. It revamped its structure, creating three distinct lending levels. For its poorest clients IDH organizes and lends to community banks. At the middle-level IDH lends to solidarity groups. For larger businesses IDH continues to make individual loans. Successful clients at one level graduate up to the next. With this system IDH has matched the cost of processing and monitoring a loan with the income received from that loan.

Though IDH and ADEMI made different decisions about how they refined their methodology, both improved their financial viability and their ability to achieve their mission through these changes. Both cover all their operating expenses with interest and fee income.

Standardize and Simplify

Developing organizations can afford to be flexible. If a credit-providing organization processes 20 loans per month, each one can receive the attention of senior management and any special treatment that may be required. However, when an organization processes hundreds of loans per month, senior management no longer has time to give this much attention to each loan. In addition, as growth occurs, the number of people processing loans increases. These people need clear guidelines for approving loans. As a result, the organization develops a standardized lending methodology.

Some of the policies organizations must adopt to standardize their lending procedures are:

- Business activities supported — manufacturing, trade, services, agriculture, transport, etc.
- Types of loans given — working capital and/or fixed assets
- Type of collateral/guarantee accepted — assets, group guarantees, guarantors and/or character references
- Maximum and minimum amount of first loan — this may vary by the type of guarantee offered
- Maximum amount of subsequent loans
- Maximum and minimum loan terms — this may vary by loan type (working capital vs. fixed asset) and business activity (trading vs. agriculture).

Once these policies are set the organization can simplify its loan processing system so that it elicits only the information necessary for making a decision on loan approval. BKK in Indonesia, whose average loan size is $50, uses a half-page loan application form. ACEP in Senegal, whose average loan size is almost $3,000, has a more extensive system for approving loans, but it is based on clear criteria so that a loan officer can readily determine if the applicant qualifies.

In order to decide where procedures may need simplifying, it is necessary to make a thorough review of the amount of time it takes to process and monitor a loan. The following steps describe a Loan Processing Audit. Table 11, on page 103, gives an example of a chart that can be used to display the information obtained from the Loan Processing Audit.

Step 1 Make a list or develop a flow chart of all of the steps involved in making a loan, starting with the initial inquiry by a prospective client through to loan approval, check disbursement, monitoring and collections.

Step 2 Calculate how long it should take for a loan application to go from one step to the next. Using samples of approved loan applications, determine the actual time it takes from initial inquiry to approval.

Step 3 Determine how many prospective clients are involved at each step in order to yield one approved loan. For example, for every six inquiries, four clients may actually apply, three of these will complete all the documentation requirement, two may be recommended by the staff, and one approved by the credit committee. (This is an example of a very inefficient system.)

Step 4 Determine how much staff time is involved at each step in the process, including the time spent on unsuccessful applicants. Don't forget the time spent in transportation to and from site and monitoring visits. In the example above, four clients applied for every one that was approved. If it takes a loan officer one hour to assist a prospective client to complete the application form, then the loan officer must spend four hours assisting clients to complete their application forms for every one client that receives a loan.

Step 5 Highlight those areas of the process that take the most staff time.

Step 6 Brainstorm with the staff ways to reduce the amount of time required by staff in those critical areas.

The following list of questions may be helpful during the brainstorming time:

Checklist 6. — Simplifying Procedures

- ❑ How can we cut down on the number of people we deal with who do not end up with loans?
- ❑ What steps can we carry out with prospective clients in groups rather than as individuals?
- ❑ Do we need all the information we are gathering?
- ❑ Can we delegate some of the steps to the prospective clients?
- ❑ How can we cut down the amount of time spent on nonproductive activities such as transport to and from business sites?
- ❑ Can we cut down on the number of people needed to approve loans?
- ❑ How can we encourage our good clients to borrow from us more often (repeat loans to good clients should take far less processing time than first time loans)?

Note that other types of program interventions also require standardization and simplification. Training institutions, for example, need to set policies regarding client characteristics, recruitment and screening, fees, expected roles and responsibilities, training sequence, materials, and follow-up technical assistance. The loan processing audit can be adapted to analyze the methodology's sequence, from inquiry through follow-up, to determine whether inefficiencies can be reduced.

Table 11. — Loan Processing Audit

MICROENTERPRISE LENDING, INC.

	Inquiry	Application	Screening	Approval	Disbursement	Monitoring	Totals
Activities	1. Explain policies to clients 2. Interview clients	1. Explain application form 2. Client completes application form with assistance from loan officer	1. Visit site 2. Verify loan collateral and/ or guarantor 3. Check character references	1. Staff approval 2. Director approval 3. Credit committee approval 4. Board approval, if necessary	1. Write out check 2. Client receives training prior to receiving check	1. Collect payments 2. Visit site once per month	
Number of Clients and/or Approved Loans [1]	6	4	4	2	1	1	
Elapsed Time	1 day	1 day	3-14 days	Staff approval: 2 days Credit Com: 4-14 days Board: 4-30 days	1-6 days	1 day/month	9-50 days
Staff time Per Client (in hours)	1	2	4	2	1	Avg. visit = 45 mins. Avg. loan receives 6 visits	14.5 hrs.
Per successful loan applicant [2]	6	8	16	4	1	4.5 hrs. in visits/ client/loan	39.5 hrs.
Client time including transportation (in hours)	3	4	4	0	3	3 hrs. per payment made at office 1 hour per monitoring visit Avg. 24 hours per loan	38 hrs.

[1] This shows how many times the staff perform various tasks in order to generate one approved loan. In this example, for every six inquiries, four people complete applications. All four applicants are screened, but only two move ahead in the approval process. Depending on the size of the loan, it is approved either by the Executive Director, the Credit Committee, or the Board. Only one of every two applicants is approved. Thus, it takes MLI six inquiries to generate one loan.

[2] This includes the amount of time spent by staff on inquirers and applicants that do not end up receiving loans.

Decentralize

As a small enterprise organization grows, it becomes increasingly difficult for it to operate out of only one location. Growth in geographical coverage often accompanies growth in number of clients. It becomes costly and time consuming for staff to travel long distances, or for clients to come to a central location to complete applications, make loan payments, or receive training. This often limits the number of clients and adversely affects repayment rates.

For these reasons many organizations decentralize their structure during the Sustainability Stage. *Sample 8* gives examples of how three organizations have decentralized their operations.

In all three organizations decentralization entailed:

- Developing standardized guidelines for loan processing and approval to be followed by each branch office
- Delegating most or all authority to the branch office for making loan approval decisions within the standardized guidelines
- Maintaining a centralized information system that gives timely reports on the performance of each branch office.

With these steps, decentralized organizations are able to operate branch offices as semi-autonomous units that are still accountable on a regular basis to the head office.

Sample 8. — Models of Decentralization

ADEMI The Asociación para el Desarrollo de Microempresea, located in Santo Domingo, Dominican Republic, began operations in 1983. From the beginning ADEMI aimed to create jobs and increase incomes in the informal sector by providing credit to microenterprises. From 1983 until the end of 1991, ADEMI made 36,377 loans for a total value of $20 million.

ADEMI divides its organization into three geographic regions. An Operations Manager oversees each region and supervises the activities of a Regional Coordinator and several Loan Advisers. The three Operations Managers report to the Executive Director, as do the Finance Manager and the Manager of Planning. This organizational structure, adopted in 1987, delegates considerable responsibility to the Loan Advisers, giving them more authority in selecting and approving loans. Each Loan Adviser processes 15 loans per month. The average adviser's portfolio consists of 90 to 140 borrowers and US $30,000 in loans. In 1989 ADEMI had a staff of 96, 70 of whom were field officers.

(continued on following page)

NDF/J The National Development Foundation of Jamaica was founded in 1981. NDF/J defines its mission as promoting the growth of the small enterprise sector through the provision of nontraditional credit, training and technical services. NDF/J began lending in Kingston and has branched out into other urban and rural areas of Jamaica. From 1981 to 1990 NDF/J made 3,361 loans totaling US $6.7 million.

NDF/J operates from a head office, four branch offices and six subbranches. All lending activity takes place in the branch and subbranch offices. The head office carries out administrative, fundraising, publicity and financial functions. NDF/J operates two distinct divisions, Banking Operations and Technical Services and Training. The Banking Operations cover loan approval, disbursement and collection, while Technical Services and Training provides training and other support services to the Banking Operations Division and its clients.

NDF/J Field Officers make loan appraisals and present loans for approval. Business Counselors provide ongoing monitoring of the loans and consulting to the borrowers. Loan approvals may be made by the Branch Manager, Operations Manager, Executive Director and/or Credit Committee of the Board, depending on the size of the loan.

ACEP The Agence de Crédit Pour l'Entreprise Privée began operations in Senegal in 1986. The program was established to provide commercial loans to small and medium sized Senegalese businesses. Since 1986 ACEP has made 2,142 loans totaling $7.8 million to 1,710 different businesses.

ACEP developed a network of fourteen branch offices located in five regions (Kaolack, Fatick, Louga, Thies and Dakar) and employs 26 professionals. Branch offices generally contain only one employee operating from a store front office. Branch Managers produce the loan applications, monitor client enterprises and follow-up on late paying clients. On average each Branch Manager generates US $280,000 in loans each year and maintains a portfolio of 100 clients. The Regional Manager supervises the activities of the branches in his or her region. The Regional Manager will review the loan applications and check the data presented in the application forms. Each regional office contains a Cashier's office where clients make their loan payments. In cases where branch offices are located far from the regional offices Branch Mangers may also serve as cashiers.

ACEP maintains a Legal Department which checks and registers collateral and takes any necessary legal action against clients who have defaulted on their loans. An Accounting Office, located at ACEP's headquarters in Dakar, performs all accounting functions based on reports submitted by the branch and regional offices. An Audit Unit conducts periodic checks on the financial reporting provided by the Branch and Regional offices (Reed and Befus 1992).

S-6 Develop and Maintain Personnel

One key indicator of a sustainable organization is that it is able to attract and maintain the personnel required to perform all of the roles within the organization. A committed core staff can carry an organization through the Development Stage. However, as the organization grows to the point of sustainability it will need to recruit more technically skilled staff, provide these staff members with appropriate training for their positions, and consistently improve the performance of the staff through appropriate systems of compensation, evaluation and promotion. There has been much written on the subject of human resource management that will not be repeated here. Instead, the focus will be on two issues of particular importance to small enterprise development organizations in the Sustainability Stage — compensation and training.

Compensation

Pay Scales: The first question most small enterprise development organizations face in the area of compensation is whether they should pay salaries based on market rates. Some organizations believe that all workers should receive pay equivalent to what they would receive working in a similar position for a private company. Others use lower pay scales as a screening device to sift out people who are motivated solely by money.

The trend for many organizations is to pay less than market rates during the Development Stage, and gradually increase pay scales until they come reasonably close to market rates during the Sustainability Stage. Several factors account for this trend. First, as the organization grows it requires people with more specialized skills (finance managers, fundraisers, trainers) and finds it must compete in the business marketplace to attract people with these skills. If it pays market rates to attract these people it will also need to pay market rates for other positions within the organization, or cause dissension within the staff. Second, often the majority of staff members in the Development Stage are quite young. By the time the organization reaches the Sustainability Stage, many of these staff have married, had children, and have greater financial requirements than before. The organization finds it has to pay higher rates in order to keep these people from taking other higher-paying jobs. Third, as personnel grow in experience they increase their skill and value to other organizations. The small enterprise development organization finds it has to pay competitive salaries in order to retain its personnel.

This problem often causes much distress to small enterprise development organizations. They hire someone with relatively few skills and teach her to become a loan officer. She learns her job well and after two years is hired away by a bank at a salary twice that provided by the organization. Some small enterprise development organizations complain that at times they think they are running bank management training schools. The only way to maintain these skilled personnel is to pay salaries that are close to, if not equal to, those paid by the private sector. This has negative consequences on the financial viability in the short term, but the positive long-term benefits that come from lower training costs and better performance from skilled personnel usually outweigh these short-term costs.

It should also be understood that market rates for credit and financial officers vary widely by country, and in different types of locations within a country (capital city vs. rural area). In rural Indonesia, some credit officers in major commercial institutions earn less than $100 per month. The same position in Harare, Zimbabwe may earn five times as much. Organizations need to develop a lending methodology that allows them to become sustainable within the pay scales established by the local marketplace.

Incentive Pay: Small enterprise development organizations differ in their views of whether or not to provide incentive payments or bonuses to key personnel, especially loan officers. The trend in this area is similar to that in the area of market-based pay — many organizations institute incentive pay schemes for loan officers as they reach the Sustainability Stage. The reasons for this are: 1) with a large number of loan officers the organization needs a means to motivate all of them to support the goal and mission of the organization; 2) with loan officers receiving more delegated authority, many organizations want them to gain the rewards of good decisions and suffer the consequences of bad ones; 3) with a few years of experience the organization is better able to determine basic standards of performance for loan officers; and 4) with increasing attention to financial viability, organizations want to encourage loan officers to manage larger portfolios effectively.

If an organization wants to implement an incentive pay system, here are a few guidelines to follow:

- The amount of the incentive payment should make up a significant portion of the recipient's total salary. In the organizations we have reviewed, this ranges from 10% to 50% of total pay.
- The person receiving the incentive pay should have substantial influence over the results for which the bonus is paid.
- Incentive payments should help to focus the attention of the recipients on the key goal(s) of the organization.
- Incentive payments should be based on no more than three key criteria.
- The incentive payment system should be easily understood by the recipients. They should be able to calculate on their own how much they will receive in incentive pay.
- Incentive payments should be made frequently. Monthly or quarterly payments have much more motivational impact than annual payments.
- The incentive pay system should be cost effective for the organization. It's no use paying a bonus to a loan officer for increasing the size of her portfolio if the cost of the bonus is more than the cost of hiring an additional loan officer.

The most common indicators used as a basis for incentive systems are number (or amount) of new loans generated, total size of the portfolio managed by the loan officer, and repayment rates. Some organizations try to simplify the incentive pay by basing it on one key indicator that incorporates all three of these activities (new loans, size of portfolio and repayment rates). One organization makes monthly incentive payments to its loan officers equal to a set percentage of total principal repayments made in a given month by that loan officer's clients. To increase his incentive pay, a loan officer needs to generate new loans to increase the size of his portfolio, and make sure that these clients pay back on time.

Many organizations also incorporate special indicators in an incentive scheme that reflect other goals of the organization. The most common of these are bonuses for the number of loans made to women.

One caution on incentive payments: No incentive scheme matches exactly with the goals and mission of the organization. Sometimes the incentives can be so great as to encourage program officers to act in ways that violate the interests or principles of the organization. For example, a bonus system based on loan repayments may encourage a loan officer to put undue pressure on clients who have no means of paying back. The management of the organization should make periodic checks to make sure that the behavior inspired by the incentive scheme matches the image the organization wants to portray.

Other Motivational Tools: It is important to remember that money is not the only tool for motivating the performance of employees. In Small Enterprise Development organizations it probably is not even the chief source of motivation. Some other ways that organizations can encourage and reward outstanding performance by employees are:

- Increasing authority for employees reaching specified levels of performance
- Having a clear promotion ladder for outstanding employees
- Basing training opportunities on achieving specified levels of performance
- Recognizing outstanding performance with awards
- Maintaining an enjoyable working environment
- Conducting regular evaluations of employee performance that recognize good performance and review areas of weakness
- Keeping all employees, especially those who are not loan officers, aware of the impact the program is having on the lives of individual clients.

Training

With an increasing number of employees, the organization in the Sustainability Stage needs to develop a means of training new people coming into the organization, and upgrading the skills of existing employees. Every new employee needs to receive training on the history, vision, mission and ethos of the organization. Existing employees may also need refresher courses in these topics. This is one way the organization can protect against the loss of vision.

New employees, or existing employees changing positions, will need training in the specific task to be carried out in their new position. In the Development Stage, this could be done by having new staff work closely for a period of time with a person serving the same function. As the number of new staff grows, many organizations develop more formal training systems. At least three different approaches have been tried:

1. **Develop a strong internal program** — BRAC, in Bangladesh, has over 2,500 employees and has established its own training department to handle the training needs of new and existing employees. New managers in BRAC's credit program receive a two-week introduction to BRAC's development model, supervised field work, and training modules covering the topics of group organization, leadership development and communication. Each module lasts approximately a week, and the course is scheduled over a six-month period.[20]

2. **Collaborate with a local training institute** — The Malawi Union of Savings and Credit Cooperatives (MUSCCO) — whose membership, assets, share savings, and loans more than doubled between 1986 and 1989, and whose five-year plan targeted another doubling to 35,000 members by 1995 — found that a critical limitation to expansion was the availability of full-time, well-trained managers for the larger, local societies. It developed a "Certificate in Management" course, in conjunction with the Malawi College of Accountancy, which is delivered on an ongoing basis for MUSCCO managers and others.

3. **Join with other organizations to form regional training centers** — There are two examples, the Centro Accion in Colombia, and the Center for Community Transformation in the Philippines. Each is described in the following boxes.

Sample 9. — Regional Training Centers

Centro Accion

Early in 1991, ACCION International and its affiliate network in Latin America opened the Centro Accion in Santafe de Bogota, Colombia. This regional center offers a wide range of services to ACCION's partners including training, technical assistance, materials development, program exchanges, conferences, research, documentation and dissemination. The Centro will be able to expand the frequency and diversity of support for ACCION's affiliates.

The need for the Centro is linked to ACCION's program to significantly expand its operations throughout the region. As a result of this drive, many affiliates face reorganization of institutional structures and systems, doubling and tripling their staffs, the need to improve staff skills at all levels, and in some cases, full transformation into a different type of organization. In the context of a growing network, which itself has adopted a vision of dramatic growth, training and technical assistance needs to be more frequent, more accessible and more responsive. This is the Centro's mandate.

The job of the Centro is to coordinate and conduct a broad range of activities throughout the region, rather than operate a physical training facility. Training and technical assistance will be offered on a fee-basis for both ACCION affiliates and organizations outside the network.

For more information, contact Centro Accion, Carrera 34 N. 91-23, Piso 2, Santafe de Bogota, D.C., Colombia.

[20] For detailed information on how BRAC designed this training program and its contents, see Catherine Lovell, "BRAC (B): Management Development Program" in Mann, Grindle and Shipton 1989, and "BRAC (B): Management Development Program Outcome Note" in Mann, Grindle and Sanders, 1990.

Center for Community Transformation

The Center for Community Transformation (CCT) was founded in 1989 to provide training and technical assistance to the growing number of Opportunity International partner agencies in the Philippines, Sri Lanka, Pakistan, and India.

CCT's role within the Opportunity network is to address urgent institutional development needs such as 1) translating vision into concrete action plans, and 2) resource development. Executive Director Training Courses, which focus on these areas, include the following:

I. **Micro Enterprise Assistance (MEA) Program Design (7 Days)**
   - A. Framework for MEA Programs
   - B. Planning and Designing an MEA Program
     1. Formulation of lending policy guidelines
     2. Identifying target beneficiaries
     3. Collection schemes and mechanisms
     4. Asset build-up and management
     5. Loan portfolio management
     6. Benefit Monitoring and Impact Evaluation
   - C. Implications and Support Systems

II. **Micro Enterprise Assistance Program Management (12 Days)**
   - A. Overview of Development Initiatives and Trends
   - B. Framework for MEA Programs
   - C. MEA Program Planning and Management
   - D. MEA Program Skills Building
     1. Project and Beneficiary Assessment
     2. Monitoring and Evaluation
     3. Provision of Technical Assistance
     4. Consultancy and Training

III. **Alternative Financing Strategies (6 Days)**
   - A. Overview on Development Finance
   - B. Alternative Financing Strategies
   - C. Techniques to Financial Autonomy
   - D. Financial Management

All courses include field exposure to existing MEA programs.

CCT spends approximately half of its time serving the 15 Opportunity partners in the region, and the other half on outside consulting, primarily with PDOs. While it specializes in enterprise development, it does have a broader mandate to strengthen PDOs generally. The center is particularly interested in increasing the effectiveness of religiously-affiliated PDOs who lack a technical assistance counterpart.

For more information, contact Center for Community Transformation, Dona Milagros Building, 722 Shaw Boulevard, Mandaluyong, Philippines.

S-7 Improve Cost Recovery

At the end of the Sustainability Stage, a small enterprise development organization should have sufficient sources of reliable income to cover all of its operating costs. This income includes both earned income and grants from donors with a long-term commitment to the organization. For microenterprise credit programs, income earned from interest charges and fees should equal or exceed the costs of delivering credit. To ensure this: 1) Adjust the interest and fee structure until it generates enough income to cover all costs; and 2) Maintain high rates of loan repayment.

Setting and Evaluating Interest Rates

Establishing an appropriate interest and fee structure involves the following three key steps: (1) calculate the cost of delivering credit; (2) establish an interest and fee structure; and (3) review and revise costs and interest rates.

Step 1 **Calculate Costs:** S-5 showed how to calculate the Portfolio Cost Rate of a credit organization. The Portfolio Cost Rate of MLI was 39%.

Step 2 **Setting the Interest and Fee Structure:** Once costs are known, establish an interest and fee structure that will provide income that exceeds those costs. This involves two steps: a) *adjust the Portfolio Cost Rate* to take into account the effects of idle cash and late repayments; and b) *set interest and fees* in a way that achieves an effective interest rate that is greater than the adjusted Portfolio Cost Rate.

a. *Adjusting the Portfolio Cost Rate:* If all loan funds were lent out to clients at all times, and everyone paid their loans on time, then an organization would only need to charge an interest rate equal to the portfolio cost rate in order to cover its costs. However, reality usually plays havoc with such simple calculations. When funds available for loans sit in the bank instead of being lent to clients, the organization loses money. The amount it loses is equal to the difference between what the bank pays for funds on deposit, and what would be received from clients in interest and fees if those funds had been lent out. The following formulas will make a rough adjustment of the portfolio cost rate to account for idle funds.

Formula 16 — Percentage of Idle Funds

$$\frac{\textit{Loan Funds on Deposit at Bank}}{\textit{Total Loan Funds}}$$

Formula 17 — Foregone Income Rate

$$\frac{\textit{Interest Paid by Bank}}{\textit{Portfolio Yield Rate}}$$

Formula 18 — Adjustment to the Portfolio Cost Rate for Idle Funds

$$\frac{\textit{Portfolio Cost Rate}}{1 - (\textit{Percentage of Idle Funds} \times \textit{Foregone Income Rate})}$$

EXAMPLE 18

MLI has $500,000 in total loan funds, of which $50,000 are in the bank. The bank pays 15% interest on these funds. In Example 14 we determined that MLI has a Portfolio Cost Rate of 39%, and in Example 17 we determined that it had a Portfolio Yield Rate of 38%. Therefore:

1. MLI has 10% of its funds idle.

$\frac{\textit{Funds on Deposit in Bank}}{\textit{Total Loan Funds}}$	$\frac{\$50,000}{\$500,000}$	=	10%

2. MLI earns 39% of the income it could earn if these fund were being loaned out.

$\frac{\textit{Interest Paid by Bank}}{\textit{Portfolio Yield Rate}}$	$\frac{15\%}{38\%}$	=	39%

3. MLI's new Effective Interest Rate will need to be 41% to account for the effects of idle cash.

$\frac{\textit{Portfolio Cost Rate}}{1-(\textit{\% Idle Funds X Foregone Inc. Rate})}$	$\frac{.39}{1-(.10 \text{ X } .39)}$	= 41%

Late loan repayments also reduce the amount of income an organization earns in any one period. The effects of late payments are calculated by dividing the Portfolio Cost Rate (after adjusting for idle cash) by the repayment rate.

Formula 19 — Adjustment to the Portfolio Cost Rate for Late Payments

$$\frac{\textit{Portfolio Cost Rate (after adjusting for idle funds)}}{\textit{Repayment Rate}}$$

EXAMPLE 19

Examples 1 and 18 have given us the Repayment Rate and Adjustment of the Portfolio Cost Rate for Idle Funds. The Adjustment of the Portfolio Cost Rate for Late Payments totals 43%.

$\frac{\textit{Adjusted Portfolio Cost Rate}}{\textit{Repayment Rate}}$	$\frac{.41}{.95}$	=	43%

b. *Setting the Interest and Fee Structure:* The Adjusted Portfolio Cost rate, the percent return MLI needs per loan to cover all its costs, has been determined to be 43%. 43% then becomes the Effective Rate of Interest MLI must charge. However, for many reasons, it may not be able to charge this rate. It may find that the government imposes interest rate ceilings that are lower than the amount it needs to charge. Or it may find that the prevailing nominal interest rates charged by banks are much lower than what it will need to charge and it would not be politically wise to charge much more than the banks.

In such situations an organization may want to charge a low nominal interest rate and earn the remaining income through fees charged to the clients. Fees can take several forms, including fees for application, processing, monitoring and training. The amount of income an organization earns through fees depends both on the amount charged, and the average loan term. If the average loan term is three months, then in one year the organization can earn fees three time from the same amount of money. If, however, the average loan term is 12 months, then the organization receives fees only once. Fees increase the effective interest rate paid by clients. Formula 20 provides the means for calculating the amount of fees that need to be charged in order to earn an effective interest rate.

Formula 20 — Calculating Fees to Earn Effective Interest Rates

$$\frac{\textit{Fee Rate Required} \times \textit{Average Loan Amount} \times \textit{Loan Term}}{12}$$

EXAMPLE 20

MLI's average loan size is $500 and its average loan term is four months. It has decided its nominal interest rate must be 25%, since that is the nominal rate charged by most banks in the country. Therefore, the Fee Rate required to earn an Effective Rate of 43% is 18%.

1. Fee Rate Required

   Effective Interest Rate – Nominal Interest Rate

   43% – 25% = 18%

2. Fee Amount

$$\frac{\textit{Fee Rate Required} \times \textit{Average Loan Amount} \times \textit{Average Loan Term}}{12}$$

$$\frac{.18 \times \$500 \times 4}{12} = \$30$$

Therefore, MLI needs to earn $30 in fees on each loan. They have decided to charge an application fee of $5 and a processing fee of 5% of the loan amount [$5 + (5% of $500)]. These fees represent 6% of the average loan. With an average loan term of four months, the funds get lent and the fees get charged three times a year. This means MLI earns 18% of the average loan amount in fees over the course of a year.

Step 3 **Reviewing and Revising Costs and Interest Rates:** Once an interest and fee structure has been established, it needs to be reviewed regularly to determine if the assumptions made when establishing the structure are still valid. If the costs, the rate of inflation, the amount paid on borrowed funds, or the percentage of loan funds sitting idle change significantly, interest rates need to be recalculated.

One important note of caution on these calculations: The examples have shown how to calculate an interest rate that can cover an institution's costs. However, that does not mean that this is an appropriate rate to charge clients. An inefficient program should not pass on the costs of its inefficiency to its clients. The challenge is to continually strive to find ways to reduce costs without reducing performance. In this way an organization can charge the lowest possible interest rate to clients, while still covering costs.

S-8 Improve Repayment Rates

One of the easiest tasks in the world is disbursing money. One of the most difficult is getting people to pay it back. It does not matter much if the interest rate is set at a level which will theoretically cover costs if no one pays back the money they borrowed. For a program to be sustainable, it must have established systems for encouraging on-time repayment of loans and collecting from those who are reluctant to pay.

The discussion of setting interest rates in the previous section demonstrated the costs of late payments and defaulted loans. When a person pays late the organization forgoes interest income on the money they have lent out and is delayed in relending those funds, meaning less fee income. When someone defaults on a loan, this results in a direct cost to the organization in order to replenish the loan fund.

Organizations wanting to improve their repayment rates need to:

- Utilize a management information system that highlights potential repayment problem areas;
- Develop a credit methodology that encourages on-time payments; and
- Establish an organizational culture that does not tolerate late payments.

1. **Utilize a Management Information System:** This point was covered under D-6, page 47 and S-4, page 85.

2. **Organizational Culture:** The largest determinant of repayment rates for a microenterprise credit program is the attitude of the organization to late payments. Pancho Otero, Director of Banco Solidario (BancoSol) in Bolivia, says that in order to achieve good repayment rates an organization needs to create an institutional culture in which late payments are simply unacceptable. This organizational philosophy must be communicated to all clients before they receive their loan and must be reinforced with each subsequent encounter with the client.

3. **Credit Methodology:** In the Development Stage, a system should have been established for screening loan applicants to find those who are most trustworthy. If an organization in the Sustainability Stage still faces problems of late payments or defaults, it may be due to a faulty screening system, or because the credit methodology does not encourage prompt repayment.

Organizations facing problems of high rates of arrears or default should examine two aspects of their credit methodology. One is whether the terms and interest rate of the loan are set in such a way that the client can reasonably expect to pay back within the prescribed time period. A client receiving a two-month loan to plant crops that have a six-month growing cycle will not be able to repay the loan on time. Similarly, a client who receives a four-month loan to purchase a machine that takes twelve months to pay for itself will have difficulty meeting the repayment schedule. In general, the length of term a client receives on a loan has much more of an impact on his or her ability to repay than the interest rate charged on the loan.

Secondly, organizations should examine whether their credit methodology provides proper incentives for paying loans on time. Clients can quickly calculate the financial and non-financial costs of repaying a loan on time and compare these with the costs of making late payments (or no payments at all). If clients perceive that it is in their best interest to pay late, then the organization will have a high arrears rate. The organization needs to apply a methodology that provides more benefits (and less costs) to those who pay on time.

S-9 Review Financial Viability Projections

When an organization is in the Sustainability Stage, it has a few years of experience and a more standardized program. It knows what it costs to run its small enterprise development program and what sort of income it can expect to receive for services. Now is the time to recalculate its financial viability to determine if the program, as implemented, will be able to meet its goals for financial self-sufficiency.

Earlier, the interest and fee structure needed to cover the costs of delivering credit were calculated. But suppose an organization did not want to change its interest and fee structure, but instead wanted to calculate how big a loan fund would be needed to cover costs, given the current program design. The following steps provide a means for making a rough calculation of a breakeven loan fund size.

Step 1 Determine the fixed costs: Fixed costs are all those costs that do not change no matter what the volume of lending. They usually include the salary of the Chief Executive Officer, rent, and some base level of office expenses.

Step 2 Determine the Variable Cost Rate

Formula 21 — Variable Cost Rate

$$\frac{\textit{Total Costs} - \textit{Fixed Costs}}{\textit{Average Amount Outstanding}}$$

The Variable Cost Rate needs to account for the loss of value of donated funds due to inflation. The Total Cost, therefore, includes total operating expenses plus financial expenses plus the total amount of grants and donations, times the inflation rate.

Step 3 Determine the Contribution to Overhead Rate

Formula 22 — Overhead Contribution Rate

$$\textit{Portfolio Yield Rate} - \textit{Variable Cost Rate}$$

If the portfolio yield rate is not greater than the variable cost rate, no amount of growth in the portfolio will enable the program to cover its costs.

Step 4 Determine the Size of Portfolio Needed

Formula 23 — Breakeven Portfolio Size

$$\frac{\textit{Fixed Costs}}{\textit{Overhead Contribution Rate}}$$

These calculations give a rather rough approximation of the size of loan fund needed. They assume that the relationship between costs and loan portfolio size will stay the same while the fund grows to its needed size.

EXAMPLE 21

MLI has decided that it cannot change its interest rate, but needs to break even by increasing the size of its loan fund. It has determined that its fixed expenses equal $33,333. At its current Portfolio Yield Rate, MLI will need a loan fund of more than $1 million to cover all of its costs, including devaluation.

1. Portfolio Yield Rate	(Example 17)	38%
2. Fixed Costs		$33,333
3. Total Expenses + Devaluation of Grant Funds = Total Costs		
$134,000 (45) + ($200,000 x .25) (Example 15)		$184,000
4. Total Costs – Fixed Costs		
$184,000 – $33,333		$150,667
5. Variable Cost Rate	$150,667/$430,000 (Example 6)	35%
6. Overhead Contribution Rate	38% – 35%	3%
7. Breakeven Portfolio Size	$33,333/3%	$1,111,100

A more thorough way of calculating financial viability is to use a computer program that allows for a change in costs and assumptions over time. For microenterprise credit programs, SEEP has developed **Microenterprise Credit Programs: Projecting Financial Viability** (King and Reed 1991), a Lotus 1-2-3 spreadsheet and user's manual. The computer program takes information provided by the user about the design and environment of the credit program and projects the credit program's lending activity, income and expenses for 12 years.

S-10 Expand Donor Base for Noncredit Activities

Many small enterprise development organizations provide noncredit services that promote small business expansion in addition to, or in place of, making loans. For these programs to be sustainable they need to develop reliable sources of income that will continue over time. These sources include both grants and income earned from fees charged for services. D-9, page 69, offers some simple guidelines to small enterprise organizations in pursuit of grant support.

LINKAGES

S-11 Establish a Niche

During the Sustainability Stage, an organization needs to focus its program on what it does best. During the Development Stage, it may have tried many different approaches and types of services to promote enterprise development. Now it has found what works best and needs to concentrate its efforts on those activities that have the greatest impact on accomplishing its mission.

This process of self-definition derives mostly from the vision and mission of the organization, but it is also shaped by the activities of other organizations with similar objectives. It must establish a niche that defines what makes it unique and how it might relate to other credit and training programs in its area.

Table 12, on page 120, contains an example of the credit and training sector in a sample country. The sample program, MLI, used this map of the sector to define its critical role — providing small amounts of credit and basic business training for its clients. Through this map, staff also determined potential areas of collaboration with other programs, for example:

- MLI could draw on the expertise of literacy organizations to help it teach business skills to clients with little formal schooling.
- MLI could refer clients who need additional vocational training to the vocational training programs. It could also provide loans to graduates of the vocational training programs.
- MLI could develop relationships with local banks so that successful clients could graduate to the banking system. Alternatively, MLI could borrow from the bank and lend funds to its clients in amounts smaller than the bank's minimum loan amount.
- MLI could make loans to enterprises who have outgrown the grants provided by the community development organizations.

While MLI has used training and financial support as the two axes in this matrix, these are not the only possible criteria for defining the role of an organization. It is possible to find other criteria more important in defining a niche, such as:

- Gender focus
- Geographic location
- Type of enterprise supported (individual, group, cooperative, etc.)
- Additional area of focus (health, literacy, community development, etc.)

Regardless of the criteria used for defining an organization's role, it should be able to define what it does, how it is different from what others do, and how it might be able to collaborate with other organizations that also work in the sector.

Table 12. — Map of the Credit and Training Sectors

None					Commercial Banks	Venture Capital Corps.
High Business	University					
Medium Business	Women in Business				Gov't Small Business Program	VenDevCorp
Basic Business		Community Dev. Orgs.	MLI	MLI		
Vocational	Voc. Training Institute Voc. NGOs					
Basic Numeracy	Literacy Orgs.	Community Dev. Orgs.				
On-site		Community Dev. Orgs.				
	None	Grants	$0-500	$500-2,000	$2,000 +	Venture Capital
			Loans			

TRAINING

CREDIT

S-12 Join Associations for Learning and Policy Impact

Organizations can learn from each other's experience. Now that an organization is out of the Development Stage it can afford to look around, see who else is carrying out similar activities, and learn from what they are doing. If there is an association of small enterprise development organizations, join it. If no association exists, consider starting one.

The benefits of this type of association go beyond what can be learned from the experiences of other organizations. One may also:

- Develop relationships which lead to collaborative efforts with other organizations
- Seek to influence the policies of government and financial institutions regarding small and microenterprises
- Develop a consortium for receiving donations designated for small enterprise development, enabling donors to deal with just one organization rather than several
- Develop documents and training tools needed by all the member organizations.

In the U.S., the Small Enterprise Education and Promotion Network performs many of these functions for North American organizations who support small enterprise development in developing countries.

Finally, just as in the Development Stage, partnerships with supportive Northern agencies can help make all the tasks of this Stage a little easier to accomplish. Northern partners can facilitate necessary strategic planning as well as provide technical assistance with many of the capacity-building challenges that have been described here. What follows is a case of one such partnership, and the results that occurred when two organizations worked respectfully with each other.

Making the Transition from Development to Sustainability: A Partnership Approach

Katalysis: North/South Development Partnerships and
ODEF – The Organization for Women's Enterprise Development

Many organizations working in the microenterprise sector support a participatory approach to development. These groups have learned that when clients have ownership of the process of development — by playing a role in planning and decisionmaking — projects are more likely to be appropriately designed, better targeted and sustainable. This same notion, at an institutional level, underlies the Katalysis Partnership: by creating a relationship of equality between Southern and Northern organizations, giving each control over program design and decisionmaking, the organizations involved are more likely to evolve in a way responsive to local needs and to become stable institutions.

One of the underlying goals of the Katalysis Partnership is to help its Southern partner organizations become self-sufficient. Through Katalysis, our Partners receive institutional support through financial assistance, information systems analysis, networking, and strategic planning. Over the last year, with BEST (Belize Enterprise for Sustained Technology) in Belize and ODEF (Organization for the Development of Women's Enterprise) in Honduras, we have begun to focus on long-range planning. Our goal was to develop sustainability strategies to help these organizations endure beyond the five-to-ten year survival rate typical of most small PDOs. Working together, Katalysis and our Partners explored the core elements of sustainability. Our conclusion was that financial stability (the conventional definition of sustainability) alone was not sufficient to ensure the effective expansion of an PDO. With this in mind, we developed a sustainability framework including three basic components:

Institutional Capacity:
- Organizational Development
- Long-Range Planning
- Management Information Systems
- Administrative Skills

Program Strength:
- Field-Level Effectiveness
- Program Need and Impact
- Appropriate Baseline and Impact Data
- Collaboration with Other Organizations

Financial Stability:
- Diversified Funding Portfolio
- Financial Reporting and Management
- Cost Effectiveness and Control
- Fiscal Management Skills

Each of these elements is critical to the survival of an institution seeking to serve its population effectively. If two levels are strong and the other weak, the organization will be unable to achieve its mission. For example, if an organization has a sound financial base and a healthy administrative structure, but does not have a focused program, it will not be able to meet its client's needs nor promote development. On the other hand, if an agency has a strong management system and an effective program, but lacks financial security, it may not be around long enough to have significant impact. To design an appropriate strategy based on each of these elements, we decided to conduct a four-stage analysis.

1) ***Situational Analysis.*** What is the current status?

2) ***Goal Setting.*** What goals do you want to reach in the next three-to-five years?

3) ***Risk Analysis.*** What obstacles do you see impeding the fulfillment of the institution's goals?

4) ***Action Plan.*** What steps must be taken to achieve the goals?

The case of our Honduran partner, ODEF, illustrates these steps. When ODEF joined the Partnership in 1989, it had a staff of 10, managed two specific programs, and was working in 30 communities. Now, it has a staff of 54, seven distinct but mutually-supportive programs, and works in 56 communities. Unlike most organizations experiencing such rapid growth, ODEF has a fairly stable income base and an increasingly strong administrative structure. ODEF is making the transition from development to sustainability; this is due, at least in part, to its commitment to strategic planning.

The following paragraphs provides highlights of ODEF's sustainability strategy process. (The full process and results are detailed in the Tools Section, *Sustainability Strategy Planning and Design*, page 267.)

> **Stage One: *Situational Analysis.*** In Fall 1991, ODEF undertook the first stage of a formal strategic planning exercise at a two-day retreat for all ODEF staff, which was facilitated by Katalysis. The agenda, jointly designed by Katalysis and ODEF, was intended to conduct a situational analysis of the organization based on its institutional structure, program status and financial situation. The key findings from this workshop were: 1) the growth in the administrative department had not kept pace with that of the program department; and 2) programs needed to be carefully evaluated and planned in each zone in order to retain programmatic quality.
>
> **Stage Two: *Goal Setting.*** In early 1992, a second full-staff strategic planning workshop was held to address these institutional and programmatic issues. In terms of administration, ODEF decided to fully computerize its accounting and credit systems. It also decided that improved communications were necessary to allow for commensurate future growth between the program and administrative departments. In terms of evaluation and planning, ODEF set as its goals to: a) assess current monitoring and evaluation systems; and b) to receive training to build evaluation skills and determine consistent, effective procedures.
>
> **Stages Three and Four: *Risk Analysis and Action Plan.*** After setting these goals, potential obstacles were identified which related primarily to insufficient human and financial resources to obtain these goals. A detailed, three-year plan was then designed to help ODEF to acquire the necessary resources and to proceed step-by-step to reach sustainability. This plan included items such as recruiting an intern to provide computer assistance, working with a para-statal agency on credit management, and securing training in evaluation from Katalysis. ODEF also instituted quarterly meetings with key staff to assess progress and rechart plans when new problems arose.

We all know how difficult it is to work strategically when we are caught up in the business of day-to-day program management. A strategic plan, addressing not only financial stability, but also the effectiveness of an organization's programs and the strength of its institution, facilitates the transition to sustainability.

— Karie Brown, Katalysis

CHAPTER SIX

THE EXPANSION STAGE: AIMING FOR SIGNIFICANT IMPACT

Imagine reaching thousands and thousands of poor people with financial services that enable them to create and build their businesses.

Imagine changing basic laws and regulations that impede access to credit, or stymie business opportunities.

Imagine building a network of like-minded institutions that can reach all the corners of a country in need.

Imagine supporting a movement that strengthens the organized voice of poor constituents and helps it to be heard on a national level.

These are some of the visions of the Expansion Stage, a stage that many PDOs strive to achieve, but for which the experience base is still small.

This chapter is written for organizations seeking to achieve visions like these, and for those interested in exploring the requirements of the stage to help decide whether it is for them. In thinking about these issues, it is important to begin with a clear understanding of what is meant by Expansion, and some essential points regarding its features.

1. **The Expansion Stage is characterized by an organizational decision to significantly increase impact** — directly through the number of clients receiving services, and indirectly by creating a better policy environment in which small enterprise can flourish. Quantitatively, the numbers associated with the goal are of a high magnitude, whether it is clients, jobs, funding levels, association members, etc.

2. **It requires structural transformation on the part of the organization driving the expansion.** This can imply a significant change in the vision or mission of the organization, as well as in the organization's structure or composition. Private development organizations have converted themselves into financial facilities, or created other

financial structures to service their clients better. They have created specialized units for policy, or research and development, and have added an institutional development role to their implementation functions. Some have formed apex institutions, or umbrellas, that can channel larger sums to many partners.

Even when a PDO has had the goal of expansion from inception, it has often faced the need to radically modify its organizational form to competently manage large sums of money, to acquire and use new kinds of resources, and to take on the new tasks it has set for itself.

3. **Expansion implies specialization.** This type of structural change is a necessity. It means shedding programs that are not central to an SED program. As one observer of the process has said, "the organization must concentrate on one or two basic services — you can't have credit, nutrition, health, agriculture, training, and technical assistance, and expand." For this reason, some institutions have split their functions and set up affiliated organizations to manage specific tasks.

Sample 10. — Models of Expansion

- Members of the ACCION-supported network of Latin American private development organizations seek to provide financial services on a broad scale to microentrepreneurs in the urban sector of Latin America. Called the "Gran Salto," their goal is to reach 748,000 borrowers, increase the total value of loans disbursed ten times, to $1 billion, and create one million jobs by 1995. Their loan portfolios doubled in size, from $13.8 million in 1990, to $25 million in 1991, on which base they were able to provide $56 million in loans. One member, PRODEM, has developed itself into a bank, Banco Sol, to serve as the instrument for this financial expansion.
- In 1985, Tulay Sa Pag-Unlad in the Philippines announced a national expansion plan that involved establishing a network of partner agencies that could provide the poor access to economic opportunities country-wide. The goal was to make $30 million of loans to 25,000 small businesses, creating 150,000 new jobs. By 1991, six were formed. They joined with TSPI to form the Alliance for the Philippine Partnership in Enterprise Development (APPEND). To date, they have created 8,219 jobs, and provided $3.154 million in loans.
- In India, the Self-Employed Women's Association (SEWA) has a program to build economic alternatives in rural areas and to fight for the rights of women. It has adopted a strategy of advocacy and lobbying at governmental levels to improve working conditions for women. It took 10 months of constant pressure to achieve recognition and registration with the Labor Ministry under the Trade Union Act. The Act did not acknowledge home-based piece-workers as laborers covered under the Act, which negatively affected hundreds of thousands of women so employed. Through SEWA's efforts, a minimum wage has now been established for these workers that has benefited more than 13,000 SEWA members and countless other home-based workers.

4. **Expansion has largely meant the development of financial service programs that aim to serve large numbers.** Other areas of focus, such as policy change or the creation of partner institutions, have been subordinate to enlarging the scale of financial services for the poor. But there are some examples of other approaches that will be addressed.

5. **For some organizations, the drive to expand and to become sustainable are necessarily one and the same.** The selected financial model requires that the institution manage a high volume of loans to generate sufficient income to cover operational and financial costs. For others, sustainability can be achieved without making the leap. They attain a program size that serves a substantive number of clients and generates sufficient revenue to cover 100 per cent of the costs of credit delivery. For these organizations, the choice to expand depends more on the goals that the institution sets for itself, and the importance it places on reaching scale.

   For many organizations, to have an SED program reach sustainability is considered enough. While all living organisms have to make the choice of growth and change, or stagnation and death, this does not mean that all SED organizations can, or should, expand in the ways described here. For many, change may come in other ways such as adapting their program to the needs of their constituencies, developing locally-controlled, responsive institutions that are sound and well managed, and joining networks to achieve greater impact through joint actions.

6. **Expansion is a conscious choice that can be made at different points.** For some, the goal of expansion is present at the organization's birth. In fact, some SEEP members feel it is very difficult for an organization to expand if it does not embrace this goal at its founding. Too many PDO programs have demonstrated their contentment with being expensive pilots. But other organizations have grown to the challenge as their experience has evolved. It is a question of understanding the challenge when it is at hand, and grasping it with creativity, commitment, and total effort.

7. **Expansion-minded institutions view themselves as players in an arena other than the typical world of nongovernmental organizations.** It becomes important to build linkages with formal financial institutions for resource acquisition. Growing portfolios, and an interest in managing client savings, forces the organization to respond to the regulatory requirements that govern other financial intermediaries. Access to the corridors of power becomes important in order to influence economic and financial planning decisions that impinge on the business sectors that provide livelihood to large numbers of the poor. In all these areas, the organization begins to find new relationships that enlarge its understanding of who its peers are, and where it should concentrate its efforts.

For those organizations which are compelled to take on these challenges, here are the tasks at hand:

Component		Expansion Stage Tasks
VISION	E-1	Evaluate and revise the vision/mission statement to express the goal of expansion
	E-2	Strengthen entrepreneurial quality of Board and Executive
	E-3	Undertake long-range strategic and financial planning
CAPACITY	E-4	Revise methodology to reflect specialization
	E-5	Re-form or revise organizational structure
	E-6	Strengthen capacity for financial analysis and management
RESOURCES	E-7	Mobilize financial resources for expansion
LINKAGES	E-8	Establish and implement a policy formation strategy

E-1 Evaluate and Revise the Vision/Mission Statement to Express the Goal of Expansion

It is clear from the brief cases that accompanied the introduction that an Expansion vision must be something that captures the imagination of the people that compose the organization and drives them to excel. When notions of sustainability and expansion have been part of the organizational mission from the beginning, the task is easier. It is more a matter of clarification, of tailoring it to the specific historical moment and giving it a sharply-defined form.

For example, Fundación para la Promoción y el Desarrollo de la Microempresa's (PRODEM) initial vision of reaching large numbers of urban microentrepreneurs was transformed into the vision of establishing a bank, Banco Solidarios, S.A. (BancoSol), for solidarity group lending. The Malawi Union of Savings and Credit Cooperatives, formed with the vision of creating a nationwide credit union movement, sharpened this idea into the goal of creating a central financial facility that could become a key engine for the country's economic development.

It is more difficult to assume an expansion vision when it was not present at the outset. The stumbling block of putting new wine in old skins is formidable. Some staff, executives, and Board Members cannot make the leap from a nonprofit PDO mentality to one that emphasizes more business-like notions of growth and bottomline efficiency. Some feel it is more important to conserve the patrimony of their current programs than take the risk of new ways of doing things. But a few agencies have been able to develop an expansion vision despite their previous experience.

Like all creative ventures, expansion is one percent inspiration and 99 percent perspiration. Vision is that one percent. An organization on the brink of this stage needs to spend some time focusing on it. Vision clarification exercises with Board Members and staff are an important part of the process. Use the checklist on page 130, as the starting point for a retreat, to see if your vision has sufficient spark to ignite the rest of the process.

Checklist 7. — Expansion of Vision

1. **CONCEPT:** Does the goal imply scale up of impact in terms of:

   ❒ clients ❒ job creation ❒ area of coverage

   ❒ members ❒ policy impact ❒ other

   If not, what should the goal be?

2. **VALUES:** Does it build upon the values of the founders and current members of the organization?

   ❒ yes ❒ no

   If not, how can these value conflicts be addressed and reconciled?

3. **STRUCTURAL TRANSFORMATION:** Is there recognition of the need to make significant organizational changes to reach the goal?

   ❒ financial facility ❒ research and development unit

   ❒ policy unit ❒ apex institution

   ❒ other forms of specialization

   If not, what organizational alternatives should be considered?

4. **RELATIONSHIPS:** Is it understood that an expansion vision implies a new set of relationships with groups such as:

   ❒ clients ❒ communities ❒ government

   ❒ formal financial institutions ❒ peer organizations

   If not, what new directions might the organization find itself moving toward in terms of relationships?

5. **COMMITMENT:** Is the vision accepted and understood by all levels of the organization?

   ❒ Board ❒ Executive Director

   ❒ management ❒ field staff

   ❒ administrative staff

   If not, what action is required?

6. **PLANNING:** Has a strategic planning exercise been put in place to move the vision forward?

   ❒ yes ❒ no

   If not, what needs to be done to commit resources for this effort?

E-2 Strengthen Entrepreneurial Quality of Board and Executive

As in the Development Stage, the importance of strong leadership cannot be underestimated. In every case of successful expansion, observers have noted the presence of dynamic executives and Board Members who have shaped the vision, taken on the new roles it requires, and inspired the rest of the staff to move forward.

Executive Directors are expected to take on new roles, especially in the areas of resource mobilization and policy formation. The resource mobilization role requires creativity in designing new structures or instruments such as endowments, guarantee funds, equity mechanisms, and formal financial institutions. It requires the capacity to negotiate these innovations with donors, lenders, and regulators. The policy formation role implies the ability to relate to regulators, legislators, and other government officials to achieve two aims:

- more equitable laws on behalf of poor clients, especially related to their sectors of work; and
- greater resource transfer to them through the PDO and others like it.

In both these areas, the Board plays a critical role, supporting the Executive, providing the expertise required in financial and policy areas, and making the connections required to move into this larger arena. Without their commitment to increased service delivery and other expansion goals, the institution will be severely hampered.

What Happens If This Is Not Clear

This has been a serious stumbling block for many organizations trying to enter the Expansion Stage. One network of member organizations found it difficult to keep long-term Board Members engaged. One participant noted:

When the institution and its programs are small, the Board is usually heavily involved in the day-to-day operations, sometimes too much so, and they hinder the work of the Executive Director. Over the long run, as the institution grows, the role of the Board usually becomes too passive. Keeping the Board involved, especially in the critical area of developing external relationships and new financial opportunities becomes a major challenge (Castello and Guzman 1988, page 16).

What to Do

Other organizations facing this problem find it important to take on new Board members with the skills, connections, and outlook desired. This may mean rotating some longer-term members off the Board, or adding additional members if the first option is not politically possible. It also means investing in further Board development activities to achieve the cohesive vision which the next steps demand.

If an organization requires some new energy at this level, it may be useful to return to the exercises in Chapters Four and Five. Use the Board Member Assessment Worksheet, on page 32, to clarify what skills and knowledge new Board Members should have, and use that as the basis for recruiting candidates. Use some of the suggestions in S-2, page 81, for Board evaluation and rotation, if there is unfinished business in these areas.

E-3 Undertake Long-Range Strategic and Financial Planning

As with the first two stages, strategic planning is a significant step in charting the institution's future course. The process involves a sequence of steps similar to those outlined in the other stages, but the content and emphasis are different:

- During the Development Stage, strategic planning mirrors project planning as the institution focuses on delineating its project goals, methodology, client base, and initial interventions.
- During the Sustainability Stage, the focus is more on the development of structures and systems, increasing field-level effectiveness and financial stability.
- At the Expansion Stage, there is a continued emphasis on financial planning, especially with a view to capturing more, and different types of resources. At the same time, there is a focus on developing expansion goals in line with the new vision, and on the organizational changes necessary to make this a reality.

Checklist 8. — Strategic Planning for Organizational Transformation

- ❒ analyze the options: do an environmental assessment; collect information on successful transformations; determine niche
- ❒ assess the risks and benefits: how will impact be significantly increased; what are the consequences of failure
- ❒ assess the costs: what resources are needed to complete the process and can the organization access them
- ❒ make the decision to proceed — or not
- ❒ form a planning group: members from Board, management and staff; clearly define tasks, roles and responsibilities; consider some professional assistance
- ❒ prefeasibility study: includes a thorough financial and management analysis of the organization
- ❒ develop outside support: build interest and educate those whose influence is essential, look to national and international agencies whose support can be beneficial
- ❒ feasibility and transitional planning: time-phased action plan for transforming the organization
- ❒ fundraising: develop funding sources to support the process and operational costs until the organization can become financially self-sustaining; develop the commercial financial ties for a capital fund sufficiently large to allow for financial self-sustainability
- ❒ begin implementation

Practitioners who have participated in the process of planning for expansion suggest a sequence of steps such as those outlined in the box above. The following points offer some suggested ways to follow those steps.

1. **Ensure that the planning is done with a high level of quality**, for the level of quality which exemplifies the development of the plan will also be found in its execution. This refers to the commitment and participation of the senior staff, the credentials of any consultants hired to assist with the planning, the attention to research and analysis, and the process of decision making.

2. **Include all staff** in those aspects of the planning that directly relate to them. One of the characteristics that has made Toyota a leading car manufacturer is its use of worker input to constantly improve its operations. This input is provided by immediate reporting of problems, as well as by suggestions offered on organizational and manufacturing procedures. The *New York Times*, May 5, 1992 reported that workers at a single Toyota plant submitted 20,000 suggestions, and more than half of them were used. This is 30% more than all of the suggestions turned in by Ford Motor Company workers throughout North America. The result of such input is efficiency that has not been matched by US auto makers, as measured by the time it takes to make a car. Private development organizations require just the same type of worker enthusiasm to streamline operations and grow the program. Involving workers in the strategic planning process demonstrates their importance in creating and improving the organization.

3. **Take time** to do a thorough job. Anticipate that all phases of the process will require at least six to eight months. This includes both the initial research and decisionmaking, and working through the details of the selected option.

4. **Studiously examine the position of the institution relative to other players in the microenterprise sector.** An agency in the Development Stage tends to be largely agency-centric, focusing on clients and agency operations. As the institution matures, it increases its linkages to other similar private organizations, as well as to an enlarged pool of financial supporters. At this stage, it is important to reexamine the playing field within the country of operation, and to develop a better sense of who is operating in the sector, which institutions are important to the PDO, and which ones may be important to influence.

   Mapping the field of actors and the potential opportunities they offer is an important planning step. It might be useful to return to the mapping exercise found in the Sustainability Chapter, S-11 on page 120, and redo it in line with the institution's new vision and areas of interest. Make sure that the map is broadly drawn, incorporating a wide range of institutions.

5. **Be creative in identifying options to achieve expansion goals.** Find ways to stimulate creative problem solving. Build in training that opens up people's thinking and removes the blocks that tend to diminish the search for solutions. Brainstorming is one classic technique; SWOT analysis (a review of strengths, weaknesses, opportunities and threats) is another. Truly unique ideas challenging common views have

brought the microenterprise finance field to its current position — nonmonetary collateral, market interest rates, a bank for the poor, a labor union for women — all these notions were breakthrough ideas that pushed the field to a new level.

6. **Analyze the benefits, costs and issues associated with each option in a careful way.** This involves three steps.

   Step 1 Identify the most important issues the institution faces in pursuing each option, and gather whatever information is required to address the questions raised. The box on page 136 presents a sample list of the type of questions that need to be addressed if an organization is considering expansion of financial services.

   Step 2 Conduct a prefeasibility analysis of each option selected for further study. Outline the PDO's current program, its environment, constraints, and opportunities, etc. Develop a financial analysis of each option with this information in mind. The financial analysis should bring together many of the same tools that the institution has been using for program management — profit and loss statements, balance sheets, and credit program projections — but possibly in a more sophisticated way. If it has not been done previously, financial planning at this stage should be in the form of a modelling exercise using a computer spreadsheet program, such as Lotus 123, to build a linked set of statements for a period of four-to-five years.[21]

   Step 3 Choose the best option on the basis of these studies, and subject it to a final, more detailed feasibility study to build the operational plans required to institute the expansion program.

7. **Develop action plans that will outline the steps required to implement the expansion plan and to build the external support required from financial backers.** Because of the degree of financing necessary to achieve expansion goals, the dialogue with current and potential funders needs to start early to create the basis for implementation.

[21] For guidance on financial modelling, see Douglas Salloum and Nan Borten, **Steps to the Creation of a Viable Financial Institution for Microenterprise Development: Notes on a process for the staff and board of: Tulay sa Pag-Unlad, Inc.** (Bethesda: Development Alternatives, Inc., 1991)

Sample 11. — Issues in Microenterprise Finance Expansion

There are a number of options available to private organizations intent on expanding their financial services to the poor. Some that have been tried, or are being considered by others include:

- becoming an intermediary for commercial bank lending or a conduit for soft lending from multilateral and governmental sources
- converting the organization into a for-profit bank
- purchasing an existent bank and focusing it on the informal sector
- creating a cooperative to manage client savings and provide finance for the lending program

Core issues that must be addressed for each are the following:

1. **Credibility:** Does the organization have
   - a solid client base
   - an effective methodology
   - a quality staff
   - good program records

   Is the organization good enough to put itself forward as a good investment for others to make?
2. **Competition:** Does the organization face competition in the option under analysis? Are there significant sources of subsidized capital available to these competitors that would make a more market-oriented option less attractive to clients?
3. **Profit and Costs:** Are the higher interest rates required by an option an impediment to our clients, or a barrier to our own understanding of how we should operate?
4. **Control:** Do we wish to limit investment to those who share our vision? If not, how do we safeguard the values that are critical to our growing operation?
5. **Commercial Practice:** If we assume a more for-profit-like operation, how do we deal with matters such as salaries, benefits, incentives and costs of doing business not common in the development community?
6. **Environment:** Is the economic, political and legal climate supportive of the option under consideration?
   - inflationary pressures
   - interest rate controls
   - currency convertibility
   - tax issues

E-4 Revise Methodology to Reflect Specialization

An organization entering the Expansion Stage will have a well developed, tested, efficient and effective methodology for providing SED services. It will also have substantial experience in delivering those services to a large number of clients. At the same time, however, the PDO may be offering a number of other program services, each of which requires different strategies, staffing, etc. While some organizations, such as BRAC in Bangladesh, have successfully grown by adding programs in an integrated way, to accomplish this demands an extremely high level of management competence, staff skill, and financial support. For many other organizations, the pull to do several things well results in limiting the coverage area and the number of people that can be served. For this reason, many practitioners experienced with expansion programs recommend that PDOs specialize.

There are at least two ways this specialization has occurred:

- In some instances, less successful (or less desired by clients) program features have been shed, while the agency focuses on the service that can most easily be expanded
- In other instances, the organization splits functions, or program components, into two separate organizations, each of which can develop the staffing, structure, and management necessary to do the job assigned to it successfully.

An example of this is the Asociación de Grupos Solidarios de Colombia (AGS), a network of solidarity group lending organizations. The AGS has provided a wide variety of services to its member PDOs, from training in methodology implementation to policy work to fundraising. As the organizations have grown, requiring larger amounts of capital to fuel their loan funds, AGS has discovered the need to set up a special savings and loan cooperative that will ultimately be able to hold client savings from all the programs and channel them back as loans. The cooperative will also be able to generate other funding for the members. The Asociación itself will continue to focus on training, policy work and other member services.

For organizations that find it difficult to specialize and relinquish activities important to its mission, this splitting of function may serve as the best solution.

E-5 Re-Form or Revise Organizational Structure

As outlined above, methodological specialization can lead to organizational restructuring. But even if the methodology is not revised, the need to manage a significantly larger program forces the organization to make some important changes. During the Sustainability Stage, an appropriate and comfortable organizational structure has evolved which serves to foster growth and efficient program implementation. Systems and procedures have become routinized; staff and management have a mutual understanding of responsibilities and accountability; and new staff have been integrated into the organization.

Having made the decision to expand, each element of this structure and system needs to be reexamined. Decisions must be made regarding what works well and can be kept in place, and what needs to be changed. There are several broad avenues for re-forming the organization to be considered, with some requiring more radical change than others.

Replication

At the heart of most expansion strategies is the development of a replicable model or unit that can be installed repeatedly by the PDO in response to demand. As the organization decentralizes during the Sustainability Stage, it sets up regional or local offices to serve clients close to their communities, and these offices represent its first experiences with replication. When an organization decides to expand, however, it needs to crystallize the essence of these experiences into a program model that is effective, can be easily implemented in a defined locality, and cover its costs in a quick and efficient way. With a good replicable model, an organization can expand as rapidly as it generates supporting financial resources.

An example to illustrate this point is the Unit Desa System of Bank Rakyat Indonesia (or Indonesia People's Bank). The state-owned bank is one of Indonesia's largest, with total assets of $6.5 billion and a loan portfolio of over $4.7 billion. The Unit Desa are full service rural banks that provide working capital and investment loans, as well as management of three different savings programs. The system is organized around village units that follow a defined pattern of formation. Each unit is originally staffed by four people: a general manager; loan officer; cashier; and bookkeeper. As loan volume increases, the Unit Desa adds staff until it reaches 10 employees. After that, the unit is split into two. If the Unit develops significant lending in outlying areas, it sets up a Village Post, consisting of cashier and bookkeeper, open several days a week. When a post's portfolio grows large enough, it is converted into a separate Unit Desa.[22]

An organization does not have to pursue a financial services model to develop a replicable unit. The Opportunities Industrialization Center of Sierra Leone is a vocational

[22] For more detail, see James J. Boomgard and Kenneth J. Angell, **Developing Financial Services for Microenterprises: An Evaluation of USAID Assistance to the BRI Unit Desa System in Indonesia** (Bethesda: Development Alternatives, Inc., October, 1990) and Larry Reed and David Befus, **Transformation Lending: Helping Microenterprises Become Small Businesses** (Chicago: Opportunity International, January 1992)

training PDO that has developed a component of training and credit assistance for small business development. As the organization expanded from the capital of Freetown to Bo, Makeni, and Bonthe, it developed a pattern of creating vocational and SED units at each site, each with the same staffing and organizational structure. Each unit is also directed by a similar "management committee," which is a Board of Directors for the local site. The model can be repeated at any additional sites required by expansion.

What are the elements of a replicable program unit? The following checklist provides a guide that a PDO can use to analyze its program to see if it is, or can be made, easily replicable.

Checklist 9. — Replicability

- ❑ clear description of the clients to be served, including geographic area, socioeconomic level of clients, level and types of economic activity, gender
- ❑ clear description of the services to be offered and the delivery mechanisms to be employed
- ❑ projected minimum, optimum and maximum numbers of clients the model seeks to serve in a way that recovers costs
- ❑ a projected timeframe within which the model will be financially self-sustaining
- ❑ a projected amount of money the organization will need to implement and support the model until it can achieve financial self-sustainability
- ❑ written program policies and procedures that are clearly understood and adhered to by staff and clients
- ❑ fully developed program materials including forms and formats, instructional materials, monitoring and evaluation procedures
- ❑ clearly articulated and understood policies on decision making and the flow of communications
- ❑ information management systems that include baseline and on-going program and financial information
- ❑ program staff fully trained in the program model; an institutional capacity to train others how to implement and manage the model;
- ❑ guidelines and procedures to insure program quality as it is replicated and modified under differing conditions

Institution Creation and Strengthening

Some organizations have taken the idea of replication a step further and have based their expansion strategy on the creation or strengthening of other local and national institutions. Two forms this strategy takes are:

1. **The PDO develops partner organizations** to offer SED services in previously unserved, or under-served areas, at the same time that it continues to implement its own program within its original target area. This is the model that was pursued by TSPI when it helped create partners in six other provinces of the Philippines. The advantage of this approach is that it allows the PDO to develop institutions that are specifically tailored to local circumstances and that can hopefully generate local support. At the same time, it continues to base its own program on those areas and aspects where it has the greatest strength.

2. **The PDO creates, or converts itself into, an apex institution.** An apex institution is one that coordinates a number of independent but affiliated organizations, and provides a variety of services to them. The model is most clearly illustrated by the Credit Union structure in which a National Federation of Credit Unions would be the apex organization for all of the primary societies (base Credit Unions) and any state, province, departmental (or other subgroupings of primary societies) that may exist. It has been adopted by other organizations that seek to provide or secure services that are difficult for individual agencies to achieve alone such as:
    - increased geographic coverage
    - the establishment and maintenance of donor relationships
    - the development of capacity to lobby for policy changes that support the informal sector
    - the creation of financial mechanisms to handle excess/deficient liquidity among client organizations.

In the SED sector, apex institutions have been formed to recruit and upgrade preexistent organizations to be implementors of specific program methodologies. This was the motivation behind founding the Asociación de Grupos Solidarios in Colombia, which has nurtured a number of Colombian PDOs, and created several new ones. It currently has 17 PDOs as members, all implementing the solidarity group methodology promoted by ACCION International, and in seven years has reached 40,000 microentrepreneurs with 185,000 loans valued at $28 million (Gomez, Borton and Castello 1992).

Apex institutions have also, on a few occasions, been sponsored by donor institutions as mechanisms to channel funds to the microenterprise development sector in an efficient and rational way. This is the case of FondoMicro in the Dominican Republic.

A number of Northern PDOs have seen the advantage of creating apex institutions to expand the range and impact of different SED strategies, such as poverty lending and solidarity group lending. They are especially attractive in countries with limited SED experience, but where there is a strong PDO sector that can potentially serve as the base for programming. At the same time, however, there are particular challenges to doing this well, such as selecting appropriate members to join the Apex. The experience of Asociacion de Grupos Solidarios has demonstrated that an expressed interest in providing SED services is not enough. Over time, it has become clear to AGS that a number of criteria are important, leading it to create new members rather than recruit them from the already large range of Colombian PDOs. *Checklist 10* outlines some of the criteria for member selection they found to be important. An organization interested in pursuing the apex model should also refer to the section on *Choosing Partners* in D-10, page 71.

Checklist 10. — Apex Membership Criteria

The most successful member organizations of the Asociación de Grupos Solidarios have demonstrated the following characteristics:

- ❑ strong commitment toward self-sufficiency
- ❑ strong commitment toward scaling-up
- ❑ strong commitment to specialization
- ❑ solid administrative structure
- ❑ experience in credit and savings programs
- ❑ access to funding sources other than the apex institution
- ❑ strong interest; willingness to use own resources
- ❑ use MIS as decision-making tool
- ❑ flexibility: capacity to learn from error; respond quickly to changes

— adapted from Gomez et al. (1992)

An organization considering either strategy needs to be aware of a number of cautions:

Implementation vs. facilitation — many times a good implementor does not make a good facilitator. In addition, there are some inherent tensions between the more action-oriented demands of implementation and the more process-oriented demands of institutional development. Review *Checklist 11* to see if an organization has the requisites to facilitate building and strengthening other organizations.

Checklist 11. — Requisites for Facilitation

- ❑ capacity in organizational analysis and institution-building skills and processes
- ❑ a well developed methodology that can be quickly taught to other organizations and can be readily adapted to differing situations
- ❑ technical skills in training and in the operation of small enterprise programs
- ❑ funding sources and cost recovery mechanisms that will finance institution-building and training programs

Self-sufficiency and sustainability — often secondary and apex organizations are dependent on members or affiliates for financial support, but have little leverage to ensure the continuous and timely fulfillment of these obligations

Representation vs. implementation — for secondary or apex organizations, one way to ensure self-sufficiency is to also be an implementer. This can cause tensions between the apex and its affiliates over implementation funds and territory.

Broad-based and ability to serve — to be an effective representative, especially in front of governmental institutions, an apex organization requires a very broad base of affiliates. A broad base, however, can be problematic when an apex organization is unable to provide services equitably among its affiliates, or when a large membership brings with it too many different perspectives on strategy, methodology, etc.

Restructuring into a New Organization

For some organizations, replication or institution-building strategies may not be sufficient. While they provide mechanisms for expansion at the field level, they do not address several structural issues that hinder the ability of organizations to deliver high caliber services, especially financial services, to a significantly larger client base. Some of these include:

- insufficient grant funds and soft loans to capitalize new ventures and increase capital funds;
- the inability to legally capture, accumulate and invest members' savings, a potentially large source of nongrant revenue;
- limited access to commercial sources of credit, often at terms highly unfavorable and requiring some form of external guarantee.

Faced with these realities, some organizations have opted to form a new organizational structure, either as an adjunct to their current structure or as a replacement for it. This transformation moves an organization from the realm of a traditional PDO and puts it squarely in the private financial sector. Previously cited examples of this experience include:

- PRODEM, in Bolivia, which made the decision to form a bank, BancoSol, to handle all the financial services. It transferred most of its staff to the new organization. PRODEM continues as a research and development organization, with new staff more appropriate to these functions.
- The Asociación de Grupos Solidarios, in Colombia, established a savings and credit cooperative to handle the acquisition of funds, to capture and manage members' savings, and to manage liquidity among its members. AGS retains responsibility for technical assistance and training for members, policy work, and new member development.

A third example is

- The Malawi Union of Savings and Credit Cooperatives (MUSCCO), which established a central finance facility to serve as a central bank for its members. Through the facility, the union has a mechanism for productively using members' excess liquidity to bolster other members who have a temporary liquidity deficit.

Other avenues which have been discussed include purchasing a preexisting bank and converting it to provide financial services to the informal sector, or forming some other type of financial institution such as a savings and loan society, a trust company, or a foundation, among others.

This type of transformation has much deeper institutional consequences than other forms of organizational adjustment. Some implications to consider are:

Governance and regulation: normally PDOs operate in a relatively unregulated environment and are dependent on their internal controls to maintain fiscal security and integrity. Entrance into the formal financial sector brings with it government regulation, formal accountability and compliance requirements. It also means greater financial security for members' equity and/or savings.

Player in a new arena: PDOs learn how to operate in the small, non-governmental organization environment, often eschewing formal contacts with government or the commercial financial sector. PDOs build up networks of collegial support among like-minded and similarly motivated organizations. Moving into the formal financial sector brings the PDO into contact with many of those organizations it previously sought to avoid. Likewise, as an organization becomes more sophisticated in its approach and begins operating like a financial institution, it loses its natural affiliations with its former colleagues. Entrance into this new arena, however, means access to, and the ability to leverage, new and different types of money.

Further professionalization: even while striving to professionalize its operation in the Sustainability Stage, many PDOs are reluctant to become "professional," opting to retain the aura and "commitment" of earlier days. Being successful as a formal financial institution demands a thoroughly professional private sector approach, often requiring entirely new and different sets of skills and experience on the part of Board, management and staff. A more professional approach, however, offers opportunities to be more influential with government and donors.

Moving to re-form the organization is not a step to be taken lightly. It is for this reason that strategic thinking and planning is emphasized as the first critical step in the Expansion Stage. Evidence from those organizations which have undertaken this type of strategic thinking suggest the following should be considered:

- **The amount of time:** often six to 18 months — to go through the process of making a decision and developing the transformation plan.
- **The organizational commitment required:** staff, management and Board involvement during the entire process.

- **The financial commitment:** as much as US$ 50,000 for the initial feasibility studies and professional facilitation, and as much as another $200,000 to $400,00 for the subsequent studies and planning activities to develop the institution;
- **The level of financial investment:** funds that will need to be raised to make the institution operational.

Organizations considering this as an option need to carefully review the issues and processes described in E-3, page 133.

E-6 Strengthen Capacity for Financial Analysis and Management

There is a simple way to understand the different financial management demands placed upon a PDO at each stage of its development.

- In the **Development Stage**, the demand is **accountability**. The institution must pay great attention to developing financial reporting systems that track each grant dollar, and can report appropriately to donors.
- In the **Sustainability Stage**, the demand is **financial control**. The institution must master the challenges associated with establishing cost centers, their cost effectiveness, reduction of subsidy, and ultimately the sustainability of the institution itself.
- At the **Expansion Stage**, the PDO must fully master the range of tasks associated with **financial management**. The goal is to effectively build, protect, and use the institution's capital.

This task will be especially challenging because of the increased level of sophistication and complexity in the financial operations of an institution which is expanding. Whether the expansion process involves formation of a higher level institution, replication of the institution in other geographical areas, scaling up in operations, or other forms of expansion, the current financial systems, policies and procedures, and even the skills and number of staff, will have to be revised or upgraded to accommodate the inevitable changes in the institution's operations.

The specific objective in this stage is to focus attention on management in the following areas:

- **Investments:** The institution is now managing funds from a variety of sources, in greater amounts, and/or in multiple locations. The institution must be able to identify where cash surpluses exist in the system and invest these to earn the optimum rate of return, keeping any risks associated with investment at an acceptable level and ensuring availability of funds when needed.[23] The Sustainability chapter demonstrated how unused funds increased the cost of lending to the organization. These costs can be diminished if those funds are profitably invested elsewhere. Investment may mean shifting funds within the institution, e.g., from one location with surplus funds to another with a deficit, or placing funds in investment vehicles outside the institution.
- **Liquidity:** The institution must ensure that cash is available to meet current and projected cash disbursements, as well as unexpected or emergency needs. This involves matching assets and liabilities to ensure that maturities (as well as rates and amounts) coincide, effectively forecasting cash inflows and outflows, and establishing cash reserves to cover unforeseen outflows. It also may require judicious borrowing at critical moments.

[23] For credit unions, this means following the principles of Safety, Liquidity and Yield when making investment decisions. For a full discussion of these principles and other issues associated with financial management, see Jim Jerving, **The Central Finance Facility: A Guide to Development and Operations** (Madison: World Council of Credit Unions, 1987) discussed on page 286.

- **Debt vs. Equity:** The institution may now have debt and equity available as alternatives for financing its operations. Both pose distinct advantages and disadvantages which must be carefully weighed with respect to the institution's goals and objectives. Although using the institution's capital to leverage debt and expand operations appears wise, debt may also pose a significant risk to the viability of the institution if default and loss of assets are at all possible. However, not using debt when it is feasible to do so limits the institution's capacity to serve its client base.

- **Risk:** The institution must take measures to protect its assets, particularly money and physical assets such as buildings, vehicles, and equipment. Failure to secure this protection can result in significant threat to the viability of the institution if the assets are damaged or destroyed. Forms of protection include insurance, physical security measures, audits, inventory systems and controls, and enhanced financial controls. Some institutions also seek to protect their investment in quality staff by providing fringe benefits, such as health and disability benefits, vacation, sick time, and tuition reimbursement, which maintain and enhance employee levels of effectiveness and motivation, and encourage them to remain in the institution.

- **Operations:** Expansion may require management of changes in the following operational areas:

  a) *Volume of transactions:* Scaling up or replicating will mean more clients and therefore a greater volume of transactions in the financial system. The impact of this higher volume on staff and systems must be anticipated and managed.

  b) *Location of financial functions:* As the institution restructures to handle the scope and complexity of its expanded operations, it will certainly result in multiple sites, departments and/or divisions, or more layers in the hierarchical structure. As a result of this restructuring, the optimal location within the institution for the different financial functions will undoubtedly change. The institution should ensure that its systems are capable of tracking information by location as well as cost center in order to cost services and measure performance in accordance with this restructuring.

  c) *Costing and pricing:* With expansion, the cost of the institution's products and services will change, particularly in response to changes in volume, client base, and geographical location. The institution must ensure that its prices are revised in accordance with these changes in cost. As stressed before, the institution's sustainability is dependent upon a solid costing and pricing analysis.

To accomplish the organization's objective of managing these areas well, a sequence of changes in the institution's operations may be necessary. Review each of the following areas to be sure that they are equal to the task at hand, and if not, move to make any changes required.

Structure and Staffing

A financial manager supervising an accounting staff in a single location will no longer be sufficient. If the institution has multiple locations, an accounting function involving one or more staff will need to be set up in each of those locations. If departments or divisions are set up, it may be optimal to place accountants in each of those divisions, with consolidation occurring at the center of financial operations. A hierarchical structure may require a system where staff is responsible for financial functions at each level with each level reporting to the next higher level. The decision here should be based on ensuring that financial information is generated, collected and reported in the most cost-effective and efficient way without sacrificing quality or control.

Computerization

The hardware and software must be upgraded to handle the greater volume and/or complexity of information. The software must be capable of handling information categorized by location as well as cost center and funding source.

Accounting System

If a chart of accounts was not developed and incorporated into the software system in the Sustainability Stage, this task can no longer be avoided. Computer coding for every location, cost center, funding source, and transaction account (asset, liability, equity, revenue, and expense accounts) will be required. The codes should be incorporated into forms to make the flow and processing of information easier. Staff will need training in how to use the codes if information is expected to be recorded to the proper accounts.

Program Information System

Client records and other relevant program documents also need to be revised to reflect location, cost center, and name(s) of program staff servicing each client, so that performance can be tracked properly.

Budgeting

Budgeting should be done by unit of accountability, which now means by location as well as cost center.

Financial Statements

Budget vs. actual statements should be generated at each organizational level for financial planning and control purposes. This means at the cost center, location, and institution level. Income statements, balance sheets, and cash flow statements are required at the institution level, but may be desired at the location level as well.

Financial and Statistical Analysis

The Expansion Stage institution will require the same type of analysis the Sustainable institution produced, namely:

- **Loan portfolio quality**, as measured by delinquency, repayment, loan loss rates, and aging of arrears reports; and
- **Operational and financial self-sufficiency** information, as measured by operating expense and portfolio yield rates.

(See D-6 *Analyze financial performance*, page 53, and S-4 *Conduct more rigorous financial analyses*, page 88 for a discussion of these items.)

In addition, the Expansion institution needs to analyze itself in terms of the amount of equity it has been able to generate over time, its ability to manage new debt, to cover its current obligations, and ultimately to be able to offer a return to any investors. There are a variety of ratios to help analyze institutional financial health and strength. A sample of these ratios is presented and explained below, using numbers from the financial statements for Microenterprise Lending Inc. (MLI) in S-5.[24]

Formula 24. — Net Worth

$$\frac{\textit{Net Worth (Current Fund Balance)}}{\textit{Total Assets}}$$

The net worth of the institution is compared to assets to determine adequacy of capital, or in other words, to what extent the institution's assets are composed of its own equity, or of debt. Net worth or equity refers to the current fund balance which is made up of the prior year's fund balance plus retained earnings (or accumulated surplus minus losses) for the period. Credit unions are expected to have a ratio of at least 5%, more if the credit union is smaller. Development finance institutions are expected to have a ratio of 15%. Most PDO programs will have more than sufficient net worth since their funding is largely comprised of donations. This is illustrated by the example below. As an expansion-minded institution contemplates larger-scale borrowing, this ratio becomes more important to watch.

[24] The sources for these formulas are: Robert Christen, **Financial Management of Micro-Credit Programs** (Cambridge: ACCION International, 1990); Susan Goldmark and Jay Rosengard, **A Manual to Evaluate Small-Scale Enterprise Development Projects** (Washington: U.S. Agency for International Development, 1985); Jim Jerving, **The Central Finance Facility: A Guide to Development and Operations** (Madison: World Council of Credit Unions, 1987). All three are described in Recommended Manuals, Guidebooks and Monographs.

EXAMPLE 22

> MLI's current fund balance is \$231,000 (line 15) and its total assets are \$531,000 (line 9). This gives it a net worth ratio of 43.5%, which is excellent:
>
> $$\frac{\textit{Net Worth}}{\textit{Total Assets}} = \frac{(15)\ \$231{,}000}{(9)\ \$531{,}000} = 43.5\%$$

Formula 25 — Debt to Equity Ratio

$$\frac{\textbf{\textit{Total Debt (for Liabilities)}}}{\textbf{\textit{Net Worth}}}$$

The Debt to Equity Ratio measures the debt burden the institution is carrying, and assesses whether it has a strong enough base to sustain the load of debt it is carrying. Development banks are recommended not to have ratios greater than 8 to 1. Credit unions, which include members' shares as part of debt, are recommended to hold theirs to 10 to 1.

EXAMPLE 23

> MLI's liabilities are \$300,000 (line 12), and its net worth, or equity, is \$231,000 (line 15). It has a debt ratio of 1.3 as follows:
>
> $$\frac{\textit{Total Debt (or Liabilities)}}{\textit{Net Worth}} = \frac{(12)\ \$300{,}000}{(15)\ \$231{,}000} = 1.3$$
>
> MLI currently has an excellent ratio, suggesting that it could consider taking on additional debt to increase its loan fund.

Formula 26. — Liquidity Adequacy

$$\frac{\textbf{\textit{Cash on Hand}}}{\textbf{\textit{Total Disbursements Next 30 Days}}}$$

Liquidity Adequacy measures the availability of cash and other current assets to meet daily operating expenses and loan disbursements during the period.

EXAMPLE 24

> Of MLI's current assets, cash on hand amounts to \$30,000. Its expected disbursements over the next 30 days are also \$30,000. Applying the formula, the result is 1.0:
>
> $$\frac{\textit{Cash on Hand}}{\textit{Total Disbursements Next 30 Days}} = \frac{\$30{,}000}{\$30{,}000} = 1.0$$
>
> MLI appears to be just covering its liquidity needs according to this ratio, and may need to take measures to increase it somewhat.

Formula 27. — Short-Term Debt Exposure

$$\frac{\text{Current Assets}}{\text{Short-Term Debt}}$$

Because liquidity needs to be sufficient to cover short-term debt, this ratio should be greater than one. If it exceeds two, it will negatively affect profits, because the institution will be losing the opportunity to invest some of its current assets in higher-yielding investments.

EXAMPLE 25

MLI's balance sheet reflects total liabilities of $300,000 (line 12). Of that amount, $30,000 is short-term debt. Its liquidity ratio, then, is as follows:

$$\frac{\text{Current Assets}}{\text{Short-Term Debt}} = (1)\ \frac{\$50,000}{\$30,000} = 1.67$$

MLI appears to be handling its liquidity very well.

Analysis of the profitability of an organization over a period of time is based on its income statement. An institution is profitable if income exceeds costs. Besides this, ratios can determine the return the institution is producing on the management of its resources. One of these is:

Formula 28. — Return on Equity

$$\frac{\text{Operating Income} - \text{Operating Expenses}}{\text{Equity}}$$

This ratio measures the income an institution earned on the equity (fund balance prior year) that it had at the start of the period. If this ratio is less than the inflation rate, the program is decapitalizing, or losing value.

EXAMPLE 26

MLI's operating income is $165,000 (line 20 on the Income and Expense Statement). Its operating expenses are $75,000 (line 42). The equity which it exhibited at the start of the period was $150,000 (line 13). Its return on this equity is:

$$\frac{\text{Operating Income} - \text{Operating Expenses}}{\text{Equity}} = \frac{\$165,000 - \$75,000}{\$150,000} = 60\%$$

As the current inflation rate is 10%, MLI is more than maintaining its value.

Another profitability ratio is:

Formula 29. — Return on Productive Assets

$$\frac{\textbf{Operating Income} - \textbf{Operating Expenses}}{\textbf{Liquid Assets}}$$

Liquid assets include cash on hand and in the bank, loans outstanding, accounts receivable, and liquid investments. This ratio should be close in value to the effective rate of interest charged by lenders.

EXAMPLE 27

MLI's liquid assets are $491,000, composed of:

Cash and Investments (line 1)	$50,000
Loan Outstanding (line 2)	$450,000
less Bad Debt Provision (line 3)	($9,000)
	$491,000

Applying the formula, MLI's return on productive assets is 18%.

$$\frac{\textit{Operating income} - \textit{Operating expenses}}{\textit{Liquid assets}} = \frac{\$165{,}000 - \$75{,}000}{\$491{,}000} = 18\%$$

As MLI's cost of capital is currently 10%, it seems to be productively using the assets it has.

E-7 Mobilize Financial Resources for Expansion

As indicated in the previous section, the sheer number of poor clients demanding services forces successful PDOs to find better ways to meet their needs and to channel more resources to them. This presents PDOs with the challenge of mobilizing larger sums of funding than are usually considered available through the normal process of writing and vetting proposals. What amounts of money are required by expansion-minded institutions? There are several ways to respond to this question:

1. One way to consider what funding is required is to think in terms of the number of clients an institution wants to serve, and the average size loan (or cost of service) each requires. For example, if a PDO aims to serve 10,000 clients with an average size loan of $200, then $2 million is the targeted sum. These numbers are not unreasonable ones: the Grameen Bank currently lends to over one million landless poor; the Badan Rikyat Indonesia (BRI) Unit Desa system lends to over two million with loans averaging $500. PRODEM, in close to four years, reached more than 26,000 borrowers, with an average loan size of $275, and a portfolio of $4.5 million (Drake and Otero 1992, page 89).

2. A second way to determine funding needs is to think in terms of the cost of each replicable program unit. Assume that it requires $50,000 to capitalize each branch or unit of a program. Ten of these would require $500,000; 20 would require $1,000,000.

3. A third way to look at what an expansion-oriented effort requires is to consider the legal requirements placed upon a particular organizational form. For example, the Asociación de Grupos Solidarios first contemplated forming a bank, but in Colombia the capital requirements of $10 million were too stringent. Even an open savings and credit cooperative that could take savings from the public required more capital than it could initially amass: $320,000. So it opened as a closed cooperative of member organizations, with the intent of moving to an open form as it builds financial support.

   The Board and management of PRODEM in Bolivia felt that a private sector bank would provide the greatest chance of developing a permanent and growing source of support to microentrepreneurs in the urban sectors of that country. The law demanded a minimum of $3.2 million in capital to qualify for incorporation. In fact, the bank was able to raise $7 million in capital to commence operations, which was more in line with the credit demands of its clients. (Drake and Otero 1992, pages 95-96) Understanding what a certain institutional form implies in terms of resources is an easy way to understand the extent of financial demands that expansion makes upon PDOs. (Coyle and Salloum 1992).

To summarize, the amount of money required by an expansion-minded PDO is context-specific, but it is evident that the sums involved are much larger than PDOs usually envision. At the same time, it is important to place these numbers in perspective: Large multinational donors have difficulty in conceiving projects of less than several million dollars in value!

Where are resources of this magnitude to come from? It is clear that grant funding, dependent as it is on notoriously fickle donor money, cannot be the sole source. The aim, at least for PDOs with a strong financial services program, should be to reach a point where funds can be generated internally from the program's operations, and externally from investors seeking an attractive opportunity to make a profit and support worthy social aims.

The funding potentially available to PDOs can, in fact, be looked at as a continuum of sources with at least three levels. Each level has its own characteristics and inherent advantages and disadvantages. This continuum is outlined in *Table 13. — Levels of Financing Available* on page 154. Because each level represents a greater level of complexity, both in the type of fundraising required to secure the funds, and in their management, a wise PDO extracts as much as possible from each lower level before moving to the next, and overlaps them as well. It should also be underscored that there are few examples of institutions that have reached a point where they are utilizing only Level Three resources. Nor should there be many. If a PDO can meet its expansion needs and continue growing without bringing in outside investors, it should do so.

What steps must a PDO take if it is interested in acquiring funds from the higher levels? There are several:

1. Shift from thinking only in grant-seeking terms to those that include concepts of meeting market demands, potential profitability, and securing loans and investments. Where the Sustainability Stage institution confronts the demands of achieving breakeven, the Expansion Stage institution must begin to think about achieving a profit that will attract investors from the local economy as well as from the community of socially-oriented investors. This means it must seriously confront the type of issues outlined in *Sample 11* on page 136.

2. If Level Two resources are sought, it is important to understand that the debt instruments included here actually cover a broad range, and that these too fall along a continuum, with the softest loans represented by the left hand of the continuum, and the hardest represented by the right.[25] The softest are grant-like in quality and are best represented by the Special Projects investments of the InterAmerican Bank. They are characterized by strong social purpose, and carry terms that are not expected to cover the costs of the funds, or generate income for the provider. The hardest are represented by commercial bank loans at market rates

Types of Debt Instruments

Soft ←——→	Hard
• social purpose	• business purpose
• grant-like	• commercial loans

[25] This section is based on the SEEP report, **Local and International Financial Mechanisms for Poverty Lending**, (March, 1992) and is drawn largely from remarks made by Douglas Salloum of the Calmeadow Foundation.

Table 13. — Levels of Financing Available

LEVELS OF FINANCE AVAILABLE FOR MICROENTERPRISE PROGRAMS		
		LEVEL 3: Equity investments; financial formalization and capitalization; ultimately able to grow from own resources
	LEVEL 2: Soft and commercial loans leveraged via the use of guarantees; line of credit; savings	
LEVEL 1: Grants		
ADVANTAGES: • no cost • do not have to be returned • available to new programs with strong social and economic potential • demonstrated social impact can generate more support • forgiving of program delays, errors in early implementation	ADVANTAGES: • locally available resources • larger sums • long-term arrangements possible • organization may "borrow" from savers at a cost less than other external loans	ADVANTAGES • local and external availability of large sums • some social investors willing to take risks • potential to achieve sufficient capital level to produce future growth from own resources
DISADVANTAGES: • limited amounts • funding often available for small number of years • mature programs required to invest greater energy in attracting new donors	DISADVANTAGES: • funds carry financial cost: risks and costs vary with type of loan • heavy collateral requirements at least initially • early negotiations difficult, require new skills, well-placed contacts • initial agreements may be less favorable to program	DISADVANTAGES: • must demonstrate potential to make profit • financial cost of funds approaches market rate • requires strong financial management skills • may dilute social aims of organization

NB This table was developed based on an interview with Mary Coyle and Douglas Salloum of the Calmeadow Foundation in May of 1992.

of interest. In between, at differing places along the continuum are foundation program-related investments, and those of social investors such as the Calvert Fund. As one SEEP agency representative has indicated, "when you talk to a lender, you talk about risk and return," and return can be either social or financial, or a combination of the two. To gain that return, each lender is willing to take on a different amount of risk, and to charge the borrower accordingly.

A further way to characterize debt instruments is to look at them in terms of a range of features that describe their source, purpose, structure, and requirements. Each set of choices that a lender makes regarding these features has implications for SED institutions that are potential borrowers. Clearly, it is in the interest of PDOs to carefully assess and compare potential investments along these lines to assure that an appropriate match is made between the requirements of the lenders and the potential of the program to manage the terms.

Characteristics of Debt Instruments

- source
- currency
- purpose
- type of instrument
- risk ranking
- interest rate
- frequency of payment
- repayment term and structure
- requirement for security
- barriers

Once an organization understands the field of debt financing and localizes potential sources of support, it must go about the task of garnering the loan or investment. An essential element in that process is the creation of a solid proposal that can be analyzed by the prospective lender, and defended by the organization. Such a proposal must contain a series of items that enable a lender to assess the credit-worthiness of the program as he would for businesses or individuals. In this sense, the proposal must enable the lender to review the five "C's" of credit as follows:

- **Capital:** forecast financial statements which demonstrate the financial strength of the organization, provide a framework for the lender's analysis, enable key variables to be tested, and show funding requirements
- **Chronology:** a description of the institution and program that provides a history of its development, and highlights the monitoring systems used
- **Character:** an indication of who management is, and who are the institution's supporters
- **Capacity:** a demonstration of the demand for the service; the pricing structure; a risk summary that indicates the range of risks the institution faces and identifies the risk mitigation procedures that will be in place against this risk; and a definition and defense of the assumptions that have been made in developing the proposal
- **Collateral:** the PDO must be prepared to offer some form of assurance or material guarantee that will give the lender confidence that the funds will not be lost.

The experience of ACCION partners in Latin America suggests that this collateral will have to be substantial in the early stages of a relationship. Banks initially sought 95 to 100 percent guarantees that the money would be paid if the local PDO defaulted. As PDOs gain experience, confidence has grown and many banks have reduced this requirement. By 1991, ACTUAR Bogota's banks required guarantees of only 33 to 50 percent of the potential loss. And ADMIC in Mexico has been able to generate $1.5 million on a guarantee of only $200,000. ACCION partners have been supported in their quest for these funds by Board Members who have opened the door to banks, and provided personal guarantees that the initial loans would be repaid. In addition, ACCION has developed the Bridge Fund, a guarantee mechanism that has broken down the barriers between commercial banks and nonprofit operations (Drake and Otero 1992).

Other Northern PDOs have provided similar support to their Southern partners. It is clear that PDOs seeking these resources need to develop the means to provide the collateral required.

3. During the process of developing the analysis, the PDO must also develop supporters of the concept. For credit unions involved in designing a central finance facility, the execution of the feasibility study is accompanied by an educational program with the member credit unions to inform and develop a consensus supporting the idea. Following the prefeasibility study of BancoSol, PRODEM developed a support group composed of in-country and external people who could assist in thinking through the issues associated with the bank's formation, as well as serve as gatekeepers to the funders most likely to be interested in the idea.

4. Finally, focus on securing the initial or lead investments that can attract larger suppliers of capital. Some of this lead capital may be generated by the partners to a venture. The members of the Asociación de Grupos Solidarios, for example, contributed $3,400 to capitalize their cooperative, which then allowed it to mobilize external credit lines that resulted in a more than a 300% increase. BancoSol was initially supported with lead investments from Board Members and from partners like the Calmeadow Foundation. This early support gave confidence to the InterAmerican Investment Corporation, among others, who subsequently came forward with larger sums.

The Role of Savings in the Expansion Stage

Many microenterprise credit programs require clients to save, but given government regulations aimed at protecting savers from unwarranted risk, few have been able to tap these savings to amplify loan funds. Exceptions include credit unions, poverty-oriented banks such as Grameen, and village banking programs that have developed a system to support the mobilization and lending of savings at the village, but not at the program level.

Other programs have required clients to save, usually in local banks, to develop a reserve against calamities that could lead to default, and to build their own financial nest egg. In some instances, the existence of these savings have made commercial banks more disposed to lending to the microenterprise program, and to reducing the interest rate charged for these funds, but this has been an indirect way to provide programs with the funds required for lending.

One of the principal reasons to develop a formal financial institution is to create a mechanism that can protect these client savings and place them at the service of both the program and the savers themselves. For the savers, it can provide:

- a secure place to save;
- additional money for productive loans;
- possibly loans for other high priority purposes, such as low cost housing; and
- lower cost loans: the micro-lending institution will reduce its overall cost of money; interest rates paid to savers may be less than that paid to external suppliers of capital.

For the microenterprise institution, savings can offer:

- an enlarged lending portfolio to serve a larger number of clients;
- increased income that can help sustain the institution financially; and
- a lower cost source of funds.

Savings may also serve as a stimulus to efficiency. Credit programs with voluntary savings programs are often more efficient than those without. The reason is that these voluntary programs operate as a form of competition to the credit component. If interest rates are too high or loan terms too restrictive, businesses will fund their capital needs out of savings instead of credit.

Expansion-minded PDOs need to carefully consider how the question of savings is to be addressed in their expansion strategy. There are two important points to remember. First, savings do not substitute for the start-up cost needed for expansion. Once these investment funds are in place and the appropriate mechanism established, then savings can be used to fuel loan portfolios. Second, savings mobilization and protection require detailed study and analysis.[28]

Resource Mobilization and Management for Technical Assistance and Training Programs

While these types of analysis are particularly germane to financial services programs, managers of other types of enterprise development programs are equally challenged. PDOs that offer training, management and technical assistance services will continue to require infusions of donor funds, but as programs grow this will imply developing a diversification strategy that builds upon a mix of internally and externally generated funds. While cost recovery has been the keystone of these efforts, a second possible strategy to pursue is the development of **endowments** that can provide regular income to cover core costs.

[28] Please see Maria Otero, **A Handful of Rice: Savings Mobilization by Micro-Enterprise Programs and Perspectives for the Future** (Cambridge: ACCION, 1989). This is annotated on page 289.

An endowment is a body of long-term assets (principal or capital) held by a development institution. The capital is invested and the interest provided to the institution to cover operating and program costs. The principal cannot be invaded by the institution, nor diverted for purposes contrary to those established when the endowment was initiated. Normally, the endowment is intended to be irrevocable. One example of this approach is demonstrated by the National Development Foundation of Jamaica, which has developed such a fund to cover the portion of their training expenses not covered by user fees. In 1990, this fund provided NDF/J over $75,000 in income, which covered 69 percent of their training expenses.

For PDOs, the challenge has always been to find sources of support to fund the endowment. The shortcoming of most donor funds has been their limitation to immediate project activity. Nevertheless expansion-minded PDOs need to find ways to build support for this type of financing. One of the more innovative processes for doing this has been that established by the Fundación para la Educación Superior (FES) in Colombia. Participating PDOs deposit grant funds that are not needed for immediate operations with FES , who in turn invests them in various instruments and uses the return to build each institution's own endowment. The grant funds are returned for implementation expenditures as the PDO requires. This process has been supported by a number of donors who have transferred resources to the PDOs in advance of need (i.e., one or several years of funding at a time), and have permitted the PDOs to generate interest with the monies. It is the kind of role that an apex institution could certainly consider appropriate in terms of its mission to support the expansion of its member programs.

The Challenges of Partnership in the Expansion Stage

While expansion places severe demands on implementing PDOs, it also offers new and difficult challenges to the Northern partners who seek to support them. At earlier stages, assistance is required in developing effective methodologies, raising grant funds, and organizing systems and structures to support growing and sustainable programs. At this stage, Northern PDOs are called upon to:

- cultivate new funding sources in the social investment community, as well as among bilateral and multilateral funders;
- help leverage funds from these and commercial sources by developing new mechanisms, such as guarantee funds and endowments;
- find and fund the technical resources that can help an organization develop the feasibility analyses and plans required for organizational transformation; and
- develop funding that can serve as equity investments in new financial institutions, and serve as an incentive to larger investors.

Northern PDOs, seeking to meet these demands, face many of the same wrenching questions that their Southern partners do. Included among them are the following:

- Do we have the capacity to help partners through this transformation?
- If not, should we seek to develop into the type of organization that can support this transformation, or should we guide our partners to others more experienced?

- If we choose to continue working with our partner, what changes do we have to go through to support their expansion?

Several SEEP member agencies have begun to address these challenges by developing new funding relationships and mechanisms. ACCION International, for example, created the Bridge Fund in 1984, a guarantee mechanism that allows the organization's affiliates to borrow from the commercial banking sector based on guarantees issued in favor of local banks. The fund currently has assets of $5 million, generated through loans and donations from foundations, individuals and churches. Bridge Fund loans remain in the United States, but are used as collateral to back loans to affiliates. The guarantees are in the form of irrevocable standby letters of credit issued in favor of local banks in Latin America. Each letter of credit guarantees from 20 to 100 percent of the loan extended to the affiliate, and all together the Bridge Fund guarantees a total of $10 million (Drake and Otero 1992, page 74). Other organizations have provided funds locally to serve as guarantees with Southern commercial banks. In any of these instances, the PDO is forced to address the technical issues outlined in the box below.

Checklist 12. — Guarantee Fund Technical Issues

Guarantee funds must be managed in four areas: marketing, investment, placement, and monitoring. Organizations interested in establishing such a fund must address the following technical considerations:

- ❒ target market: who are the recipients of the guarantees?
- ❒ cost structure: will the affiliates be charged a fee or will it be a free service of the partner?
- ❒ mechanism: a letter of credit, or a deposit in a local bank?
- ❒ leverage potential of the guarantee; percentage of loan covered; does it cover the first loss?
- ❒ eligibility criteria for recipients of the guarantees (minimum specified indicators of financial condition and performance, such as loan portfolio quality, level of capitalization, viability standards, and liquidity)
- ❒ ability to take or hedge against currency exchange risk if funds are to be placed directly
- ❒ identification of financial institutions, both domestically and abroad, that might collaborate in the fund
- ❒ establishment and maintenance of an adequate loan loss reserve
- ❒ credit methodology utilized under the guarantee scheme to ensure prompt and high recovery rates
- ❒ policy and procedures regarding losses to the fund
- ❒ management information and tracking requirements
- ❒ ability to safely manage the funds provided by the lenders
- ❒ legal considerations, particularly with respect to borrowing from the public

(Drake in SEEP, 1991)

LINKAGES

Just as the PDO's role in financial management increases in complexity from stage to stage, so does its relationship with outside institutions.

- In the Development Stage, the PDO focused on establishing linkages with its potential clients, and often a supporting Northern organization.
- In the Sustainability Stage, the PDO was ready to clarify its own niche as a development organization and craft a series of relationships with peer organizations to serve its own needs and those of its clients.
- In the Expansion Stage, the playing field of organizations needs to be examined once again. The niche found by the Sustainable organization may no longer suit it. A very large PDO may have outgrown peers in its network who no longer work on the same issues. This is especially true if the choice has been made to create a profit-oriented financial institution. At the same time, the PDO's development goals may make it different from other financial institutions, and therefore these can never be peers in the same way that other PDOs were.

Earlier sections of this chapter described how changing roles force the institution to reexamine relationships with peer organizations, donors and national government bodies. Depending upon the expansion strategy chosen, links to the formal financial system may be developed or strengthened. There remains another linkage task facing the Expansion Stage organization, described below.

E-8 Establish and Implement a Policy Formation Strategy

It can be frustrating for nonprofit organizations to see the dimensions of a problem and have neither the resources nor the clout to make a significant attack upon it. This frustration is what motivates the Expansion Stage institution to grow its program, and to raise the funds to reach larger numbers of people in need. It is the same frustration that impels it to look to the political arena and identify policy blockages that directly limit clients' ability to succeed, and sometimes its own capacity to serve them. From a more positive perspective, the expansion-oriented institution may see that its increased size and success provides it with the opportunity to be proactive in influencing government policy for the betterment of the sector as a whole.

Such motivations have impelled organizations to take on actions that range from limited issue-specific interventions, to strategies that become substantial elements of their organizational profile. Examples include:

- an apex institution lobbying for inclusion of certain microenterprise program categories in government plans, thereby unleashing resources for member programs;
- a PDO intervening on behalf of its market vendor clients when a government order is announced to clear them from certain market areas;

- another PDO producing a newsletter on informal sector issues for legislators and government officials to raise their awareness of the ways in which law and regulation affect upon microbusiness.

The following mini-cases provide other examples of the ways PDOs have approached the issue of policy reform and advocacy. In each case, the institution has defined an explicit strategy and has committed significant resources to its execution.

CASE ONE — The World Council of Credit Unions (WOCCU) has a program to address the *safety* and *soundness* of members' savings. Safety and soundness is designed to create an enabling legislative and regulatory environment and improved internal controls. Financial stability relies on savings and credit unions who must have the confidence of their members that savings will not be lost. This requires attention to both internal and external control mechanisms. Internal controls are the sound policies and systems to protect members' savings that are implemented through institutional development. External controls come through legislation and policies promulgated by national regulatory bodies. As a part of its systematic approach to credit union development, WOCCU seeks to assist national regulatory agencies to develop appropriate structures and mechanisms to effectively protect members' savings.

WOCCU has initiated systematic and direct policy dialogue with the public sector in selected regions and countries to strengthen the safety and soundness of credit unions by improving the legal and regulatory control systems under which credit unions operate. To provide credit union regulators and member movements with the technical tools necessary for effective financial system reform and development, WOCCU is producing (a) comparative legislation models, (b) regulatory examination systems, and (c) standardized measures for rating financial safety and soundness.

To upgrade regulatory practices, WOCCU has solicited and obtained assistance from the National Credit Union Administration (NCUA), a U.S. Agency with regulatory authority. NCUA has provided technical assistance and has participated in regulatory assessments in Bolivia, Honduras and Guatemala.

WOCCU also recognized the importance of having regulators from the developing world involved and talking among themselves, as well as meeting with regulators from the developed world. WOCCU organized and brought together 53 regulatory authorities from 36 countries and six state/provincial governments for an international dialogue on credit union legislation and regulation. It produced a regulatory directory and comparison document and stimulated a variety of follow-up activities.

CASE TWO — Self-Employed Women's Association (SEWA) in India grew out of the Women's Wing of the Textile Labor Association of Ahmedabad. It maintains both trade union and development agendas focusing on right to work, fair wages, better working conditions, legal protection, social security and welfare measures. In rural areas it emphasizes creating additional employment opportunities and alternative economic structures such as cooperatives. SEWA sponsors 24 cooperatives composed of a variety of small-scale producers, vendors, and service providers. It assists each cooperative to develop financial and managerial self-sufficiency and has formed a co-op bank to provide working capital loans to co-op members.

Of the 40,000 members of SEWA, more than one-third are home-based producers, working on a piece-rate basis on jobs that are farmed out by manufacturers. When they began to unionize around fair piece-work rates, they were threatened and employers stopped giving them work. When they turned to the Labor Department for assistance they were informed that they were not officially recognized as workers, the manufacturers who farmed out the piece-work were not officially employers, and the minimum wage laws did not apply to them. The home-based workers were invisible and powerless.

SEWA formally brought some 100 cases of home-based workers before the Labor Department in Gujarat State and eventually got a fixed minimum wage for piece-workers. In order to present their cases, SEWA mobilized the assistance of lawyers, researchers and economists. Further, SEWA lobbied for a National Commission on the Self-Employed to give visibility and legitimacy to home-based workers. This idea met with resistance until the Prime Minister was invited to attend the All-India Conference of Hawkers and Vendors. At the conference he announced the formation of the National Commission on Self-Employed Women, and Women in the Informal Sector. The Commission eventually recommended that the government actively help initiate and maintain a network of grassroots organizations like village-level women's groups.

SEWA took its advocacy and lobbying efforts to an international level, through the International Confederation of Free Trade Unions, by getting them to endorse a resolution on the recognition and protection of home-based workers. This international recognition strengthened SEWA's position with the Labor Department, and SEWA developed model legislation called the Home-Based Worker's Employment Protection Rights Bill, which it lobbied to have introduced in Parliament.

While there is some debate as to whether a policy role is a necessary component of the stage, it is safe to say that a PDO needs to explicitly consider the option within the frame of its vision and goals, opportunities and constraints. Use *Checklist 13. — Policy Formation* to assist with making this determination.

Checklist 13. — Policy Formation

Before making a decision to become involved in policy formation, advocacy or lobbying activities, there area number of issues which require data collection and examination in order to make informed decisions. This series of issues can be roughly divided into **external factors**, what needs to be known about the general policy environment, and **internal factors**, what the agency needs to know about itself.

External Factors

- ❒ What are the existing laws, regulatory policies and common practices that govern credit, the informal sector, microenterprise programming?
- ❒ What are the important issues regarding legislation and policy as articulated by the community of organizations working in microenterprise activities? Are there issues that need to be addressed but are not yet articulated?
- ❒ What are the government and non-governmental agencies that control the laws and policies affecting microenterprise activities? Who are the influential people and who are the decisionmakers within those agencies?
- ❒ Of the variety of issues to be dealt with, which are of vital importance to the microenterprise community as a whole? Which are vital to the organizations' programs and ability to become self-sufficient? Which issues are time-defined and require immediate attention for social, political or economic reasons?

Internal Factors

- ❒ Does the organization's vision and mission lend itself to policy and advocacy-type work, or are there conflicts? How can the conflicts be resolved?
- ❒ Does the organization have the capacity to address and affect policy? Does it have the personnel, including staff with appropriate experience and Board members with appropriate contacts? Can these activities be taken on without negatively affecting its on-going programs by diverting staff time and money?
- ❒ Are the policy issues of significant importance to the agency to warrant allocation of resources?
- ❒ Can the organization generate financial support for these activities from its current donors, or are there potential future donors willing to support these types of activities?

POST SCRIPT

With the discussion of Linkages in the Expansion Stage, we have come to the end of the institutional development tasks that face enterprise development organizations in their process of becoming effective, sustainable, and "impact-ful" in the work that they do. Some critiques of the model used in this book note that it stops at expansion, but that a process-oriented model should assume that there is more to life than three linear stages. Other models have posited birth, growth and death as a more likely description of the way organizations behave. For us, it is clear that there is so much work that has yet to be done in creating and supporting the development of PDOs to reach the Expansion Stage that the future beyond it seems just a little too theoretical.

What is certain is that so long as the need exists to support economic development activities on behalf of the poor, PDOs will be there creating new approaches, testing them, and moving them forward to assist ever increasing numbers of people. These approaches may involve finding ways to create substantive, rather than incremental income for clients; generating models that work in dispersed, rural areas; and developing new economic ideas with the chance of creating real wealth.

Whatever the path, organizations will find themselves confronting the same tasks of Development, Sustainability and Expansion, and it is hoped that for them, this book continues to serve as a useful guidebook along the way.

PART II

RESOURCES

TOOLS

GLOSSARY OF KEY FINANCIAL TERMS

TABLE OF FINANCIAL FORMULAS

RECOMMENDED MANUALS, GUIDEBOOKS AND MONOGRAPHS

BIBLIOGRAPHY

LIST OF TOOLS

1. Affiliate Agreement and Affiliate Agreement Monitoring Checklist
2. Board of Directors Development Matrix
3. Board of Directors Sources of Information
4. Borrower Records
5. Credit Program Financial Reporting System
6. Critical Incidents in Defining Small Enterprise Development Project Goals
7. Guidelines for Loan Policies and Procedures for Small Enterprise Development
8. Job Descriptions and Task Analysis for Small Enterprise Development-Related Positions
9. Personnel Evaluation Instrument
10. Program Director Selection Process Checklist
11. Sustainability Strategy Planning and Design

AFFILIATE AGREEMENT AND AFFILIATE AGREEMENT MONITORING CHECKLIST

DEFINITION:

This tool provides guidelines for private development organizations to define effective written terms of reference for the creation of linkages between themselves. It is designed to define the relationships between a Northern organization and its Southern partners and it can also be used by Southern organizations that wish to create affiliates that are owned and run by the local communities in which they are located.

SOURCE: Opportunities Industrialization Centers International

The agreement defines the terms of reference for the relationship between OIC International and its independent, locally-managed affiliates in Africa, Asia, Central America and Europe. The checklists are designed to assist OICI in monitoring affiliate compliance with both the defined terms and spirit of the agreement.

THE TOOL:

The purpose of the written agreement is to define in writing the spirit, intent and formal agreement two PDOs have reached to work together to achieve common goals and objectives. Before signing the agreement, both PDOs have already agreed upon sharing common principles, philosophies and missions.

The two checklists provide guidelines for PDOs to monitor one another to ensure compliance with the spirit and letter of the agreement. The intent of the checklists is positive. They are used to validate compliance as well as to identify areas of institutional development need an apex PDO may wish to address on behalf of an affiliate through management and technical assistance.

The agreement is similar to those used by private, for-profit corporations in franchise relationships. A franchisor is someone with an idea and profitable business formula who either wishes to sell to or is sought after by others who want to duplicate the formula elsewhere. Both franchisor and these others, known as franchisees, agree to be wholly owned and independent of one another. However, each agrees to assist and be served by one another. Franchisees agree to conform to minimum standards of product or service quality, logos, business premises, raw material specifications, etc. Franchisors agree to provide services of collective benefit to all franchisees in areas such as advertising. All parties thereby profit more than if each were to operate totally on its own.

As in franchising, the agreement best suits PDOs who wish to formally collaborate and adopt one another's goals, missions and principles. In most cases, the franchisor would be the apex PDO, usually located in a northern country, and the franchisee would be the southern, developing country affiliate.

The PDO parties to the agreement remain self-governing and independent of one another, necessarily conforming to the legal standards and terms of the countries in which affiliates are located. This tool is not useful for PDOs who create branches or field operations that are wholly owned by the apex PDO.

HOW THE TOOL WORKS:

There are several preliminary steps in the institutional development process before signatures to an affiliate agreement are formally made. These steps include:

1. Local interest group formation:

The first step in affiliation is creation of a local interest group from a cross section of prominent government, community and private sector individuals. Some of the individuals in the group would have the potential of becoming board members once the local PDO is formally created.

The group may then wish to affiliate with an apex PDO. This could be an international PDO that the local interest group identifies as having a mission, principles, goals, objectives and activities similar to its own.

2. Prefeasibility and feasibility studies:

The international PDO conducts a prefeasibility study to verify the local community interest, effort and resource potential to create an affiliated PDO. Depending on the results of this prefeasibility study, a full feasibility study and funding proposal is developed. The study/proposal identifies a project that is consistent with the interests, goals and aspirations of both the interest group and the international PDO.

At the same time, the local interest group should already have completed the steps necessary to create its own local PDO. This would be a nonprofit PDO, formed and registered with the host government. The local PDO would be supported by a combination of resources, including those from one or more donor agencies, the host government, and local community contributions.

3. Achieving formal affiliate status:

Once the local affiliate becomes registered and licensed, an affiliate agreement is signed by the Board chairpersons and/or chief executive officers of the two respective organizations. As summarized below, the agreement spells out the rights and responsibilities the two parties have with one another in terms of mutual interdependence:

a. *Adoption of philosophy and principles of service.*

b. *Minimum standards* such as number and composition of board membership; adoption and integration of international PDO logo; adoption of international

PDO Board, management and operational practices and documents; commitment to share information with the apex as well as other affiliated PDOs, among others.

c. *Acceptance to cooperate and participate with the international PDO* in the conduct of independent evaluations, audits, and provision of on-site technical assistance.

d. *Provisions for corrective measures and penalties in the event of noncompliance; rights of agreement termination.*

4. Monitoring compliance with the spirit and terms of the affiliate agreement:

In the spirit of positive, mutual support and assistance, the checklists are designed to monitor affiliate compliance with agreement terms and standards, and are used to identify institutional development needs. They help create written plans of work and technical assistance to be performed on behalf of affiliates by the international apex PDO.

It would neither be practical nor feasible for all affiliates to be in 100 percent compliance with affiliate agreement terms. The person who conducts the monitoring exercise and fills in the checklists would have to look at compliance in terms of overall community impact, number and quality of outputs, and ability to mobilize resources. Not all questions would be relevant or practical given local circumstances and conditions.

The two checklists focus on two broad areas of standards; one for the Board of Directors and the other for operations.

a. *Board standards:* This checklist identifies affiliate strengths and weaknesses in such areas such as agreement compliance with Board membership number and community representation; creation and use of critical documents; number of meetings and whether minutes were prepared; Board policies and procedures with respect to management supervision; whether Board committees exist and are actively operating; whether elections for officers are regularly held.

b. *Operating standards:* This checklist identifies affiliate strengths and weaknesses in actual management and program service delivery. Among others, areas covered include program director ability and qualifications; program reports and recordkeeping; personnel administration; financial accounting systems; physical facilities such as buildings, equipment and vehicles; planning and affiliate self-assessment; delivery of program services; and community relations.

CASE EXAMPLE:

OIC Ghana (OICG) provides one of the best examples of an affiliate which has substantially benefitted from complying with the terms and conditions of its affiliate agreement with OICI. Begun in 1970, OICG is one of the oldest OIC affiliates to have been created internationally. Its 22-plus years of sustainability and expansion to three other regions of Ghana testifies to the effectiveness of both the affiliate relationship with OICI, and compliance with the terms of their affiliate agreement. However, where OICG has not complied with affiliate agreement terms relevant to resource mobilization, lack of sufficient resources has resulted.

Following are the areas of strength and weakness in which OICG has either succeeded or been held back, depending on the degree to which it has complied with affiliate agreement terms and conditions.

1. **Strengths in affiliate agreement compliance:**

   The longevity and growth of OICG prove the benefits it has received from affiliation with OICI and compliance with the terms of the affiliate agreement. Specific examples include:

   a. *Adoption of OIC logo and name:* This gives OICG prestige and recognition among the international donor community and host government as an affiliate to a worldwide organization.

   b. *Replication of affiliate standards in expansion:* OICG has created centers in Kumasi, Accra, Takoradi and Tamale. It has succeeded in replicating Board and operational standards at these centers.

   c. *Operational effectiveness:* including an effective national executive director, well-maintained facilities and vehicles, compliance with standard operating procedures and personnel policies, and a high degree of willingness to learn from OICI principles in SED and credit access to expand services to OICG's target beneficiaries.

   d. *Broadly representative Board of Directors:* including members from the host government, private businesses, the clergy, and former trainees.

   e. *Broad base of community support:* including alumni and parent groups who actively support OICG through local fundraising efforts.

2. **Weaknesses in affiliate agreement compliance:**

   One of the few weaknesses OIC Ghana has in complying with affiliate agreement standards is in the area of resource mobilization. OICG Board members and management have found it difficult to pursue and maintain contact with donors and conduct necessary public relations. These weaknesses then suggest areas which the apex PDO, OIC International, should address through increased technical assistance.

OTHER USES:

The checklists can also be self-administered by an organization interested in diagnosing its own strengths and weaknesses in a variety of areas. Institutional development plans can be developed using internal and external resources, as necessary.

Editor's Note: In addition to the OIC International Affiliate Agreement, a sample agreement used by Opportunity International, demonstrating a different approach, is also included. The monitoring checklists have been edited because of space constraints. For complete samples, please contact OIC International, 240 West Tulpehocken Street, Philadelphia, Pennsylvania 19144, USA. Also note that the checklists, as designed by OIC International, provide ample space for comments which we have only shown in the first few examples, again for reasons of space. We suggest, however, that a reviewer's observations and comments are extremely important in an assessment process and recommend that users make sure they incorporate space to do this.

OIC INTERNATIONAL AFFILIATE AGREEMENT

Adopted by the OIC International Board

THIS AGREEMENT is made and entered into this _______ day of _______, 19____, by and between Opportunities Industrialization Centers International, Inc., hereinafter referred to as OICI or OIC International, and the OIC _______________.

BACKGROUND

WHEREAS, OIC International and affiliate OICs have agreed to affiliate for their collective and individual good; and

WHEREAS, OIC International and affiliated OICs have expended great energies, time and effort, and money to develop and have established a standard, unique and uniform system for the establishment and operation of human resource development training centers, identified by the trademark OIC, either singly or in combination with other trademarks or symbols owned by OICI and affiliated locals, and include the OIC key, and phrase "WE HELP OURSELVES" other designs, management information systems, business practices, procedures and policies; and have established public acceptance, demand and good will for OICs operated under the system; and

WHEREAS, Opportunities Industrialization Centers International, Inc., is the sole owner of the name Opportunities Industrialization Center, hereinafter called OIC, and OICI has the exclusive right outside of the continental United States to use said names in connection with the performance of services for the unemployed, the poor and disadvantaged; and

WHEREAS, the affiliate group to be known as OIC _______________ recognizes the advantages of the OIC system and desires upon terms and conditions hereinafter contained, to acquire or retain the right to operate a human resource development training center, to train the unemployed, underemployed and disadvantaged, under the name OIC and to use the OIC system, symbols and trademarks, and to secure the services of OIC International and other affiliated OICs in connection with the operation of the affiliate OIC; and

WHEREAS, OIC International desires, upon the terms and conditions hereinafter contained, to permit the affiliate OIC to operate an OIC Center and use the name OIC.

NOW THEREFORE, with due regard to the facts set forth in the foregoing recitals and in consideration of the mutual covenants and promises hereinafter contained, and for other good and valuable considerations acknowledged by each of them to be satisfactory, the parties hereto intending to be legally bound hereby agree as follows:

I. Affiliate is hereby given the right to use the OIC system and the name OIC, extending beyond any express period, anticipating a relationship dedicated to the services of the disadvantaged until the need for such services no longer exist; provided, however, the grant hereof shall not be construed as transferring any interest in said system or name, except the privilege to use such name or system. Affiliate shall have exclusive use of the name OIC in its assigned area which is the ____________ (country).

(continued on next page)

II. Affiliate recognizes and acknowledges the exclusive right of OICI to grant an OIC license and to grant licenses to others to operate an OIC in unassigned areas provided such licenses are not unduly or unreasonably withheld. Affiliate agrees that it will not infringe upon OICI's privilege and agrees further that it will not join with other OICs or groups to form any organizations using the name OIC and the OIC system heretofore mentioned, except under license from OICI.

III. Affiliate does hereby assign unto the said OIC International all rights, title and interest in and to the said mark "OICI," Opportunities Industrialization Center, together with the good will symbolized by the mark; to hold in trust nevertheless, subject to the terms of this Affiliate Agreement.

INTENT

IV. The intent of this Agreement is to set forth the terms and conditions under which the international organization and its affiliates shall agree to affiliate and operate within the defined purpose of OIC International.

PURPOSE

V. The declared purpose of OIC is to ameliorate poverty through the organization and development of human resource development training centers modeled around the concept of "We Help Ourselves," identified by the trademark "OIC" and symbolized by the OIC key.

TERMS AND CONDITIONS

VI. Following are the terms and conditions under which OIC International and its affiliates shall operate:

A. *OIC International shall:*

1. Permit the exclusive use of the OIC name and trademark by the local affiliate within a prescribed geographical area.
2. Provide the opportunity for representation on the International Board of Directors.
3. Offer affiliates:
   a) Technical assistance in all areas of affiliate effort, including Board and program activities, management and public affairs;
   b) International and regional forums for exchange of information;
   c) Liaison with national and international corporations, United States and host country governments;
   d) Develop model programs and projects;
   e) Provide national public information services, including making available OICI officers for local events;
   f) Develop interest groups to become affiliates in accordance with established procedures.

B. *Local Affiliates shall:*

1. Carry out the purpose of OIC in accordance with OICI Standards subject to such modifications as may be necessitated by local circumstances.
2. Provide training and placement and/or resettlement services in accordance with OICI Standards.

(continued on next page)

3. Use the OIC name and trademark as prescribed by the OICI Standards.
4. Have a Board of Directors vested with the responsibility for governance of the affiliate; organized and operated consistent with the OICI Standards.
5. Submit to OICI a certified copy of the Certificate of Incorporation, Bylaws and subsequent changes or amendments.
6. Employ a Program Director responsible to the local Board for adherence to national policy and providing overall guidance and direction in carrying out the terms and conditions of this Agreement. In every instance, at least three persons will be interviewed by the Board of Directors or the Personnel Committee which may include the Program Advisor. The affiliate Board of Directors will make the final selection decision.
7. Establish where possible the following volunteer Support Groups in accord with OICI Standards:
   - Advisory Council
   - Technical Advisory Committee(s)
   - Alumni Association
   - Others as designated by the Board
8. Operate within a balanced budget approved annually by the local Board of Directors.
9. Seek private support through financial contributions, gifts in kind, and other such means described in the OICI Standards.
10. Submit to the OICI administration an annual financial audit prepared by a reputable firm of independent certified public accountants no later than six months after the end of the fiscal year in accordance with generally accepted accounting principles for nonprofit organizations.
11. Permit OIC International to monitor fiscal, operational and managerial practices of the local affiliate to assure compliance with OICI Standards and Procedures.
12. Establish and maintain a Management Information System (MIS) at the affiliate level in accordance with OICI Standards.

CERTIFICATE OF AFFILIATION

VII. Issuance and renewal of a Certificate of Affiliation will be based on compliance with the terms and conditions of this Agreement.

COMPLIANCE AND PENALTIES

VIII. The affiliate agrees to abide by the decisions and instructions of the OIC International Executive Board Committee and also agrees that strict adherence to Executive Board—determined standards and requirements is mandatory provided that where such decisions and instructions conflict with national directives, such disputes shall be resolved as in the termination clause of this document. OIC International shall appoint an authorized person (i.e., Program Advisor, Evaluation Officer, Operation Officer, auditors) to monitor performance under this Agreement. Such authorized representatives will represent OICI in providing management expertise and technical assistance, but will not be authorized to change

(continued on next page)

any of the terms and conditions of this Agreement. Authorized representatives may attend Board meetings of the affiliate to monitor its activities and/or speak on behalf of OIC International. On request, the affiliate shall prepare and furnish to the OICI administration various reports and allow for the inspection, examination and/or audit of the accounts, books and records by OIC International and its authorized representatives at all reasonable times and permit copies thereof to be made. Noncompliance can result in the withholding of benefits of affiliation as described in the terms and conditions of this Agreement, or in the termination of this Agreement as described below.

AMENDMENT

No section of this Agreement shall be amended by either party without the written consent of both parties.

TERMINATION OF AGREEMENT

All complaints, controversies or claims (hereinafter referred to as a dispute) arising between an affiliate and the OIC International involving questions of interpretation, application or breach of the Agreement, shall in the first instance be taken up between the Executive Director of OICI or his/her representative and the affiliate Board of Directors or its representative. Should they fail to reach an agreement or adjustment, the dispute shall be submitted to the Executive Committee of the International OIC Board on which the affiliate shall be represented. The Executive Committee's final decision may include a period of probation to allow the affiliate time to correct the problem.

This Agreement may be terminated by either party by two-thirds vote of the full membership of their respective Board, but only after following the foregoing procedure.

Upon termination of this Agreement, the affiliate agrees that it will immediately discontinue all operations under the name OIC, the use of tradenames, trademarks, signs and other forms using the name or mark indicating OIC business. OICI shall make or cause such changes at the expense of the affiliate. All further affiliate activities under its charter shall be under a new name, not similar to OIC.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals this______ day of __________ 19 ___.

OIC	______________________	Opportunities Industrialization Centers International, Inc.
By:	______________________ Affiliate Board Chairman	By: ______________________ OICI Chairman of the Board
	______________________ Affiliate Program Director	______________________ OICI Executive Director
Attest:	______________________ Secretary	

MEMORANDUM OF AGREEMENT

Year 1

Between

____

and

OPPORTUNITY INTERNATIONAL
340 W. Butterfield Road, 4B
Elmhurst IL 60126 USA

PREAMBLE

______________________ and Opportunity International have unique visions for ministry because we share mutual concerns and a mutual commitment to serve Jesus Christ. This agreement is therefore an affirmation of our commitment and an agreement to work together as partners in a program consistent with our common concerns.

This agreement follows a successful pilot program completed in __________ (date) between ______________________ and Opportunity International.

The purpose of this agreement is to:

1. Formalize the relationship between our partner organizations;
2. Specify our mutual concerns;
3. Describe the thrust of each partner's ministry;
4. Articulate the extent and areas of responsibility to each other in the stated agreement period;
5. Establish the programmatic and financial goals which each partner organization will strive to meet as its part of this joint effort,
6. Agree to a treatment of income in order to prevent misunderstandings about Opportunity International's financial obligations to ______________________.

RELATIONSHIP

The relationship between ______________________ and Opportunity International will be one of mutual trust, wherein both parties will strive to enhance each other's ministries through a common commitment to our Lord, acknowledging that TOGETHER through Christ we form a team that can be an effective witness to the wider community, thus being partners in the proclamation of God's purpose and Kingdom.

MINISTRY

The ministry of ______________________ through its Board of Trustees, staff and the cooperation of Opportunity International, is to provide financial assistance, consultancy and training to small and microbusiness entrepreneurs who have the right motivation for the effective implementation of viable business expansion and creation plans with high income generation and/or employment generation potential.

(continued on next page)

The ministry of Opportunity International is to assist ______________________ and other organizations like ______________________ in becoming indigenous agencies that can effectively assist the poor by stimulating small business development, working closely with local church networks. To that end Opportunity International provides financial, moral, technical and personnel support where requested. Opportunity International's provision of services and funds is detailed in documents of agreement (such as this document) between Opportunity International and its partner agencies.

Opportunity International's ministry will be accomplished in ______________________ to the extent that ______________________ matures into an effective, far-reaching and spiritually-led agency.

RESPONSIBILITIES

______________________'s Responsibilities

1. Maintain small business development as its primary thrust with other ancillary programs related to its primary thrust.
2. Establish the appropriate personnel, policies and administrative procedures needed to effectively meet its program goals within a mutually agreed upon budget.
3. Coordinate with Opportunity International's Asia Regional Office to meet resource mobilization targets through local and international fundraising programs.
4. Provide Opportunity International/Headquarters and Opportunity International's regional personnel with the programmatic and financial information needed to meet the reporting requirements of Opportunity International's program evaluation, reports to AID, and reports to donors, U.S. tax authorities and auditors.
5. Cooperate with Opportunity International's regional personnel in the evaluation and appraisal of the program during the contract period.
6. Expansion. After existing commitments are met, surplus resources will be committed to start new affiliates. The ______________________ staff/trustees will be involved in the feasibility exercise from inception.
7. Personnel Sharing. The ______________________ will be willing to share personnel with other affiliates and outreaches.
8. Regional Conferences. The ______________________ will cooperate with Opportunity International, Maranatha Trust, and the regional affiliates to organize and conduct periodic Directors' meetings and Regional Conferences.
9. Regional Networking and Autonomy. After achieving autonomy, ______________ will work with Opportunity International, Maranatha Trust, and Regional affiliates in furthering mutual objectives. Excess resources, both financial and human, will be made available to meet the needs of the regional/worldwide affiliates.

(continued on next page)

Opportunity International's Responsibilities

1. Provide regional personnel to assist in strategic planning, systems development, and administrative assistance as requested.
2. Provide funding at specified levels for small business lending, management training, and agency operations.
3. Provide opportunities for communication, exchange of resource materials, and fellowship between ____________________ Opportunity International, and other Opportunity International partner agencies.
4. Provide technical review where required for evaluation of operations and projects through regional personnel and independent evaluators.

PROGRAMMATIC AND FINANCIAL GOALS

____________________'s Goals

1. Attached to this agreement is a program strategy document for the year. That document will detail ______________'s objectives, the rationale for its objectives, the methods that it will use to obtain its objectives, and the quantifiable results that will exist if its objectives are met.
2. Throughout (date), ____________________ will seek to implement a program of small business development that will produce the following results:
   A. US $________ at an exchange rate of __________ to __________ loaned to small businesses. (Includes ____________________ Grant for Head and Branch Office, ____________________ repayments).
   B. (___) small business loans made. (________ Head Office, ________ Branch Office).
   C. ________ training seminars given to entrepreneurs.
   D. An average of (3) visits per year to each loan recipient for management assistance. (Strong projects may be visited less frequently; weak projects may be visited more frequently.)
   E. A minimum of (220) jobs created (or to be created within the life of the loan). This would represent a minimum job creation ratio of one new job (according to ________________ standards) per every US$1000.00 loaned.
   F. Any other goals that ______________ may set for itself (project goals in terms of geography, agriculture vs. industry, type of industry, portfolio diversification, additional loans, experimental programs, etc.) should be included in its annual program strategy.
3. ____________________ staff will assist Opportunity International's Regional Office in mobilizing required funds for the program.
4. In (date), ______________ will carry out a self evaluation in conjunction with Opportunity International's regional personnel in order to determine how well ______________ has met its own goals for the year.

(continued on next page)

Opportunity International's Goals

1. Opportunity International will make available Asia Regional Office personnel in order to provide technical assistance, strategic consulting, and program review services to ________________.

2. Opportunity International will provide US$______ to ____________________ for the following activities:

	Head Office	Branch Office
A. Small Business Loans	(US$)	(US$)
B. Management Training	(US$)*	(US$)
C. Office Operations	(US$)	(US$)

Opportunity International will commit to raise these funds from various sources with the assistance of ____________________________.

*Management training includes the cost of teaching loan recipients how to deal with financial institutions (e.g. applying for loans) and to develop business plans. It also includes the cost of management seminars and on-site consulting visits.

3. Opportunity International will organize and provide financial support for an Asia Regional Executive Directors Meeting and an International conference in (date).

4. Opportunity International will seek to stimulate Opportunity International Board and U.S. businessmen's interest in ____________________________'s activities by encouraging visits to ____________________________ which will be jointly agreed upon and planned.

5. Opportunity International's participation with ____________________________ in (date) is the first of a three-to-four year commitment to __________________ whereby Opportunity International will raise a total of US$_________ for ______________ for loans, training and office expenses contingent on ____________________ program performance.

TREATMENT OF INCOME

Fundraising Income

1. Funds raised by Opportunity International or by Opportunity International's Regional fundraising program up to the amount specified in the Programmatic and Financial Goals section, will count against Opportunity International's financial obligations to ______________________.

2. Funds raised by __________________ without Opportunity International assistance or initiative will be considered supplementary income to __________________ and will not count against Opportunity International's financial obligations. All such________________________ initiative will be coordinated with Opportunity International in a manner that facilitates the utilization of Opportunity International funds for its designated purposes.

(continued on next page)

Service Fee Income

Opportunity International's policy is to count service fee income, generated by __________ loans, as income to ______________________ that counts against Opportunity International's obligations. As such, this policy will be applied to the (date) ________________ /Opportunity International agreement unless otherwise amended.

AFFIRMATION OF PARTNERSHIP AGREEMENT

______________________ and Opportunity International hereby agree to the partnership of spirit and of program as described above. Both organizations will carry out this partnership in a spirit of love, understanding and common commitment to Christ.

In affirming this agreement, we also commit ourselves to long-term partnership and cooperation that will endure beyond the end of the four-year program that we are currently implementing together.

____

Chairman, ______________________ Date

____

Chair, Opportunity International Date

____

Executive Director, ______________________ Date

____

President, Opportunity International Date

OICI AFFILIATE AGREEMENT MONITORING CHECKLIST

OPERATING STANDARDS ASSESSMENT

A. OIC Being Assessed

B. Country Program

C. Executive Director's Name

D. Evaluator's Name ______________________________ Date ______________

INSTRUCTIONS:

This questionnaire has been designed to obtain information and data to find out if the Affiliate is complying with the Affiliate Agreement. The questions are straightforward and can be completed by placing a check mark in the appropriate space. Some inquiries will require you to fill in names and dates. Inquiries made about recorded and/or written data should be visually observed prior to responding to the questionnaire. You will need access to the OIC filing system that is being assessed. If you are not shown proof of existing materials, record them as "no." If questions arise as to whether part of an inquiry is documentable, but not complete, record them as "no."

A. *EXECUTIVE DIRECTOR*

1. Did the Executive Director participate with the Board of Directors in developing and/or modifying policies and procedures of the affiliate's program and services? (present or past Executive Director(s)) ❒ YES ❒ NO

   Comments:

2. Is the Executive Director the only staff member who can employ and/or discharge staff? ❒ YES ❒ NO

   If not, provide the title of the individual who has this responsibility.

   Comments:

3. Does the Executive Director have a good working relationship with the following:

A. Board of Directors	❒ YES	❒ NO
B. Staff	❒ YES	❒ NO
C. Trainees	❒ YES	❒ NO
D. Community	❒ YES	❒ NO

(continued on next page)

4. Has the Executive Director developed and implemented an organizational plan? ❐ YES ❐ NO

   A. If so, are the lines of authority clear? ❐ YES ❐ NO

   B. If so, are the lines of responsibility of the staff clear of subjective interpretation? ❐ YES ❐ NO

   C. If so, has a chart depicting the administrative authority and staff responsibilities been developed and made available to Board and staff? ❐ YES ❐ NO

5. Does the Executive Director hold staff meetings to inform staff about OIC's mission, annual and long-range plans, and current program operations? ❐ YES ❐ NO

   A. If so, what was the date of the last meeting? Mo. ____ Day ____ Year ____

B. *REPORTS, RECORD KEEPING AND MANAGEMENT INFORMATION SYSTEMS*

6. Does the Affiliate maintain a retrievable record keeping system? ❐ YES ❐ NO

   A. If so, in the system are there documents that provide information, needed to measure and evaluate the affiliate's services? ❐ YES ❐ NO

   B. If so, list at least three (3) such documents found in the record keeping system.

      1.______________________________

      2.______________________________

      3.______________________________

7. Does the affiliate have in place a statistical system that provides adequate information for its management decision making? ❐ YES ❐ NO

   A. If so, is it structured for accountability to the community and funding sources? ❐ YES ❐ NO

   B. If so, is it placed within the system to aid decisions in program planning? ❐ YES ❐ NO

8. Do the affiliate's records categorize the persons served with the type of service received? ❐ YES ❐ NO

9. Do the affiliate's records document reports to governmental and private funding sources on a regular basis? ❐ YES ❐ NO

10. Does the affiliate have records documenting those individuals served as having, on a regular basis, the opportunity to discuss and evaluate the program with OIC leaders and staff? ❐ YES ❐ NO

    A. If so, when was the last time? Mo. ____ Day ____ Year ____

(continued on next page)

C. PERSONNEL ADMINISTRATION

11. Does the affiliate's local and/or country government have any present legislation on the books concerned with personnel policies and procedures? ❒ YES ❒ NO
    A. If so, is the affiliate in compliance with the laws? ❒ YES ❒ NO

12. Does the affiliate have a written personnel manual? ❒ YES ❒ NO
    A. If so, was the manual approved by the Board of Directors? ❒ YES ❒ NO
    B. If so, does the manual cover all aspects of personnel policies and procedures governing employees? ❒ YES ❒ NO

13. Does the Board have a written policy for employees and volunteers concerning conflict of interest standards and related policies? ❒ YES ❒ NO

14. Does the affiliate have written job descriptions for each position, including expected job performance, in the table of organization? ❒ YES ❒ NO

15. Does the Board and its personnel committee periodically review staff compensation? ❒ YES ❒ NO
    A. If so, when was the last review? Mo. _____ Day ____ Year ___
    B. If so, does the Executive Director participate in the review? ❒ YES ❒ NO
    C. If so, do designated staff persons also participate? ❒ YES ❒ NO

16. Does the affiliate have a written salary scale and/or guide? ❒ YES ❒ NO
    A. If so, does the guide take into account:
       ❒ 1. Nature of the position
       ❒ 2. Diversity and complexity of duties
       ❒ 3. Amount of responsibility
       ❒ 4. Judgement to be exercised
       ❒ 5. Qualifications required

17. Does the compensation reflect prevailing rates for similar work? ❒ YES ❒ NO
    A. If so, does it reflect any of the following:
       ❒ 1. Local salary patterns
       ❒ 2. Applicable legal requirements
       ❒ 3. Professional standards

18. Has the affiliate made provisions for preservice and in-service training adapted to the needs of the employees and affiliate? ❒ YES ❒ NO

19. Is there a formal written evaluation conducted for each employee at least once a year? ❒ YES ❒ NO

(continued on next page)

20. Is the employee and his/her immediate supervisor included in the evaluation process?
☐ YES ☐ NO

21. Is the employee given the opportunity to read and discuss the written evaluation with the person conducting the evaluation? ☐ YES ☐ NO

   A. Is the employee required to sign the evaluation as to document that they have read it? ☐ YES ☐ NO

22. Does the personnel policy have policies and procedures for terminating employees?
☐ YES ☐ NO

D. *FINANCIAL ACCOUNTING SYSTEMS*

23. Is the planned annual budget balanced, according to Board standards?
☐ YES ☐ NO

24. Does the affiliate utilize a double-entry bookkeeping system? ☐ YES ☐ NO

25. In the preparation of internal and external reports, is an accrual basis for accounting, including depreciation of fixed assets, used? ☐ YES ☐ NO

26. Do the accounting records include a chart(s) of accounts that list the titles of all accounts? ☐ YES ☐ NO

   A. If so, do the entries describe the type(s) of items (revenues, expenses, assets, etc.)?
   ☐ YES ☐ NO

   B. If so, are they recorded for each account and designated by a numerical code for identification? ☐ YES ☐ NO

27. Does the affiliate utilize cash receipts and disbursements journals, a general journal, and a general ledger for recording financial transactions? ☐ YES ☐ NO

28. Does the affiliate's system maintain records to determine the cost of services and programs? ☐ YES ☐ NO

29. Does the affiliate utilize a competitive bidding system for maintenance and/or capital expenses? ☐ YES ☐ NO

   A. If so, is there an analysis made of the value of each bid? ☐ YES ☐ NO

30. Are bank accounts regularly and completely reconciled with the general ledger?
☐ YES ☐ NO

31. Are disbursements, other than petty cash, made by check? ☐ YES ☐ NO

   A. If so, are checks approved by a designated individual? ☐ YES ☐ NO

32. Has the affiliate designated an authorized person(s) to sign checks? ☐ YES ☐ NO

(continued on next page)

A. If so, have limits and amounts been established that may be disbursed without a cosigner? ❒ YES ❒ NO

33. Does the affiliate perform a periodic administrative review to determine if the system is operating properly? ❒ YES ❒ NO

A. If so, when was the last review? Mo. _____ Day ____ Year ___

E. *PLANNING AND SELF-ASSESSMENT*

34. Are services and programs planned and operated within the philosophical boundaries established by the affiliate Board? ❒ YES ❒ NO

A. If so, are they in accordance with the Affiliate Agreement and the standards? ❒ YES ❒ NO

35. Does the affiliate have on file a long-range plan? (Minimum three (3) years) ❒ YES ❒ NO

A. If so, when was it prepared? Mo. _____ Day ____ Year ___

B. If so, have any updates been made? ❒ YES ❒ NO

C. If so, when was the last update? Mo. _____ Day ____ Year ___

36. Are evaluations of the volume and kinds of services and program needs, and other related data used in developing long- and short-range plans? ❒ YES ❒ NO

37. Does the affiliate have in writing planned objectives? ❒ YES ❒ NO

A. If so, are these objectives measurable? ❒ YES ❒ NO

B. If so, are the individual(s) responsible for their achievement identified? ❒ YES ❒ NO

C. If so, are required resources projected? ❒ YES ❒ NO

38. Does the affiliate establish its goals and objectives from the annual plan? ❒ YES ❒ NO

A. If so, are schedules and priorities included? ❒ YES ❒ NO

B. If so, are the above items used in preparing the annual budget? ❒ YES ❒ NO

39. Are semiannual and annual evaluations used to determine if the objectives and/or schedules of the Annual Plan have been accomplished? ❒ YES ❒ NO

Editor's Note: The OIC International checklist also contains sections on Physical Plant, Program Services, and Public Affairs and Community Relations. It is recommended that users generate questions in these areas appropriate to their program models.

OICI AFFILIATE AGREEMENT MONITORING CHECKLIST

BOARD STANDARDS ASSESSMENT

1. Does the Board have in place (written form) bylaws, charter and Articles of Incorporation? ❒ YES ❒ NO

   Comments:

2. Does the Board's membership broadly represent the community served on the basis of:

   A. Race ❒ YES ❒ NO

   B. Religion ❒ YES ❒ NO

   C. Sex ❒ YES ❒ NO

   Comments:

3. Does the Board provide a written and/or published orientation package for new Board members? ❒ YES ❒ NO

   A. If so, does the package include (please check appropriate items):

   ❒ 1. Copy of bylaws

   ❒ 2. Board objectives and policies

   ❒ 3. Affiliate Agreement and standards

   ❒ 4. Specific role and responsibilities of individual

4. Does the Board evaluate long-range goals and objectives? ❒ YES ❒ NO

   Comments:

5. Does the Board evaluate personnel and management policies? ❒ YES ❒ NO

6. How often are these policies evaluated?

   ❒ Every Year ❒ 2 Years ❒ 3 Years ❒ 4 Years ❒ 5 Years

7. Is the board represented by legal counsel? ❒ YES ❒ NO

8. If so, name of attorney

9. Does the board have written guidelines for hiring and/or terminating of an Executive Director? ❒ YES ❒ NO

10. What was the last date the Board evaluated the Executive Director?

    Mo. _____ Day ____ Year ___

(continued on next page)

11. Does the Board have the following written documents in place for submission to OICI: (Check appropriate item)

- ❐ A. Constitution and/or bylaws
- ❐ B. Names and addresses of:
  - ❐ 1. Board members and officers
  - ❐ 2. Legal counsel
  - ❐ 3. Executive Director
  - ❐ 4. Industrial Advisory Council
- ❐ C. Board Meeting Minutes
- ❐ D. Statistical Reports
- ❐ E. Annual Plan
- ❐ F. Long-range Plan ❐ Current
- ❐ G. Annual Financial Audit ❐ Current
- ❐ H. Annual Self-Assessment ❐ Current

12. Does the Board have on file investment policies relating to monies not currently required in each of the funds? ❐ YES ❐ NO

13. Is the Board presently operating under a balanced budget? ❐ YES ❐ NO

14. Does the Board have on file, in Board meeting minutes, documentation of an approved budget? ❐ YES ❐ NO

15. Does the board have written documentation as to fiscal year monitoring of revenues and expenses in relationship to the approved budget? ❐ YES ❐ NO

16. Does the Board have on file an audit of their financial accounts? ❐ YES ❐ NO

17. Does the Board have an in-place procedure for fundraising? ❐ YES ❐ NO

18. What percentage of funds raised are used in fundraising ventures?
❐ 5% ❐ 10% ❐ 15% ❐ 20% ❐ 25% ❐ 30% ❐ 35% or more

19. Are fundraising activities scrutinized by legal counsel before implementation? ❐ YES ❐ NO

20. How many times did the Board meet last calendar year?
❐ 1 ❐ 2 ❐ 3 ❐ 4 ❐ 5 ❐ 6 ❐ 7 ❐ 8 ❐ 9 ❐ 10 or more

21. Do the Board meeting agendas include any of the following:

- ❐ A. Approval of Minutes
- ❐ B. Treasurer's Report
- ❐ C. Executive Director's Report

(continued on next page)

❒ D. Committee Reports

❒ E. Special Reports

❒ F. New Business

22. Does the Board hold annual elections? ❒ YES ❒ NO

23. What standing committees has the Board developed?

❒ A. Executive

❒ B. Budget & Finance

❒ C. Fundraising

❒ D. Program

❒ E. Nominating

❒ F. Personnel

❒ G. Public Affairs

❒ H. Planning

24. Does the Board committee on budget and finance monitor any of the following:

A. Financial accounting system? ❒ YES ❒ NO

B. Financial accounting system design? ❒ YES ❒ NO

C. Implementation of financial policies in a timely and on-going fashion? ❒ YES ❒ NO

D. Supervise the preparation of the annual budget? ❒ YES ❒ NO

E. Supervise revenues and expenses on a monthly basis? ❒ YES ❒ NO

F. Recommend Board action regarding budget revisions? ❒ YES ❒ NO

G. Review and recommend short and long-term financial efforts? ❒ YES ❒ NO

25. Does the Board committee for fundraising monitor and report any of the following:

A. Prepare annual fundraising plans? ❒ YES ❒ NO

B. Acquire assistance from support groups? ❒ YES ❒ NO

C. Acquire assistance from the Executive Director? ❒ YES ❒ NO

D. Present budgeted review needs for Board approval? ❒ YES ❒ NO

E. Coordinate fundraising activities with support groups, Executive Director and staff? ❒ YES ❒ NO

F. Monitor revenues and expenses of approved fundraising plans? ❒ YES ❒ NO

G. Review and recommend Board action on fundraising activities not included in fund raising plans? ❒ YES ❒ NO

(continued on next page)

26. Does the Board committee for Program do any of the following:

A. Assist in establishing program policy? ❐ YES ❐ NO

B. Assess and monitor program activities? ❐ YES ❐ NO

C. Act as a resource for program development? ❐ YES ❐ NO

D. Provide program information to Board and committees? ❐ YES ❐ NO

E. Assist in developing cooperation between public and private organizations to improve program activities? ❐ YES ❐ NO

27. Does the Nominating Committee assess the Board composition needs competently and prudently? ❐ YES ❐ NO

28. Has the Nominating Committee, present and/or past, developed a basic criteria for Board membership in writing? ❐ YES ❐ NO

A. If so, when was it developed? Mo. _____ Day ____ Year ___

29. Does the Personnel Committee annually review and make recommendations for revisions in the personnel policies and salary scales to the joint Board of Directors? ❐ YES ❐ NO

A. If so, when was the last time this was done? Mo. _____ Day ____ Year ___

30. Does the Public Affairs Committee develop a written public affairs plan, including media utilization? ❐ YES ❐ NO

A. If so, when was the last one developed? Mo. _____ Day ____ Year ___

B. If so, are staff members included in this creation? ❐ YES ❐ NO

31. Does the Planning Committee periodically and formally evaluate the affiliate's policies and goals? ❐ YES ❐ NO

If so, when was the last time it was done? Mo. _____ Day ____ Year ___

32. Does the Planning Committee periodically and formally evaluate how the affiliates resources are developed and used? ❐ YES ❐ NO

A. If so, is there any written documentation as to how their evaluation was conducted? ❐ YES ❐ NO

B. If so, when was the last evaluation completed? Mo. _____ Day ____ Year ____

BOARD OF DIRECTORS DEVELOPMENT MATRIX

DEFINITION:

This tool is used by Board members of PDOs to evaluate overall maturity, strengths and weaknesses of the Board.

SOURCE: Pan American Development Foundation (PADF)

The Board of Directors Development Matrix was adapted by PADF from a variety of evaluation tools and PADF's own experience working with PDO Boards.

THE TOOL:

The Board of Directors Development Matrix is a questionnaire filled out by individual Board members.

HOW THE TOOL WORKS:

The tool is used to identify areas of Board strength and weakness as a basis for Board-strengthening strategies. The tool is a self-evaluation instrument, therefore the problem definition results represent the felt needs of beneficiaries. The participatory nature of the tool results in ready acceptance of the conclusions. Areas of consensus are easily identified, allowing the participants to focus on areas of disagreement and remedial action.

In a typical application, the Board of Directors Development Matrix is used according to the following steps.

Step 1 A brief orientation is given to the Board regarding the purpose of the exercise, emphasizing that individual responses are confidential, and that the evaluation is a self-evaluation. The Board is asked to agree to participate as a group in the exercise at a future date.

Step 2 At the agreed time and place the questionnaire is filled out individually and confidentially by the Board participants. The results are tabulated and presented to the group along with observations of the facilitator regarding points of consensus and divergence.

Step 3 Focusing on items receiving a wide range of responses, the facilitator invites participants to explain why they responded as they did. The objective here is to explore the rationale for individual opinion, not to achieve agreement or build consensus.

Step 4 Once all views are heard, the facilitator asks the participants to write on a piece of paper the numbers of the ten items each feels are the most important to deal with from the viewpoint of Board strengthening. This process is done individually.

Step 5 The results are tabulated and serve as a priority list of problems to be addressed by the Board.

Step 6 An action plan is developed to address priority problems. At this stage of the process, PADF uses a variety of additional tools and methods depending on the nature of the problem, the personality of the group, and the level of effort individual participants are willing to commit. Additional actions may range from the formation of a special committee, training, technical analysis, by-law modifications and specific assistance in fundraising, to leadership development, strategic planning, membership expansion, financial control, and administrative procedures.

CASE EXAMPLE:

The Board of Directors Development Matrix has been used by PADF in three Latin American PDOs. Organizations have been concerned about the confidentiality of the results because they feel that their own negative comments about their organizations could be used adversely by funding sources. The following case descriptions provide an overview of the instrument's impact:

Case 1

The Board of Directors was largely inactive. Regular meetings often lacked quorums and excessive reliance was placed on the Executive Director. In filling out the questionnaire some of the key long standing Board members came to realize that the organization's growth had outstripped their ability to fully exercise their responsibilities as Board members. As a result, the Board recruited new Board members and some of the older members in key positions chose to play mentor roles to the new members.

Case 2

The questionnaire was used with a PDO with more than 20 years of experience. The organization had grown significantly during the past five years. The Board was facing the need to modify the by-laws in light of changes in program focus and constituencies. The Board used the Board of Directors Development Matrix to help focus their thinking on current Board status and to identify key issues that needed consideration in order to modify the by-laws. The process led to by-laws that required a more structured Board and a membership representing broader geographic, gender and income interests.

CLASSIFICATION CHART FOR THE SELF-EVALUATION OF THE BOARD OF DIRECTORS

	Excellent	Good	Average	Unnecessary	No Opinion
Legal Structure 1. The organization has clearly written and easily understandable regulatory documents (e.g., by-laws, etc.) that outline the responsibilities and functions of the Board.					
2. The organization has written documents that clearly describe the role and responsibilities to be carried out by individual Board members.					
Structure of the Board 3. The size of the Board is appropriate in relation to the needs of the institution.					
4. There is diversity among Board members including age, gender, interests and background.					
5. There is a written procedure for selecting new Board members.					
6. There is a written policy concerning the retirement of Board members.					
7. The Board committees are appropriate for the needs of the organization in both (a) number and types of committees, and (b) functions and responsibilities of committees.					
Significance of the Board 8. The importance or relevance of the role of the Board in relation to the purpose and mission of the organization.					
9. The importance or relevance of the role of individual Board members to the purpose and mission of the organization.					
10. The importance or relevance to the organization of the activities undertaken by Board members on behalf of the organization.					
11. The importance or relevance of the legal requirements and the stipulations that govern the Board on behalf of its members.					
12. The knowledge and familiarity of the Board with the institutional structure of the organization.					

(continued on next page)

	Excellent	Good	Average	Unnecessary	No Opinion
13. The Board's perception and insight into the key elements of the institution's successes.					
14. The Board's understanding of the various groups related to the institution.					
15. The Board member's interest and knowledge of: (NOTE: Each organization using this Matrix should include the functional areas relevant to the program of the organization) a. Conservation and reforestation b. Agriculture (technology, marketing, storage) c. Programs such as housing, health, and education d. Credit programs e. Problems and programs related specifically to women f. Accounting and finance g. Administrative operations					
16. The Board's understanding of the institution's current standing and its projects, in financial terms.					
17. The Board's ability to think about, describe and plan for the role of the organization over the next five years, considering the present relevant economic, social and political conditions.					
Practices of the Board 18. There is a written manual on the Board's policies and procedures.					
19. The frequency of Board meetings is appropriate to the needs of the organization.					
20. Board members attend Board meetings regularly.					
21. Information is sent to Board members prior to meetings.					
22. Reports (including financial) are presented: a. Clearly b. Completely c. In accordance with the needs of the Board					
23. Minutes are recorded at each Board meeting and reviewed and approved at subsequent meetings.					
24. Board records are in compliance with legal requirements.					

25. The Board receives the auditors' report, discusses the report with the auditors					
26. The Board has written procedures which are followed to: a. Ratify by-laws b. Elect officers c. Establish committees and set their mandates					
27. The Board has and follows a procedure to establish and monitor the institution's long and short-term goals.					
28. The Board has and follows a procedure to orient new members.					
29. The Board routinely receives written and/or oral presentations by program and project directors regarding the organizations' activities.					
30. The Board members routinely visit projects to gain a better understanding of what the organization does and how well it accomplishes its objectives.					
31. Board members are appropriately and routinely used to represent the needs of the institution with government entities, the community and funding agencies.					
32. The Board has formulated appropriate and realistic long and short-term goals for the institution.					
33. The Board routinely monitors, assesses and provides feedback to the organization on achievements, progress and problems.					
34. The Board routinely monitors and assesses its performance and accomplishments against the goals it set for itself.					
35. The overall impact of the Board: a. The actions and activities of the Board directly and positively affect the different programs and projects of the organization b. The actions and activities of the Board directly and positively affect the overall operations of the organization					
36. The Board annually, or more frequently if required, evaluates the performance of the Executive Director against a job description and the overall performance of the organization, and provides direct feedback.					
37. The Board routinely uses information provided by outside evaluations to inform itself about the progress of the organization.					

(continued on next page)

	Excellent	Good	Average	Unnecessary	No Opinion
Committees 38. The Board's by-laws or other resolutions provide for the establishment, functions, obligations, and limits of authority for various committees, including: a. Executive Committee b. Financial Committee c. Procurement Committee d. Personnel Committee					
39. The Board routinely receives, approves, modifies as necessary, and documents committee activities.					
Board Meetings 40. The Board has and follows an agenda for each Board meeting.					
41. Board members come to meetings having read all materials sent to them in advance and effectively carry out their duties.					
42. During Board meetings, members' remarks and contributions are relevant to the discussion at hand.					
Relations with the Institution's Administration 43. The Board has a clear understanding of the appropriate division of responsibilities between the Board and staff and acts accordingly.					
44. There is a positive and healthy relationship between the Board and the organization's senior management.					
45. There exists a positive relationship between the Board and the organization's staff.					

Editor's Note: The Classification Chart for Self-evaluation of the Board of Directors has been slightly reworded for clarity, but remains, in all aspects, true to the structure and intent of the original wording.

BOARD OF DIRECTORS SOURCES OF INFORMATION

DEFINITION:

This tool is used as a checklist, reference and guideline for Boards of Directors of private development organizations on how and where to obtain the critical information Boards need in order to fulfill their function as representing all PDO stakeholders. Without adequate, timely, appropriate information, Boards would not be able to fulfill their crucial role in organizational oversight, policymaking and project advocacy.

SOURCE: Opportunities Industrialization Centers International

The Board of Directors Sources of Information was designed by Opportunities Industrialization Centers International (OICI) and is contained in Section 10, "Building Effective OIC Boards," of its Board of Directors Manual. The Manual from which the tool comes is a critical reference and guideline which OICI and its affiliates in Africa, Asia, Central America and Europe use in developing Boards of Directors. For OICI and its affiliates, the Board of Directors is the most critical foundation element in support of institutional development, sustainability and expansion.

THE TOOL:

For a PDO, the Board in effect represents the "owners". In a for-profit organization, the concept of ownership is tangible. There is either an individual, individuals, or other organizations that directly own the for-profit organization, have a direct financial interest, and are represented by a Board of Directors.

The concept of ownership in a PDO, however, is less tangible. For a PDO, the Board represents its "owners," or stakeholders. This includes target beneficiaries (e.g. trainees and clients), donors, host governments, staff, and any others who have a stake in the PDO's success.

The purpose of the Sources of Information is to provide Boards with a checklist and guideline for obtaining the critical information they need to fulfill their roles in representing these stakeholders. It provides a guideline to obtain information from a balanced variety of sources, not just from PDO management.

HOW THE TOOL WORKS:

The tool lists the most crucial sources of information a Board should consult. The three main areas from which information is obtained include PDO management, Board committees, and outside sources.

1. PDO management:

The Board has four primary ways by which to get information from PDO management:

a. *Regular reports:* Written reports should be regular and frequent enough so that the Board is up-to-date on the most critical and timely information needed to make crucial decisions for the PDO. Frequency should be no less than quarterly. Reports should contain information on actual programmatic outputs such as number of trainees, loans, and repayments, and compare them to those projected: financial status; status of institutional development; and efforts in resource mobilization.
Regular reports include, among others, quarterly and annual reports, project performance tracking schedule, annual operations work plan, and management information system report forms.

b. *Special reports:* The Board may request special reports at any time deemed necessary. These reports cover areas that the Board may require to do its monitoring work properly. The Board may request such reports either from management or a committee of the Board designated by the chairperson. For example, the Board may create a special Board audit committee to report on suspected pilferage of tools and equipment from the training workshops and classrooms of the PDO.

c. *Informal discussion:* As a matter of routine and practice, the Program Director should be in regular, frequent contact with the Board chairperson. The purpose of such contacts, held in between regular Board meetings, is to discuss programmatic matters and any other items which assist the chairperson to support PDO management efforts.

d. *The management team:* In response to a Board query, the Program Director may ask that a report be prepared by the management team in which s/he may not have intimate knowledge. For example, the Program Director may ask the finance manager to respond to the Board's query on the PDO's fiscal position. The Program Director, however, is ultimately accountable to the Board on the report's accuracy, contents, and conclusions.

2. Board committees:

The committees provide the entire Board with sources of information from Board members themselves that are outside of PDO management.

3. Outside sources of information:

Some examples from where outside information can be obtained include:

a. *Advisory councils:* Ideally, the PDO Board has advisory councils made up of voluntary, independent, suitably qualified and prominent outsiders who advise it in such areas as local credit, labor, macroeconomic policy and other areas that have an impact on PDO effectiveness.

b. *Evaluation reports:* Every PDO should regularly undergo evaluations conducted by appropriate outsiders. The resulting reports give a PDO Board an outside perspective on the efficient and effective operation of the PDO, as well as give the PDO credibility to all stakeholders.

c. *Audit reports:* Regular, independent audits help assure a PDO's credibility and accountability, especially with donors. The Board is to monitor management's implementation of audit report recommendations.

d. *Consultant and apex institution reports:* Consultants and apex institution officials who visit the PDO are obligated to provide reports containing recommendations as a result of their visits. Such reports should be looked upon by the Board as providing a perspective and expertise to the PDO which would not be possible from those working within.

CASE EXAMPLE:

The best example of an OIC following the checklist, and consequently growing as a result, is the Sierra Leone OIC (SLOIC). SLOIC started in 1977 and now has programs in vocational skills training, small enterprise development, and credit access. It consists of five operational training/development units located in three cities of Sierra Leone.

It has an integrated and hierarchical national and local Board and management structure. There is a National Board of Directors with subsidiary management committees reporting to it from each of the five operating components. There is a unified program management structure consisting of a National Executive Director, national-level technical coordinators, and component Assistant Directors.

Each of the five operational components, through their respective Assistant Directors, supply regular reports to their supervising National Executive Director and component Management Committees on issues such as trainee outputs, number of job placements, loan principal and interest payments, and number of business advisory service visits. Information from the local components feeds through the National Executive Director who then reports to the National Board. The National Board in turn uses the information to formulate nationwide SLOIC policies, especially with respect to on-going resource mobilization efforts.

SLOIC has a formalized structure of component management committees reporting to the National Board of Directors. The chairperson of each management committee is a member of the National Board. Through regular meetings of the National Board, information obtained from the local programs comes directly to the National Board without having to go through and possibly be filtered by program management.

At the same time, component management committees act as local "Boards" in support of, and more closely in touch with Assistant Directors who manage programs on a localized basis. The Chairman of the Small Enterprise Development Foundation (SEDF) Management Committee, for example, can directly set policy on loan collections that is different from Makeni or Freetown, and is consistent with local circumstances.

INFORMATION NEEDED BY EACH BOARD MEMBER

Here is a checklist of information which should put you "on top" of the situation.

- ❐ 1. Up-to-date By-Laws.
- ❐ 2. An Up-to-date list of Board Members with addresses and phone numbers of each.
- ❐ 3. Up-to-date Committee list and information on the goals and responsibilities of the committee.
- ❐ 4. If you are a Committee Chairperson do you have your committee's last year's working papers, minutes, budget, program, and evaluations?
- ❐ 5. Plans for the year's program. What are the year's commitments? What is ongoing? What is new? Do you have a yearly calendar of events?
- ❐ 6. Job descriptions (written) of staff personnel.
- ❐ 7. The (written) personnel policies of the organization.
- ❐ 8. The (written) policies of your organization as determined by the Board of Directors.
- ❐ 9. Information on international partner, including Affiliate Agreement.
- ❐ 10. List of all current sources of funding with appropriate contract information.
- ❐ 11. Annual Audit information done by a competent CPA.
  - ❐ Is it fully and accurately reported to the Board?
  - ❐ Available to any member of the organization?
- ❐ 12. Do you understand the legal responsibilities of the Board of the non-profit corporation? If not, your Board may wish to call in the lawyer who serves your organization for a briefing.
- ❐ 13. The incorporation papers of your nonprofit corporation. Laws vary from country to country. You should know exactly how your organization is set up.
- ❐ 14. Are all Contracts made by your organization in order and up-to-date?
  - ❐ With international partner?
  - ❐ With your landlord, your lease or real estate contract?
  - ❐ Taxes due?
  - ❐ With the government or other organizations, funding or purchasing your services?
  - ❐ Are the stipulations of each grant being fully complied with — in the areas of administration, disbursement, program and reporting?
- ❐ 15. Adequate insurance coverage.
  - ❐ On your building or office or other facilities and equipment?
  - ❐ For your staff?
  - ❐ For your volunteers, wherever they may be on organizational business?

TO OBTAIN ALL THIS INFORMATION can be a difficult task but, when you have collected it you will have the beginnings of an excellent Board Manual.

This knowledge is basic in order that each Board member may assume the *proper responsibility* in the *effective oversight* of program operations.

BORROWER RECORDS

DEFINITION:

This is a tool for managing and reporting on credit program transactions, in conjunction with the loan fund ledger. Whereas the loan fund ledger is a record of all financial activity in the loan fund, the borrower records capture financial transactions at the individual borrower level and summarize the information to generate repayment rates and statistics for all borrowers.

SOURCE: Save the Children Federation, Inc. (SCF)

THE TOOL:

The borrower records include, but are not limited to, a borrower passbook, control book, ledger and statistical record. A description of each type of record, step-by-step instructions on how to set them up and use them, and sample forms are contained in the tool.

A borrower passbook and control book should be set up for each approved loan. An entry is made whenever a financial transaction or staff visit involving that particular loan occurs. Entries in the borrower statistical record are made whenever a loan is approved. The borrower ledger is prepared at the close of each fiscal period, coinciding with the closing of the loan fund ledger.

PROS, CONS AND OTHER USES:

Pros: This system can be set up as either a manual or computerized one (or both in parallel).

This system is simple and straightforward, which allows it to be used in areas where literacy and numeracy skills are not well-developed.

Cons: This system assumes that borrowers will keep a borrower passbook in their possession, which encourages them to take their role as borrowers very seriously. However, in illiterate areas borrowers will not be able to read the repayment schedule and recording of transactions in the passbook, and therefore another method for keeping them informed of their lending status will be necessary.

Other Uses: The borrower records are expected to provide timely and valuable information for the following uses:

- monitoring the financial status of individual borrowers and identifying any problems requiring attention;
- monitoring the financial status of the loan fund itself and assessing performance in terms of self-sufficiency, efficiency and effectiveness ratios and indicators;
- developing strategies for loan fund sustainability;
- accounting and reporting to the Board, members/owners, funders, local government, and other constituencies on the operations and performance of the loan fund;
- preparing better-informed and more effective funding proposals for donors.

HOW THE TOOL WORKS:

A. Types of Borrower Records

1. *BORROWER PASSBOOK*

The borrower passbook is a small booklet or form kept by the borrower in which the conditions of the loan and the expected disbursement and repayment schedule are stated and the actual disbursements and repayments are recorded.

The borrower passbook provides the borrower with a complete record of the conditions of the loan; e.g., loan amount, term, etc., the expected disbursement and repayment schedule, and the actual disbursements and repayments made. The borrower is able to consult this passbook at any time to determine the amounts already paid in principal, interest and fees, and the dates and amounts for payments on the balance still due. This passbook also serves as a legal record should the loan fund borrower records get lost or a disagreement over the financial status of the loan arise between the borrower and the lender.

This passbook, as presented, is only suitable for borrowers who are somewhat literate. Another system would have to be devised for borrowers who are illiterate.

2. *BORROWER CONTROL BOOK*

The borrower control book is a notebook or file kept by the lender in which a separate page, or record, on each borrower presents the following:

- loan conditions and borrower information
- disbursement and repayment schedule
- disbursement and repayment record
- borrower visit record

The borrower control book provides the lender and other relevant parties with a complete record of the terms and status of each borrower's loan. The preparer and user of this information will primarily be the person who services the loan, but may also include loan fund managers, accountants, auditors, and other project staff.

3. *BORROWER LEDGER*

The borrower ledger is a form prepared by the lender which summarizes repayment information by the borrower, and in total, for a particular period of time.

The borrower ledger serves as a tool for managing loan fund activity and assessing loan fund performance with regard to repayments. The ledger provides information by borrower, and in summary, on payments made during the period (both principal and interest), remaining principal balances (i.e. loans outstanding), and the status of these balances (i.e. current or past due). This information can be used to calculate the repayment rate for the loan fund and identify those loans which are causing the repayment rate to be lower than desired. These problem loans can then be targeted for special recuperation efforts.

The borrower ledger serves as a check on the accuracy of the loan fund ledger. The totals for "Principal Repayments" and "Ending Principal Balance" must equal the amounts in the loan fund ledger, or there is a mistake in either the borrower ledger, the loan fund ledger, or both.

The information in the borrower ledger is also used to prepare part of the quarterly credit program financial report for the Home Office. Specifically, the totals for principal repayments, interest payments, and amounts past due are used to calculate the repayment rate.

4. *BORROWER STATISTICAL RECORD*

The borrower statistical record is a form prepared by the lender which summarizes loan and borrower information for statistical purposes.

The borrower statistical record provides a useful summary of statistical information for reporting, representation, and fundraising purposes. This record allows summarization of statistical information on loan purpose, loan use by sector, borrower type, borrower household income and assets, household size and age breakdown, as well as average loan amount and term. This information can be used by the loan fund management to describe the program and share its accomplishments with community residents, government officials, interested funders, and, within the agency itself.

B. Administration of the Borrower Records

1. *Who Should Keep Borrower Records*

Other than the borrower passbook, which is kept by the borrower, the borrower records are kept and maintained by the lender. Whether the loan fund is managed by the community, another local institution, or the PDO, preparation of these records in general should be done by the person(s) responsible for servicing the individual borrowers. Ideally, this should not be the same person who keeps the loan fund accounting ledger. In no case should it ever be the same person who handles the petty cash and bank accounts, as mismanagement or theft of funds could occur under this arrangement.

2. *Where Borrower Records Should Be Kept*

Borrower passbooks should be kept by individual borrowers in their homes or another safe place. Whenever the borrower receives funds or makes a repayment, he should present the passbook at that time for entry of the transaction. Under no circumstances should the borrower give up possession of his passbook, as this is his proof of loan repayments.

All other borrower records should be kept by whomever manages the loan fund (the PDO, the community or local institution) in a central location accessible to those who service the loans and prepare and use these records.

If the loan program is still part of the organization's activities in the impact area, but is managed by either the community or another local institution, the financing organization should retain the right of access to these records at any time for review and audit purposes.

3. *When Borrower Records Should be Prepared*

The borrower passbook and control books should be set up when the loan is approved. Entries should then be made whenever a disbursement or repayment occurs. Entries on visits to borrowers should also be made in the borrower control book after they occur.

Entries in the borrower statistical record are best made as a matter of procedure whenever loans are approved. Otherwise, it may be difficult to keep track of which loans have been represented in the record and which have not. The information can be transferred directly from the borrower control book. Summarization of the information in this record should be done at least on a quarterly basis for reporting to the Home Office in the credit program Quarterly Statistics form.

The borrower ledger should be prepared on a periodic basis at the close of the period. It should be done at least on a quarterly basis to coincide with the closing of the loan fund ledger and reporting to the Home Office in the credit program financial reports. It may be done more frequently, e.g., monthly, if more summaries of loan fund performance are desired or required by other parties.

C. How to Set Up and Use Borrower Records

The steps for setting up and using each of the borrower record formats are explained as follows.

1. *BORROWER PASSBOOK*

   a. Using the Borrower Passbook format (found immediately following this section) as a model, design a borrower passbook format that meets the needs of your loan program. You may wish to add to this format in order to present or record more information, or you may wish to delete from this format in order to simplify it. Whatever you do, your aim should be to make the format as simple and understandable to borrowers as possible, while still presenting all the necessary reference information they should have on hand as reference on the terms and status of their loan. The form should be in the local language, using words and terms that are commonly understood in the borrower community. For illiterate borrowers, it may be necessary to design the form using symbols rather than words and to provide them with training in understanding the form.

You may want to test the format with several borrowers before finalizing it, or you may want to begin using it in the program. In either case, you should feel free to revise it as many times as necessary until it completely meets the program's needs.

b. Reproduce the format for use by the person(s) extending and servicing the loans. You may wish to prenumber the passbooks as a tracking and control mechanism. Or you may wish to add a line in the passbook to record the account number assigned to the loan or the borrower, if you use this type of system for tracking and control.

c. After a loan is approved and the loan agreement signed, the borrower passbook should be filled out with the pertinent information from the agreement. This will include the conditions of the loan information on the borrower, and the disbursement and repayment schedule. In some cases, the loan agreement will specify the terms of the loan, but not the repayment schedule. In these cases, the borrower passbook and control book are the official records in which the repayment schedule is presented, not the loan agreement.

d. When the loan amount is disbursed to the borrower, five things should happen:

(1) The borrower receives the actual funds.

(2) The borrower signs a payment or petty cash voucher form to acknowledge receipt of the funds.

(3) The disbursement is recorded in the borrower passbook in the "Disbursement and Repayment Record" section, and the lending representative signs or stamps the transaction in order to legally verify it.

(4) The lending representative carefully explains each section, line and column of the passbook to the borrower and ensures that they understand it. The purpose and use of the passbook is also explained so that the borrower understands its use as a record of transactions related to the loan.

(5) The passbook is given to the borrower.

e. When a repayment is made, the borrower presents his or her passbook for recording of the repayment in the "Disbursement and Repayment Record" section. (The rest of the line for this transaction should be completed at this time.) The lending representative signs or stamps the transaction line in the passbook to legally verify it and gives the borrower a receipt for the repayment.

f. When the loan has been completely repaid, the borrower keeps the passbook as a personal and legal record of the loan. It can then be used to answer any questions concerning the loan which subsequently arise and to demonstrate a credit history to other potential creditors.

BORROWER PASSBOOK

LOAN & BORROWER INFORMATION	DISBURSEMENT & PAYMENT INFORMATION				
	Date	Principal Amount	Interest Amount	Fees	Total
Name: Address: Loan Amount: Loan Term: Interest Rate: Interest Amount: Service Fees: Form of Guarantee:					

DISBURSEMENT AND REPAYMENT RECORD

DATE	AMOUNT RECEIVED	AMT. PAID PRINCIPAL	AMT. PAID INTEREST	AMT. PAID FEES	BALANCE DUE	SIGNATURE/ STAMP

2. *BORROWER CONTROL BOOK*

a. Using the Borrower Control Book format (found immediately following this section) as a model, design a borrower control book format that meets the needs of your loan program. You may wish to add to this format in order to collect or record more information, or you may wish to delete from this format in order to simplify it. Whatever you do, your aim should be to make it as simple and user-friendly as possible, while still collecting and recording all information necessary for loan management. It should be in the local language if this is the language of those who will be its primary users.

Each page in the borrower control book is a separate loan record. The "book" itself may take the form of a notebook, a file, or a collection of files, depending on which is determined to be most appropriate to current loan management circumstances.

b. Prepare the borrower control book according to the chosen page format and "book" form. This book should be kept in *one central location* which is most accessible to those who service the loans and who therefore prepare and use these records most frequently. You may wish to prenumber the pages or individual files in the borrower control book as a tracking and control mechanism. These numbers could correspond to the numbers used on the passbooks. Or you may wish to add a line in the "Loan and Borrower Information" section to record the account number assigned to the loan or the borrower, if this is the type of system you are using for tracking and control.

c. After a loan is approved and the loan agreement signed, one page in the borrower control book should be filled in with the pertinent information from the loan agreement and the original loan application. This will include loan and borrower information and the disbursement and repayment schedule. In some cases, the actual disbursement and repayment schedule will not be specifically presented in the loan agreement, and will therefore have to be worked out for inclusion in the loan agreement.

d. When the loan amount is disbursed to the borrower or the borrower makes a repayment, an entry should be made in the "Disbursement and Repayment Record" section to record it. The borrower should be asked to place his or her signature or mark next to this entry as a means of verifying it.

e. When a visit is made to the borrower, the date of this visit, its purpose, and comments about it should be entered in the section called "Borrower Visit Record." Purposes for such a visit could include: checking on the status of the loan-funded activities; collecting current repayments; following up on past due repayments; and providing technical or management assistance.

f. When the loan has been completely repaid, the "Balance Due" column in the Disbursement and Repayment Record" section should show a zero ("0") at the bottom. The loan's repaid status should somehow be noticeably indicated on the form. This can be done either by segregating the pages for repaid loans in a separate file, or by putting a diagonal line across the page with the word "REPAID" written above it, or by other methods deemed appropriate. The point is to make it easy to see at a quick glance that the loan on that page has been repaid.

BORROWER CONTROL BOOK

LOAN & BORROWER INFORMATION	DISBURSEMENT & PAYMENT INFORMATION				
	Date	Principal Amount	Interest Amount	Fees	Total
Name: Address: Loan Amount: Loan Term: Interest Rate: Interest Amount: Service Fees: Form of Guarantee: Loan Purpose: Loan Use by Sector: Borrower Type: Annual Household Income: Borrower Household Assets: Household Members: Over 18 ___ Under 18 ___					

DISBURSEMENT AND REPAYMENT RECORD

DATE	AMOUNT RECEIVED	AMT. PAID PRINCIPAL	AMT. PAID INTEREST	AMT. PAID FEES	BALANCE DUE	SIGNATURE/ STAMP

BORROWER VISIT RECORD

DATE	PURPOSE	COMMENTS

3. *BORROWER LEDGER*

a. Using the Borrower Ledger format (found immediately following this section) as a model, design a borrower ledger format that meets the needs of your loan program. You may wish to expand this format to include additional information which facilitates financial analysis. Deleting information is not recommended as it would hamper complete and effective analysis of loan repayments. The form should be translated into the local language if this is the language of the preparer and primary users. The form can be kept in a ledger book, with separate pages for each month or quarter, or it can be prepared on regular or accounting paper and kept in a separate file.

b. Choose the most optimal period for tracking, analyzing and reporting loan repayments, which will be the period used in the borrower ledger. The period must be at least quarterly. More frequent tracking and reporting, e.g., on a monthly basis, may be done if desired or required by other parties. The period you choose should be indicated at the top of the form.

c. Complete the form using the information in the borrower control book. Each loan should be entered on a separate line in the borrower ledger. This includes loans that were completely repaid during the period as well as those which were not yet fully repaid. The columns should be completed as follows:

Loan Amount — Enter the total amount of the loan approved and disbursed.

Loan Term — Enter the length of time from the date of disbursement to the date of the final repayment.

Disbursement Date — Enter the date on which the loan was actually disbursed.

Beginning Principal Balance — Enter the amount of the loan that was still outstanding at the beginning of the period. In the future, this information can be taken from the "ending principal balance" column of the borrower ledger for the previous period. But the first time you prepare this form, you must determine this information from the "Disbursement and Repayment Record" section of the borrower control book. You can determine it by finding the closest date on or before the date the current period started in the "Date" column, and then identifying the amount in the "Principal Balance Due" column for that date. This is the beginning principal balance amount for the current period.

Principal Repayment Received — Enter the sum of all loan principal repayments received during the period. This can be determined from the "Amount Received — Principal" column in the "Disbursement and Repayment Record" section of the borrower control book by adding up all the amounts that were entered during the current period.

Interest Payments Received — Enter the sum of all loan interest payments received during the period. This can be determined from the "Amount Received — Interest" section of the borrower control book by adding up all amounts that were entered during the current period.

Ending Principal Balance — Subtract the amount in the "Principal Repayments" column on this form from the amount in the "Beginning Principal Balance" column and enter that amount here. This amount must agree with the amount in the "Principal Balance Due" column in the "Disbursement and Repayment Record" section of the borrower control book for the closest date on or before the ending date for the current period.

Principal Status — Divide the ending principal balance amount among the columns in this section according to repayment status, i.e., current or past due. The past due amounts should be broken down further according to length of time past due, e.g., 0-30 days, 31-90 days, and over 90 days. Current amounts are those repayments which were not yet due at the end of the period. Past due amounts include all repayments fell due before or during the period, including on the last day, but had not yet been made by the end of the period.

You can determine the breakdown of this amount by comparing the "Disbursement and Repayment Schedule" against the "Disbursement and Repayment Record" in the borrower control book. In most cases, if a borrower made a repayment at a time when both a past due and a current repayment were due, you should assume that the repayment is for the past due, not the current amount.

Interest Past Due — Enter the amount in interest that was due before or during the period but had not yet been paid by the end of the period. You can determine this amount by comparing the "Disbursement and Repayment Schedule" against the "Disbursement and Repayment Record" in the borrower control book.

d. Find totals for all the columns except "Borrower Name" and "Disbursement Date." For the "Loan Term," be sure that all amounts are stated in the same terms, i.e., days, months or years, before you sum them. To check your work, verify that the "Beginning Principal Balance" total, less the "Principal Repayments" total, equals the "Ending Principal Balance" total, and that the sum of totals in the "Principal Status" columns equals the "Ending Principal Balance" total as well.

e. Calculate the following statistics from the data:

Average Loan Amount — Divide the total in the "Loan Amount" column by the number of loans (i.e., entries in the borrower ledger) to find the average loan amount for the loan portfolio.

Average Loan Term — Divide the total in the "Loan Term" column by the number of loans (i.e., entries in the borrower ledger) to find the average loan term for the loan portfolio.

Repayment Rate — Use this formula:[27]

$$\frac{\textit{Principal Repayments + Interest Payments}}{\textit{Principal and interest payments past due at the beginning of the period and due during the period.}}$$

[27] **Editor's Note:** While the repayment rate included in this tool covers both principal and interest payments, we recommend that principal payments normally be calculated separately. Principal past due measures the level of risk in the program's main asset, the portfolio. Interest past due affects cash flow.

The principal repayments and interest payments amounts in the top half of the formula should be taken directly from the borrower ledger. In the bottom half of the formula, the past due principal and interest amounts can be taken from the borrower ledger for the previous period, if one was prepared. The principal past due amount would be the sum of the last three columns in the "Principal Status" section, and the interest past due amount would come from the "Interest Past Due" column in the previous ledger. If this is the first time the borrower ledger is being prepared, the past due amount at the beginning of the period will have to be determined from the borrower control book. (For the method of doing this, see the "Principal Status" section in step three above.)

The principal and interest payments due during the quarter will have to be determined from the "Disbursement and Repayment Schedule" sections in the borrower control book. You may wish to add two columns to the borrower ledger form to make the collection of this data easier. They would be called "Principal Repayments Due" and "Interest Payments Due." The amounts should include only those repayments that came due *during* the quarter, not before. (Those which came due before are past due.)

If you wish, you can also calculate the repayment rate separately for principal and interest, or by loan purpose, loan use by sector, and borrower type. Such analysis may prove useful in determining the cause of lower-than-expected repayment rates.

Percentage of Outstanding Loans Past Due — Divide the sum of the totals in the past due columns in the "Principal Status" section by the "Ending Principal Balance" total. It may also be useful to calculate this separately for the different past due categories.

f. Enter the repayment rate you calculate for the *quarter* on the Quarterly Statistics form in the Credit Program Financial Report. (See *Credit Program Financial Reporting System*, page 219.) No other calculations made above should be entered in the financial report.

4. *BORROWER STATISTICAL RECORD*

a. Using the borrower statistical record format (found immediately following this section) as a model, design a borrower statistical record format that meets the needs of your loan program. You may wish to expand this format to include additional information which facilitates statistical analysis. The form should be translated into the local language if this is the language of the preparer and primary users. The form can be kept in a ledger book, with separate pages for each month or quarter, or it can be prepared on regular or accounting paper and kept in a separate file.

b. Choose the period for which you wish to prepare statistical data on the loan program. Typically, this will be the same period as the one you choose for the borrower ledger, and the two forms will be prepared at the same time. However, there may be cases when you wish to analyze statistical data for a different period. The period used should be indicated at the top of the form.

BORROWER LEDGER

FOR THE PERIOD FROM ____________ TO _____, 19___

BORROWER NAME OR ACCOUNT #	LOAN AMOUNT	LOAN TERM	DISBURSEMENT DATE	BEGINNING PRINCIPAL BALANCE	PRINCIPAL REPAYMENT	INTEREST PAYMENTS	ENDING PRINCIPAL BALANCE	CURRENT				INTEREST PAST DUE
								CURRENT	0-30 DAYS PAST DUE	31-90 DAYS PAST DUE	OVER 90 DAYS PAST DUE	

c. Complete the form using the information from the "Loan and Borrower Information" section of the borrower control book. Each loan should be entered on a separate line in the borrower ledger.

In the "Loan Purpose," "Loan Use by Sector," and "Borrower Type" columns, enter the loan amount in the relevant column for that loan.

d. Find totals for all the columns except "Disbursement Date" and "Borrower Name." For the "Loan Term," be sure that all amounts are stated in the same terms, i.e., days, months or years, before you sum them. To check your work, verify that the sum of the column totals for "Loan Purpose" equals the "Loan Amount" column total. Repeat this check for the "Loan Use by Sector" columns and then the "Borrower Type" columns.

e. Calculate averages for the following columns:

- Project Cost
- Loan Amount
- Loan Term
- Household Annual Income
- Household Assets
- Number of Household Members:
  - Over 18
  - Under 18

This is done by dividing the total for the column by the number of loans (i.e., the number of entries in the column). Enter this number at the bottom of the column under the total and label it "Average."

f. Count the number of loans (i.e., column entries) in each of the columns in the sections on "Loan Purpose," "Loan Use by Sector," and "Borrower Type." Enter this number at the bottom of the column under the total and label it "Number."

BORROWER STATISTICAL RECORD

DATE	BORROWER NAME	PROJECT COST	LOAN AMOUNT	LOAN TERM	LOAN PURPOSE		
					WORKING CAPITAL	ASSET PURCHASES	OTHER

	LOAN BY SECTOR			BORROWER TYPE					HOUSEHOLD INFORMATION			
[illegible]	[illegible]	ENTER-PRISE	OTHER	INDIVIDUALS		GROUPS			ANNUAL INCOME	ASSETS	# OVER 18	# UNDER 18
				MALE	FEMALE	MALE	FEMALE	MIX				

CREDIT PROGRAM FINANCIAL REPORTING SYSTEM

DEFINITION:

A tool for monitoring, controlling and reporting on the financial status of a loan fund or credit program, whether it is one component or the entirety of an organization's operations.

This system was designed to be useful for a wide range of programs, from multimillion dollar ones managed by highly trained professionals, to small ones being implemented in remote, semiliterate villages. For this reason, the design of the forms is very basic, allowing balance sheet and income statement accounts to be added as dictated by the program's size and complexity.

Likewise, the financial analysis required at all levels — local, field office and headquarters — is very basic and simple. It involves: 1) ensuring that the accounts balance completely; 2) generating and analyzing quarterly statistics; and 3) ascertaining the reasons for changes in the value of the loan fund and the repayment rate.

SOURCE: Save the Children Federation, Inc.

HOW IT WORKS:

The Credit Program Financial Reporting System requires quarterly (or regular) preparation of three forms: a balance sheet; an income statement; and a statistics form. These forms give a comprehensive overview of what happened in the credit program during the quarter and what its status is at the end of the quarter.

Preparation of these forms is dependent upon the continuous recording and periodic summarization of financial transactions in a loan fund ledger or similar book of accounts.

Following these introductory pages are formats for the income statement, balance sheet, loan fund ledger, and quarterly statistics form, instructions for their completion, definitions of accounting terms and formulas, and a case example.

CASE EXAMPLE:

The case example of an imaginary loan fund started in July 1989 by the Orlandia Field Office in Ecoli, called the Women's Association Fund, was presented in Chapter Four. Please refer to pages 56 and 57 for completed income statements and balance sheets, along with guidance on how to analyze them. Presented here is a sample of the Loan Fund Ledger (from which information would be drawn to produce the Income Statement and Balance Sheets) and the Loan Fund Quarterly Statistics. The Statistics Report would be analyzed as follows:

Total Loans Outstanding — The number and amount should be compared with the previous period's to determine if the loan fund has changed during the period and why. In the example, the fund has just started up, so comparison with the previous period is not possible.

Repayment Rate — The objective is to achieve 100%. Loan funds should analyze borrowers records to ascertain the reasons for repayment rates less than 100%, and develop a strategy to bring this rate up to 100%. In this case, the repayment rate is 100%, indicating perfect repayment in the first quarter of the fund's operations.

New Loans this Quarter — This information allows the loan fund to understand and represent its lending activity more clearly, in terms of types of activities funded and the participation of women. This fund is lending completely to women, as reflected in the fund's statistics.

PROS, CONS AND OTHER USES:

Pros: An accrual rather than cash basis of accounting is used. Interest receivable as well as amounts due but not paid are recorded. This allows management to determine the vulnerability of the loan fund to borrowers and creditors.

This system has proven to be an effective tool for enhancing the accounting and management skills of staff and community members involved with the credit program.

Cons: Introducing this system to an ongoing credit program may be difficult if inadequate records have been kept. However, if current balances can be determined, the loan fund ledger can be set up and statements generated at the end of the first accounting period.

Credit programs may define accounting terms or formulas differently, despite the definitions provided. Information from different credit programs may therefore not be entirely comparable. Training credit program staff to implement this system is the best means for attaining accurate and comparable information.

Other Uses: The credit program reporting system is expected to provide information for the following uses:

- monitoring the financial status of the loan fund and identifying any problems requiring attention
- developing strategies for credit program or institutional sustainability
- safeguarding loan fund assets
- accounting and reporting to the Board, members/owners, funders, and other constituencies on the operations of the credit program
- preparing better-informed and more effective funding proposals for donors.

INSTRUCTIONS FOR COMPLETING INCOME STATEMENT & BALANCE SHEET

WHO:
- preparation by staff person responsible for loan fund accounts
- review by program manager or field office director

WHEN:
- preparation at the close of every quarter

WHY:
- as a means for field office and Home Office to review and control loan fund operations
- for representation of credit activities to donors, government agencies, other organizations
- for fundraising purposes

WHERE:
- Source of information — loan fund ledger/accounting records

HOW:

Follow these directions:

1. Fill in the heading with name of loan fund, field office, impact area, exchange rate at end of quarter, the currency used in the report, and date at end of quarter.
2. Obtain all amounts from the loan fund ledger. They will be the account balances at the end of quarter.
3. Transfer all the balances for revenue and expense accounts to the income statement.
4. Transfer all the balances for asset and liability accounts and Loan Fund Capital to the balance sheet. (The only balance not used yet should be Retained Earnings.)
5. Complete the income statement by adding all revenues, adding all expenses, and then subtracting total expenses from total revenues to get profit or loss.
6. Add this profit or loss amount to the balance for "Retained Earnings". Put this sum on the balance sheet as the "Loan Fund Equity: Retained Earnings" amount.
7. Complete the balance sheet by adding all the assets on the left side, then all the liabilities and loan fund equity on the right side.
8. Check to make sure that total assets (left side) equal total liabilities and loan fund equity (right side). If they don't, you have made a mistake and should go through the steps again. If they still don't equal after that, then there is a mistake in your ledger. Review your ledger for accuracy.

NOTE: Please see the "Definition of Accounts" (page 223) for clarification on the accounts listed in the Income Statement and Balance Sheet.

INCOME STATEMENT

For the quarter ended: ____________________ 19__

REVENUES:

Interest on loans to borrowers:	
Received	________
Earned but not received	________
Total interest on loans	________
Fee income	________
Interest earned on bank deposits	________
Other revenues:	________
	________
TOTAL REVENUES:	
EXPENSES:	
Operating expenses:	________
Salaries	________
Rent	________
Utilities	________
Travel	________
Bank Service Charges	________
Other:	________
	________
Total Operating Expenses:	
Interest expense:	________
Interest paid on savings from members	________
Interest paid on loans from banks, etc.	________
Total Interest Expenses:	________
Bad Loans Expense	________
TOTAL EXPENSES	________
PROFIT/(LOSS)	________

DEFINITION OF ACCOUNTS: INCOME STATEMENT

Revenues: The measure in monetary terms of a service performed that increases the net value of the loan fund. These include interest earned on loans to borrowers, fees, interest earned on bank deposits, and others.

Interest on loans to borrowers: The charge or cost to borrowers for using the money of the loan fund over a specified time period. Interest "received" means that the borrower paid the interest due. Interest "earned but not received" means the borrower did not pay the interest due yet, but the interest has already been earned.

Fee income: The charge to borrowers or members for services or loans provided by the loan fund. Fees are often used in Islamic countries to cover the costs of loan fund services.

Interest earned on bank deposits: Income the loan fund earns on money left in the bank.

Other revenues: Any other forms of revenue, including income on profit-and-loss-sharing investments, income on exchange rate fluctuations, etc.

Expenses: Costs or charges to the loan fund which decrease its net value.

Operating expenses: Expenses directly related to the lending activities of the loan fund which are being charged to the loan fund.

Salaries: Payments from the loan fund to staff who work for or on behalf of the loan fund.

Rent: Payment made for lease of land and/or buildings for the purposes of loan fund management over a specified time period.

Utilities: Payment made for use of electricity, gas, water and sewer for building(s) occupied for the purpose of loan fund management.

Travel: Payment for transportation, room and board, etc., of staff members or other authorized persons doing work for or on behalf of the loan fund.

Bank Service Charges: Fees charged by the bank for their services, such as cashing checks, changing currency, etc.

Other operating expenses: Other expenses related to the loan fund's operations, such as office supplies, training fees, loss on currency conversion, etc.

Interest paid on savings from members: Payments to members who keep savings in the loan fund, i.e., a payment made by the loan fund for use of these funds.

Interest paid on loans from banks, etc.: Payments to banks and other financial institutions that lend money to the loan fund.

Bad loan expense: The value of loans written off because they are uncollectible. This includes loan principal as well as interest earned but not received (Interest Receivable). All bad loans must be approved by the Director prior to write-off.

Profit/(Loss): Revenues less expenses during a specified period of time.

BALANCE SHEET

Date: ______________ 19____

ASSETS	
Current assets:	______
Cash on hand	______
Bank balances	______
Other:	______
Total Current Assets	______
Loans outstanding (principal only)	______
Interest Receivable	______
Other assets:	______
	______
Total Other Assets	______
TOTAL ASSETS	______

NOTE: Total assets must equal total liabilities and fund equity

LIABILITIES AND FUND EQUITY	
LIABILITIES	
Current Liabilities:	______
Accounts Payable	______
Member/Borrower Savings	______
Interest Payable	______
Other	______
Total Current Liabilities	______
Loans from bank or other financial institutions	______
Total Liabilities	______
LOAN FUND EQUITY	
Loan Fund Capital	______
Retained Earnings	______
Total Loan Fund Equity	______
TOTAL LIABILITIES AND LOAN FUND EQUITY	______
Retained earnings per balance sheet of prior quarter	______
Current quarter profit/loss from income statement	______
Retained earnings per balance sheet of current quarter	______

DEFINITION OF ACCOUNTS: BALANCE SHEET

Assets: Rights and resources of the business that will provide future benefit.

Current Assets: Cash and other assets which can be changed into cash, sold, or consumed in one year or one operating cycle.

Cash on Hand: Currency, coins and negotiable checks physically on hand at the loan fund location.

Bank Balances: Funds kept in the bank checking, savings and money market accounts. (This amount should be supported by bank books or bank statements.)

Other current assets: These could be marketable securities (investments), accounts receivable, inventory, and current prepayments.

Loans Outstanding: The principal amount of loans made to borrowers which has yet to be repaid.

Interest Receivable: Interest earned on loans to borrowers but not yet received. (This amount covers all interest receivable, not just for the current quarter. Therefore, it may not agree with the "Interest earned but not received" amount on the Income Statement which is for the current quarter only.)

Other Assets: These could be long-term investments; receivables and prepayments; land, buildings and equipment; etc.

Liabilities: Obligations of the loan fund which must be satisfied by releasing assets or giving services.

Current Liabilities: Obligations which are expected to be cleared by using current assets.

Accounts payable: An amount owed to a creditor, usually because of a purchase of goods or services.

Member/borrower savings: Funds kept in the loan fund by members or borrowers upon which interest is paid.

Interest payable: Interest due on loans from banks and other lenders which has yet to be paid.

Loans from banks and other financial institutions: The principal amount of funds borrowed from banks to finance loan fund activities.

Loan Fund Equity: Net value of the loan fund, i.e., value of assets minus liabilities.

Loan Fund Capital: Value of contributions to the capital of the loan fund, e.g., original funds from PDO or grant used to start the loan fund and additional funds raised or donated later.

Retained Earnings: Cumulative profit or loss of the loan fund over time, i.e., change in the value of the loan fund since it started due to revenues earned and expenses made.

SAMPLE LOAN FUND LEDGER

PURPOSE OF THE LOAN FUND: *WOMEN'S ASSOCIATION FUND*

QUARTER & YEAR: *JULY - SEPTEMBER 1989*

			ASSETS		
DATE	**DESCRIPTION**	**NO.**	**CASH ON HAND**	**CASH IN BANK**	**LOANS TO BORROWERS (PRINCIPAL)**
July 5	Transfer from PDO to loan fund	1		5,000	
8	Petty cash fund set up	2	1,000	(1,000)	
24	Loan to Amna	3	(582)		600
30	Petty Cash Replenished	4	582	(582)	
Aug. 3	Loan to Muna	5	(291)		300
4	Bank charges	6		(50)	
10	Additional loan fund capital from UNDP	7		1,000	
15	Loan to Sumaya	8		(1,164)	1,200
25	Amna's first payment	9	56		(50)
31	Petty cash replenished	10	235	(235)	
Sept. 3	Muna's first payment	11	28		(25)
7	Bank Charges	12		(50)	
15	Sumaya's first payment	13	112		(100)
16	Loan to Salwa	14	(388)		400
25	Amna's 2nd Payment	15	55.50		(50)
30	Petty cash replenished	16	192.50	(192.50)	
	SUBTOTAL		**1,000**	**2,726.50**	**2,275**
30	**CLOSING ENTRY**	**17**			
	CLOSING BALANCES		**1,000**	**2,726.50**	**2,275**

CHECK: 1,000 + 2,726.50 + 2,275 = 6,000 + 1.50

CURRENCY USED IN THIS REPORT: *PACAS*
EXCHANGE RATE: $ = *5 PACAS*

EXPENSES			LIABILITIES		REVENUE			LOAN FUND EQUITY	
OPERATING EXPENSES	BANK CHARGES	BAD LOANS	ACCOUNTS PAYABLE	OTHER	INTEREST ON LOANS	SERVICE FEES	OTHER INCOME	LOAN FUND CAPITAL	RETAINED EARNINGS
								5,000	
						18			
						9			
	50								
								1,000	
						36			
					6				
					3				
	50								
					12				
						12			
					5.50				
	100				**26.50**	**75**		**6,000**	
	(100)				**(26.50)**	**(75)**			**1.50**
								6,000	**1.50**

EXPLANATION OF LOAN FUND LEDGER

No.

1. 5,000 pacas were transferred into the loan fund based on projections for new loans.

2. A petty cash fund is set up for loan distribution because this community is isolated and banking services are not easily accessible.

3. A loan of 600 pacas was made to Amna. She was charged a service fee of 18 pacas (3% of 600). So she actually received 582 pacas (600-18). She will repay her loan in monthly installments over one year with interest payments of 1% per month calculated on the declining balance.

4. At the end of the month, petty cash was replenished to maintain the petty cash fund level at 1,000 pacas.

5. A loan of 300 pacas was made to Muna under the same conditions as Amna's loan. Muna actually received 291 pacas after deduction of the 3% service fee.

6. Bank charges of 50 pacas were paid out of the cash in the bank.

7. 1,000 pacas from UNDP was deposited in the loan fund's bank account.

8. Sumaya received a loan for 1,200 pacas, less the 3% service fee. Her loan was paid by check, so 1,164 pacas (1,200-36) is deducted from the cash in the bank column.

9. Amna made her first payment of 56 pacas — 50p toward her principal (600/12 months), and 6p interest (1% of 600). So, her principal is reduced by 50p in the "Loans to Borrowers" column, and interest of 6p is recorded under revenues in the "Interest on loans" column.

10. At the end of the month, petty cash was replenished by the net amount expended during the month (235p) to maintain the value of the petty cash fund.

(continued on next page)

11. Muna makes her first payment of 28p which includes her monthly principal payment of 25p (300/12 months), and interest payment of 3p (1% of 300). The reduction of her principal by 25p is indicated in the "Loans to Borrowers" column, and the interest of 3p is noted under revenues in the "Interest on Loans" column.

12. Bank charges of 50p are paid out of cash in the bank, and noted in the "cash in bank" and "bank charges" columns.

13. Sumaya makes her first payment of 112p, 100p toward reduction of her loan principal and 12p interest (1% of 1200).

14. A loan of 400p is made to Salwa. She actually receives 388p since she is charged a service fee of 12p (3% of 400p). The service fee is noted under revenues in the "Service Fees" column.

15. Amna makes her second payment of 55.50p. Her monthly payment toward her principal is 50p. Interest is calculated at 1% of the declining principal. Amna's interest for the second month is 5.50p (1% of 550p). Both the reduction in Amna's principal and revenues from interest are recorded in the appropriate columns.

16. At the end of the month, petty cash is replenished by the net amount expended during the month, 192.50 pacas.

17. The closing entry provides the retained earnings, which are obtained by taking the difference between expenses and revenues. In this case, the retained earnings amount is 1.50p (100-<26.50+75>).

NOTE: Expenses *directly* related to the operation of the loan fund should be charged to it. Such expenses could include salaries, rent, utilities, travel, bank charges, and office supplies such as forms, ledgers, etc. Expenses *not directly* related to the operation of the loan fund should not be charged to it. The loan fund, as much as possible, should be self-sustaining with income covering all expenses as well as decapitalization due to loan losses and inflation.

LOAN FUND QUARTERLY STATISTICS

Field Office: Orlandia

Name of Loan Fund: Women's

Currency Used in This Report: Pacas

Impact Area: Ecoli

Quarter: July – Sept 1984

Exchange Rate Used: US$ 1 = 5 Pacas

Loan Fund Capital (from the Balance Sheet for this Quarter)	6,000.00
+ Retained Earnings (from the Balance Sheet for this quarter)	1.50
= Loan Fund Value	6,001.50

Total Loans Outstanding (from the Balance Sheet for this quarter and Borrower Records)

Number	4
Amount	2,275

Repayment Rate:

$$\frac{\textit{Total Payments (due + past due) Received}}{\textit{Total Payments (due + past due) Expected}} \times 100 = 100\%$$

New Loans this Quarter	Number		Amount	
(principal only)	*Total	Women	*Total	Women
Agriculture				
Enterprise	4	4	2,500	2,500
Capitalization				
Other ________ (describe)				
Total New Loans This Quarter	4	4	2,500	2,500

* Total = total number and amount of new loans given to men, women and groups.
Women = the number and amount of loans given to women only (individual and groups).

Brief description of any changes, developments, successes, and failures in loan fund activities during this quarter.

Note: Total number of new loans and number of loans outstanding are the same because the example shows a credit program starting up. Total number of new loans and number of loans to women are the same because all loans are made to women.

CRITICAL INCIDENTS IN DEFINING SMALL ENTERPRISE DEVELOPMENT PROJECT GOALS

DEFINITION:

The Tool consists of four "critical incidents" (mini-case studies) written to engage participants in a workshop on SED project design in a discussion of project goal issues. Specific objectives for use of these critical incidents include:

- To identify a range of project and institutional goals.
- To examine target group/project goal compatibility.
- To examine compatibility of SED project goals and the implementing organization's program principles.

SOURCE: CARE

The critical incidents are from Session Five of CARE's *Facilitator's Guide for the Asia Regional Workshop on Small Economic Activity Development*, currently available from PACT Publications. They represent somewhat fictionalized/synthesized accounts from real project experience and were created and written by Marshall Bear, Larry Frankel, and Dawn Wadlow.

HOW THE TOOL WORKS:

The facilitator should:

1. Introduce the session and read session objectives.
2. Divide participants into discussion groups of no more than eight members. Each group should have approximately half an hour to discuss each critical incident. There was no formal small group report back at the CARE workshop, although a training team member was assigned to each group to serve as a rapporteur and facilitator, since these issues were to be discussed throughout the workshop. If this is to serve as a stand-alone training session, reporting back would be advisable.
3. Remind participants that there are no right or wrong answers; the purpose of these critical incidents is to discuss value-laden choices in SED project design.
4. Small Group Discussions. (The key issues for discussion are presented after each critical incident.)

CRITICAL INCIDENT #1

> You are the Program Coordinator. Your project is nearing the end of the MultiYear Plan period. You have been working with 500 women in ten villages. Like most rural women in the country, they are engaged in two or three marginal activities to supplement family income. You know from a recent evaluation that some positive gains in income have been achieved as a result of your SED project. Your project manager strongly believes that there is still more work to be done. Two or three more cycles of credit would markedly improve the viability and growth of these economic activities; more training would upgrade their management and technical skills; and organizing the women into marketing groups would allow them to get a better price for their products. She tries to convince you that there is so much that can be done to enable the participants to expand their economic activities to the point that these activities can serve as a primary source of income, and that this will remain consistent with the income goal of the project.
>
> You have just received a report from the consultant you hired to take a look at the project. He feels the project puts CARE in a position to help a larger number of people because it has been successful and clearly has the potential for expansion. He agrees with your Project Manager that much more can be done with the original 500 women. However, he feels the women can continue to generate income from their economic activities, and the increases in income can be sustained without CARE assistance. He believes that given CARE's scarce resources, a wiser course of action would be to work with 500 new project participants rather than continuing to provide services to the original 500 participants.
>
> You see as a reasonable goal for CARE to increase the women's productive assets — equipment, skills, management capability, etc. — and break the cycle of poverty. On the other hand, you see the consultant's viewpoint that CARE's resources are finite. You must make a recommendation to the Country Director whether to continue to work with the current 500 project participants or shift your focus to 500 of the thousands of women eligible for CARE's assistance.
>
> Your Country Director asks for your recommendation by the end of the day (it's now 4:40 pm on Friday — Good Luck!!!)

Key Discussion Issues:

1. Is the final goal of the project to enable participants to secure a supplemental or primary source of income?
2. When to phase in and phase out of a project regarding a) the quality of assistance vs. the number of beneficiaries served, and b) whether the activity can be sustained without outside assistance;
3. Providing in-depth assistance to a small group of people vs. providing limited assistance to a large group of people; and
4. Establishing institutional linkages.

CRITICAL INCIDENT #2

> You are a CARE SED technician. You have just read an article which states that 800 million jobs need to be created worldwide by the year 2000. You realize that this number of jobs simply cannot be created by small economic activities that provide only self-employment to the owner. You feel from your experience that many people do not have the necessary capacity to operate their own economic activities or the interest to expand the ones they do have. You believe that these people may be better off employed by others and earning a decent wage. You reason that CARE needs to support businesses that have the potential to grow and employ people. Entrepreneurs are in the best position to do this. They are risk takers, they have skills and capital to invest, as well as the market contacts. You believe that a major part of CARE's SED approach should be to identify entrepreneurs who can create jobs through their businesses. You believe this is consistent with the SED sector goal of increased employment.
>
> You realize that CARE's mandate is to work with the poorest of the poor. This program principle implies that we work directly with poor people to give them opportunities to operate their own economic activities.
>
> You must decide if working with entrepreneurs to create jobs for poor people is consistent with CARE's program principle to work with the poorest of the poor.
>
> What is your decision?

Key Discussion Issues:

1. Self-employment through Income Generating Activities vs. employment through Small Enterprises.
2. Working indirectly with the poorest of the poor by working directly with those who have more resources to create employment opportunities;
3. The long term commitment required to develop new entrepreneurs and the greater risk this may place on the projects to generate immediate income benefit.

CRITICAL INCIDENT #3

It has been over two years since your project began working with several village artisans to produce and sell fuel efficient charcoal stoves. There was a need and a market for fuel efficient stoves given the increasing costs of charcoal in the country. The choice of stove production made good sense as a way to to generate income and employment for village artisans. At the same time, this is a country that is suffering from massive deforestation and widespread use of this stove could have a beneficial effect on the environment. The Mission feels that providing assistance to several stove producers could increase the needed income and attract other artisans to produce the stove. A recent report from your Project Manager mentions that there have been some income gains among the artisans but, despite your efforts, production levels and sales figures remain low.

The Mission has engaged a consultant to do a mid-term evaluation of the project. In her report she recommends that the goals be reexamined and an alternative strategy be implemented to achieve those goals. An engineer by training, she is familiar with the stove technology and knows of its potential to have a significant effect on reducing the use of the country's scarce wood to make charcoal. In a county that is suffering from massive deforestation, she feels that only a manufacturer that has the capital, skills, market contacts, and quality control standards can produce and sell enough stoves to have the needed environmental impact. She believes that the artisans you are currently working with can never achieve this level of production or sales. She has located a single entrepreneur who she believes can clearly produce and market the required number of stoves with some assistance from CARE. She argues that poor people who are CARE's traditional client population will benefit from savings in their fuel costs, and this strategy is consistent with CARE's program principles.

This producer is certainly not poor. He is not what your Mission would consider a traditional participant. The choice to directly support a single, relatively well-to-do individual would be a radical shift in the project strategy. Furthermore, several staff question whether this approach is justifiable in terms of CARE's program principles.

The Country Director calls a staff meeting to reach a decision on whether or not to change the design. What do you recommend?

Key Discussion Issues:

1. The choice of goal options between consumer savings and increase in income;
2. Using SED projects as a means to achieve a long-term goals for the benefit of society;
3. Creating backward linkages; and,
4. Working with more than one entrepreneur to avoid monopoly control.

CRITICAL INCIDENT #4

> You are a Project Manager. You have worked in this village for several months and have had extreme difficulty in getting women to participate in your SED project. Finally, a group of women approaches you for assistance despite the strong opposition of their husbands. They have organized themselves into a sewing group and request a loan to purchase sewing machines. Few members have even marginal sewing skills. This is the first sign of women organizing themselves in this destitute village.
>
> Your feasibility analysis of prior requests from sewing groups elsewhere shows a high risk of failure in this activity, even among women with significant sewing skills, because of stiff competition in the marketplace. You suggest several alternative activities which your own analysis shows could very likely be profitable, but they are not willing to try something they are unfamiliar with. They "know" from seeing other women in the village sew that they too can make money.
>
> You want to support the group but you cannot agree to give them a loan because of its high risk of failure. You don't want to risk putting the women in debt.
>
> This is an SED project and the goal of the project is increased income. You must decide whether or not these women are eligible for project assistance.

Key Discussion Issues:

1. Whether or not an SED project is a suitable option for a particular group?
2. The social promotion required to assist a group to identify a viable activity before receiving additional SED service interventions.

GUIDELINES FOR LOAN POLICIES AND PROCEDURES FOR SMALL ENTERPRISE DEVELOPMENT

DEFINITION:

Many PDOs have established loan funds to provide credit finance to poor people to expand or upgrade existing economic activities and/or start new ones. These guidelines are presented for PDOs to use in formulating loan policies and procedures for their loan schemes, whether newly planned *or* existing. PDOs will have to closely review any policies or procedures formulated to ensure that they contribute to rather than inhibit their project goals.

SOURCE: Partnership for Productivity International (PfP) and CARE

These guidelines were written by James Hochschwender, formerly of Partnership for Productivity (PfP) International. They have since been successfully used in several regional workshops by CARE.

THE TOOL:

This tool consists of a series of questions organized into three sections. The questions can be used as a planning tool, both before the program is started, and while it is ongoing to pinpoint areas in which the program might be strengthened. While it might be accompanied by alternative loan policies and procedures, we have not found this useful in our training. There are an almost infinite variety of acceptable policies and procedures based on client aspirations, expectations, and the local economic context. The intention of this tool is to aid PDO Boards and staff in thinking through the *issues* related to credit projects.

HOW THE TOOL WORKS:

The list of questions is laid out in a manner that will make thinking and deciding about loan policies and procedures simpler. The list is divided into three sections. In the first, "Client Characteristics," policies which pertain to the people to whom you intend to make loans are considered. These policies identify those people and the types of economic activities (income generation and/or small enterprise) which you will want to assist.

The second section, "Loan Characteristics," identifies the conditions and limits within which you will make loans to those borrowers. None of these should be arbitrary; they should be determined by what will meet the clients' needs. We all know we are not in a position to respond to everyone's request for assistance. We have to make decisions that will help us optimize what we can do with the limited funds at our disposal. You will have to think carefully about the questions in this section of the guidelines so that the types of loans offered to clients are appropriate to the people you want to assist.

The third section consists of questions on "Credit Program Procedures." These questions help outline the steps in the process of assisting clients, from initial contact through success of the economic activity and the repayment of the loan. When thinking about these steps you will be thinking about how you will go about providing loans. Also, consider how you will keep track of what you are doing in order to learn from your experience, and from the changing needs of your clients and their economic activities.

GUIDELINES

I. CLIENT CHARACTERISTICS

In project planning, you will have to decide who it is you wish to assist and in what economic activities you wish to assist them. You need to define a strategy that indicates what you would like your overall client group to be. Indicate the proportions of female and male clients, the proportion of group enterprises, client groups or individual enterprises, the proportions of clients of different income levels, and other possible characteristics of the people and their enterprises. This strategy reflects the aims and goals of your organization as well as the resources it has to work with. It also reflects the types and sizes of businesses that your area economic assessment revealed as the best opportunities, and reflects the needs and values of the people.

In this section, as well as section II and III, review the following policy areas, first one at a time and then as a whole. Draw upon your knowledge of the people, their needs, and realistic opportunities available to them for improving their lives. Then draw up your policies related to client characteristics.

A. Age and Sex — The guidelines you will have with regard to the age and sex of clients, i.e., maximum and/or minimum age and women and/or men.

   To consider:

   - how age of persons involved might affect the viability of the economic activity or the learning process;
   - what are the legal implications in defining age limits, e.g., lending to minors;
   - possibly others.

B. Location — Where the enterprises are located.

   To consider:

   - in what geographic areas do you plan to focus your lending;
   - do you plan to work in rural or urban areas or both;
   - what areas can you realistically reach with your staff and resources;
   - does the activity have to have a fixed locale and, if so, what is the basis for determining a fixed locale. This is particularly relevant for very small enterprises.

C. Type of Business or Activity — The types of economic activities that will be financed; commerce (vendors, traders, wholesalers, retailers), services (repair, construction, transport, clinics, food, storage, mechanics, distributors, etc.), manufacturing (milling, furniture making, etc.), and agribusiness (grain millers, food processors, resources extractors, woodcutters, and possibly others). Another criteria for type of business could be those that meet unmet demands for key products in rural markets.

   To consider:

   - local, regional or national market needs and resources;
   - how will your policy on types of business to be financed affect local economic development;

(continued on next page)

- will supporting those types of business make the local market/economy more dynamic;
- what types of business can your program adequately serve given its technical and management assistance resources, or what types of business can other local or regional programs adequately serve.

D. Status of Business — The legal and operational conditions clients must meet.

To consider:

- must the client have all necessary licenses/registration?
- must the enterprise be functioning before a loan can be made; if so, for how long?
- if the client will be a new business, then under what conditions can a loan be made?
- must the business be for-profit, not-for-profit, or can it be either?

E. Group and/or Individual Enterprises — The restrictions regarding different kinds of enterprises. A group enterprise is one in which all participants have ownership in common. Individual enterprises are those in which ownership and management tends to be concentrated in one or two persons. Groups of individual small enterprises are not considered group enterprises in this context.

To consider:

- what restrictions will govern whether group enterprises, individual enterprises, and/or groups of individual enterprises will receive loans?

F. Size of Enterprise — How big or small will the enterprises be that you assist?

To consider:

- what limits will define the size of the enterprises eligible for loans. These limits might be defined by amount of total assets, total fixed assets (with or without land and building), number of employees, total sales, net income, others.

G. Experience/Training of Business Persons — The background clients should have in the enterprises you will support.

To consider:

- what will be the borrower's requirements for technical and/or managerial experience or training. These could be defined by certain training courses, years experience in a technical or management capacity, or combinations thereof, either before they receive the loan or while they are using the loan.

H. Reputation — Generally, this is an unwritten criteria which looks for references on the client's character.

To consider:

- honesty and integrity — do they honor their commitments;
- capacity — are they seen as being able to do things;
- industriousness — are they consistently hard-working;
- other indicators of creditworthiness.

(continued on next page)

I. Involvement of Borrower in the Enterprise Being Financed.

To consider:

- what are the requirements for day-to-day involvement of the borrower in the business' decision making and management of the business, such as a certain number of hours per day, days per week, certain activities of the enterprise, etc.

J. Lack of Access to Other Credit.

To consider:

- what limits will be placed on lending to persons who could borrow or have borrowed from sources other than the project (i.e., banks and financial institutions), including supplier credit.

II. LOAN CHARACTERISTICS

The loan portfolio strategy needs to be determined. What sort of loans will you want to make to the clients you have described above? Consider the preferred proportions of different size loans; proportions of short, medium, and long-term loans; proportion of loans to different types and sizes of enterprise; and for different uses in those enterprises.

The definition of the following policy areas will be based on what you have determined (i) will respond to the needs of your clients; (ii) will prudently allow them access to loans in their present condition, and (iii) will enable you to extend your loan funds to as many of them as possible. Follow the same procedure as suggested under Client Characteristics for drawing up these policies.

A. Purpose/Use — For what purpose are the loans to be used?

To consider:

- for what purpose can your loan funds be used; e.g., to finance working capital (day-to-day operating costs), equipment, building or land purchases, refinancing other debt (if so, under what conditions would you lend for this purpose)?

B. Amount — How much you will lend to any group and/or individual.

To consider:

- what are the limits for the amount of money to be lent; maximum and minimum? This alternatively could be defined as a percentage of the revolving load fund;
- should there be a graduated series of limits for first- time borrowers, and second and third time borrowers? This will, to a certain extent, be affected by the people being served, their experience with credit, and the objectives of the project. For example, the minimum loan amount for a fund which was lending to individual microentrepreneurs would probably be lower than for one lending only to group enterprises.
- how might the minimum be determined by the economics of administering and following up individual loans (which is why some PDOs have chosen to make loans only to a group of microenterprises instead of dealing with them individually)?

(continued on next page)

C. Term — The length of time an individual or a group can borrow money.
To consider:

- how this varies for the type of business, the use of the loan, and the size of the loan;
- how different it is for clients without prior credit experience, or for first-time versus second or third time borrowers.

D. Repayment Schedules — The amounts to be repaid for each period of time (weekly, monthly, quarterly, etc.), which include interest and principal payments.
To consider:

- whether they are fixed (an equal amount for each period) variable, or lump sum (the total amount, either principal or principal plus interest, is paid at the end of the loan period);
- whether it is the same for all loans or variable, depending on the use of the loan and the financial ability to repay (cash flow of the enterprise);
- how repayment amounts will be determined;
- what the limits are for any grace periods (period of time before the first payment is due);
- what is the payment grace period. If a payment is received within a certain number of days after it is due, for instance 5-20 days on a monthly payment, whether it is still considered to be "on time" and no additional interest is charged.

E. Rescheduling/Renegotiation — Changing when the loan must be repaid after the loan has been made, or changing other terms of the loan agreement.
To consider:

- under what circumstances will the project reschedule loan repayments or renegotiate the terms of a loan such as in cases of robbery, sickness, and possibly others?

F. Interest Rate — What is the cost to the borrower of the money as expressed by a percentage of the amount of money borrowed.
To consider:

- whether it will be the same for all loans or variable depending on the clients, the use of the loan, the amount of the loan, the cost of making the loan, or other reasons;
- how the interest charges are determined; (simple interest declining balance basis, discounted in advance, collected in advance, compounded interest, and possibly others);
- Real effect of interest rate on (a) business, (b) area, and (c) sustainability of program.

G. Other Fees — What the charges could be for the loan application, processing, penalties late payment, and related services (training, management assistance, etc.).
To consider:

- whether they will be flat, graduated, or variable fees depending on size of the loan, client, services provided, location, and other considerations to be defined;

(continued on next page)

- what fees are necessary for program stability (economic, client seriousness, and other factors);
- what is the best mix of fees and interest for meeting program and client needs.

H. Security — The tangible assets, if any, that are pledged as collateral on a loan so that in case the borrower does not repay, the proceeds from the sale of these assets can be used to pay off the debt.

To consider:

- what assets are acceptable for collateral?
- what legal procedures/formalities are required for registering the collateral?
- what amount of collateral is required as a percentage of the loan?
- at what percentage of market value or cost are assets valued as collateral?
- what security is needed to motivate clients to repay their loans responsibly?
- whether the project will take the pledged assets from a client who is not repaying (if not, any security policy will be ineffective).

I. Guarantees — Agreements and mechanisms by which individuals or groups certify willingness to pay off the loan and interest if one borrower refuses or is unable. These guarantees can be personal (individual) or by group (each member of a group guarantees the loans for all other members of the group).

To consider:

- who are acceptable guarantors (their characteristics)?
- what are conditions for calling on a guarantor to pay the loan? (Some laws indicate the evidence that must be submitted before a guarantor is obliged to pay.)
- in what instances will a moral guarantee be used in the absence of a legal one? (a PDO "guarantees" to a bank that its borrower will repay because the PDO is providing other necessary technical or managerial support to that enterprise).

J. Conditions of Default — When a borrower is not meeting the terms of the loan agreement.

To consider:

- what indicates that the terms of the loan agreement have been broken; for example, number of days after a payment is due, sale of assets, changes in management, etc.

K. Client Contribution — The portion of the activity being funded by the loan that must come from other sources.

To consider:

- what a client must put into enterprise to show good faith. This can be defined by a loan/equity or loan/assets measure or some other measure of contribution, such as hours spent developing the business or doing various tasks to start up the business.

(continued on next page)

L. Reporting — What are the periodic reports, containing certain information that borrowers are required to submit.

To consider:

- what is the necessary financial information about the business and family income?
- what changes should be tracked in the business, family, and community?
- what is the easiest system for borrowers to provide the needed information?

III. RELATED PROCEDURES

You have looked at what you will do (Loan Characteristics) and with whom (Client Characteristics). It is now necessary to look at how to implement your client and loan strategies. Decisions need to be made covering each of the areas listed below. The purpose of this part of the process is to come up with effective and quick ways to assist clients: *effective* in that the process does meet clients' needs, and *quick* in that the process is streamlined while still having the steps necessary to be effective.

A. Application — How clients come to the project and ask for assistance.

To consider:

- how potential clients will find out about the project and its services;
- how they will apply for loans;
- what information they will be required to provide;
- how they will provide the information (through interviews, filling in an application form, or possibly others);
- what other requirements they must meet before they can apply for a loan (e.g., training/orientation courses, site visits of field extension officer, active members of a group, etc.);
- who in project will be responsible for:
    (1) informing potential clients about the project;
    (2) orienting/assisting them in the application process;
    (3) receiving applications and reviewing preapplication qualifications;
    (4) packaging applications for further review;
- how loan applications/applicants are tracked so there is a record of what has been done;
- what preparation/training are borrowers given for credit.

B. Review/Approval — This process involves making the decision to lend or not to lend.

To consider:

- what are the criteria upon which the decision will be based?
- once potential borrowers have met policy guidelines, then what other benchmarks will be used to judge their projects and loan applications?

(continued on next page)

- how will the project/loan applications be completed (e.g., site visits, interviews, analysis of information, reference checks, investigation of previous debt, and other activity)?
- who and which job positions have what authority in reviewing and approving/rejecting loan applications?
- what limits there are as to the amount each individual or each level of staff and Loan Review Committee can approve;
- what checks or controls are there to avoid misuse of lending authority;
- what records are kept of these steps in the process.

C. Disbursement — This covers the steps in actually giving loan proceeds to clients. To consider:
- what are these steps?
- what kind of agreement there is between the PDO and the clients; formal and legal, written, etc.;
- what tasks must be completed by the borrower and by project staff?
- whether the loan is extended in cash or in kind;
- whether it is extended through a bank, financial institution, the PDO, or some other agency;
- who actually delivers the loan to the borrower, and where is it done?
- what records and receipts are used/kept on disbursements, i.e., loan ledger card indicating amount of loan, repayment period and amount, date loan disbursed, plus relevant vouchers and other records.

D. Repayment — How the client actually makes payments of interest or other fees and repays principal (the amount loaned).
To consider:
- If payment is made at offices (of PDO, bank, etc.) or in the field (at place of business, at particular place designated for repayments, etc.);
- who receives the payment;
- what receipts and records are kept of repayments;
- how loan repayment is monitored by management;
- if payments are in cash and/or in-kind; if they are in-kind, how the value of in-kind payments is determined.

E. Collection — What is done when a borrower is not meeting the terms of the loan (not repaying loan, not using loan for intended purpose, closing the enterprise, selling assets, changing key staff, moving out of project area, etc.).
To consider:
- what steps are taken to contact borrower and serve notice of default, collect repayment, foreclose on collateral, notify loan guarantor of the default, and any other necessary steps?

(continued on next page)

- who is involved in collection (field staff, headquarters staff, outside collection agent/company community or group leaders, other agents)?
- what records are kept of the collection process.

F. Renegotiation — When a borrower is having legitimate difficulty repaying a loan according to agreement, the steps the project takes to bring the loan back in line, in accordance with the rescheduling/renegotiation policy.

To consider:

- what is the process for reviewing the condition of the enterprise and client?
- what is the process for deciding on a course of action?
- what is the process for approving changes in original loan agreement?
- who will be involved in each step (field staff headquarters loan committee, outside consultants, group leaders, community leaders, etc.)?

G. Documentation/Reporting — Documentation process required for booking loans and follow up of repayments.

To consider:

- what legal formalities must be followed with respect to loan agreements and collateral taken to secure the borrowing, e.g., guarantees, charges, liens and others?
- what information needs to be recorded on individual loan ledgers and loan lists for monitoring purposes?
- what progress reports are to be submitted by PDOs to their management and Board and how often, e.g., progress reports on a monthly basis, quarterly reports on loan disbursement, repayment status, and others;
- what progress reports are to be obtained from enterprises by PDOs for monitoring business performance (income statements, balance sheets, cash flow, production records and others).

H. Related Services — Those other services (group formation, management training or assistance, technical training or assistance, information, legal, etc.) that are provided to clients who are potential and actual borrowers.

To consider:

- what technical assistance and/or management assistance clients require in preparation for loan assistance, e.g., planning assistance, cost analysis, inventory control, marketing advice, identifying appropriate tools and machinery, etc.;
- when the loans are granted, what services are provided to clients to facilitate efficient utilization of credit?
- what are the steps in providing these related services, and who on staff will do what to provide them?
- what are the frequency and nature of contacts by staff after loans are extended?

(continued on next page)

- since follow up is a key to the success of the loan program, how will the staff determine that loan funds are being well maintained by the borrower, and how often will they make the follow-up visits?

I. Inter-Institutional Relations — Working with other agencies or projects.
To consider:
  - how are existing financial institutions used within the areas of program operations such as loan disbursement, collection and/or administration?
  - what agreements between the financial institution and PDOs will be required, and what will be their terms and conditions?
  - what are the terms and mechanics of services provided by training, management and/or technical assistance organizations which are linked to loans; whether they are formal or informal?
  - what are the steps in the process for integrating/coordinating the provisions of those services as they are needed by borrowers?

J. Use of Interest and Other Loan Income — How you will apply these funds.
To consider:
  - how interest earnings from loans and other loan income (service charges, etc.) will be utilized, such as for default coverage; as an inflation hedge (to maintain real value of loan fund); to cover loan administration costs, training, other assistance, and/or overhead costs, to make investments; or for other purposes.

K. Writing-off Bad Debts — Removing unpaid loan amounts from the project books that will not be repaid from the loan fund.
To consider:
  - how you will go about removing uncollectible loans from loans outstanding records;
  - after how long and after what efforts of collection will a loan be considered uncollectible, and therefore be charged off in project books?
  - who will recommend/approve such write-offs;
  - what records will be maintained of charged-off loans for purposes of follow up, and by whom will they be maintained and reviewed?
  - how will borrowers whose loans have been written off the project books be dealt with?.

L. Training — The activities related to ensuring that the staff are prepared to do what is called for in your plans.
To consider:
  - what are the steps in orienting/preparing staff to understand and implement the project according to the above policies and procedures.

JOB DESCRIPTIONS AND TASK ANALYSIS FOR SMALL ENTERPRISE DEVELOPMENT-RELATED POSITIONS

DEFINITION:

This tool includes guidelines and examples of how to prepare job descriptions. Written job descriptions for every position, from Executive Director down to night watchman, are necessary for any private development organization to effectively manage its operations and staff. Job descriptions provide the written terms of reference by which employees and supervisors are guided in their work and in their professional relationships. Written job descriptions are important, particularly for PDOs in the development stage, because they provide the PDO with terms of reference for recruiting, hiring and managing new staff.

SOURCE: Opportunity Industrialization Centers International (OICI)

The guidelines for writing job descriptions and the examples were created by Opportunities Industrialization Centers International (OICI). The development of written job descriptions is documented in OICI's Management Control Systems Manual. This Manual is one of several manuals that provide references and guidelines for the management of OICI and its affiliates in Africa, Asia, Central America and Europe.

THE TOOL:

This tool contains guidelines for the development of written job descriptions and examples of job descriptions for SED-related positions. It is organized into three parts including (I) Steps to Create a Written Job Description, (II) a Task Ranking System, and (III) Sample Job Descriptions.

HOW THE TOOL WORKS:

Creation of job descriptions for all positions within a PDO should be very much a collaborative process. The development of human resources provides a PDO with one of its most valuable assets. Human resource development requires an investment of time and financial resources, but it is an investment in the future effectiveness and efficiency of the organization. Personnel costs such as salaries, fringe benefits, training and supervision, consume a very high percentage of overall budgetary expenditures. Therefore, the positions that PDO budgets support deserve considerable professional and technical attention in their development.

Development of SED-related job descriptions should go through several steps before they are formalized. Management, current staff, and possibly potential clients should have varying degrees of input into the job description development process. Such involvement increases support of and commitment to the position from all the critical stakeholders.

CASE EXAMPLE:

Cameroon OIC (COIC) won a three-year, World Bank contract for a nationwide project to address the self-employment needs of more than 1,000 retrenched civil servants through the National Employment Fund (NEF). The project included general and intensive management skills training, business advisory services, and the provision of credit.

The implications of the NEF project on COIC were profound. COIC had a SED unit that provided management skills training and entrepreneurial development services for approximately 200 individuals per year. With the new project, the SED unit grew from three to nine staff persons, and expanded to two regional offices.

In terms of positions and job descriptions, the greatest change was in the role of the existing SED Coordinator. There was also a need to create a new position, Coordinator for the NEF project. The SED Coordinator's responsibilities changed from that of supervising two staff at one center, to that of supervising eight staff in three centers.

Supervision was one of the tasks that COIC analyzed in terms of both existing and new job requirements.

Existing: To supervise and manage the work of subordinate SED instructors.

New: To supervise and coordinate the work of subordinate project coordinator and SED instructors, credit access coordinators and branch managers; consolidate and disseminate project reports to donors; trouble-shoot management problems; and provide overall harmony between the SED operations of three regional units.

COIC used a Task Rating System to examine the implications of the changes in this task in terms of importance of the task, frequency of performance, and difficulty of performance.

Existing:	Importance:	Moderately important
	Frequency:	Weekly
	Difficulty:	Easy
New:	Importance:	Critical, most important
	Frequency:	Several times a week
	Difficulty:	Moderately to extremely difficult

Some of the issues and policies this analysis suggest for the COIC Board of Directors and senior management to consider include:

- Increased management skills training of the SED Coordinator so that he can more comfortably and confidently assume his expanded responsibilities.
- The increased level of importance, frequency and difficulty in the task analysis implies a heightened level of attention and importance on the recruitment for the new NEF Coordinator. This also raises issues regarding the qualifications necessary, and whether the compensation level for this position is adequate to attract suitably qualified candidates.
- There will also be an expansion of functional responsibilities from simply training, to training plus credit access and formal business advisory services. This raises the issue of how to acquire some of the additional skills from sources other than full-time staff.

I. STEPS TO CREATE A WRITTEN JOB DESCRIPTION

STEP 1. Definition of PDO mission, goals and objectives

The PDO should have a well defined mission and goals statement prior to the development of any written job description. This statement provides the general terms of reference which guide all the activities and operations of the organization.

STEP 2. Organization Chart

On a preliminary basis, the PDO would create an organization chart. The organization chart would define the lines of authority and functional location of positions working within the PDO. The status and alignment of positions should be consistent with the goals and objectives the PDO wishes to achieve.

STEP 3. Conduct an SED and Credit Needs Assessment

Once the PDO's goals and mission are determined and the position has been located within the organization, a job assessment should be undertaken to determine (a) what are the major accomplishments required by the position, (b) what tasks need to be undertaken in order to achieve the expected accomplishments, and (c) what are the primary skills and experiences required to perform the tasks. Also, an assessment of the of target clients' needs should be conducted to determine training and credit needs, the entrepreneurial characteristics, and the economic environment in which target clients operate. Needs, problems and issues identified by these assessments will provide input regarding the type of staff and skills needed to accomplish PDO and SED goals and objectives.

STEP 4. Draft a Preliminary Job Description

It is at this point that the development of job descriptions begins. Appropriate PDO staff might discuss the parameters of the position and assign one person to draft responsibilities. The job descriptions can be based on models derived from other organizations, including details specific to the position derived from the job and needs assessments, as well as the ideas and suggestions contributed by participating staff.

The job description should have a job title, define the general areas of responsibility, locate the position within the organization, indicate lines of supervision, list specific duties, and list the requirements and qualifications. For example, if the needs assessment determines that potential target group members require a lot of assistance in bookkeeping, it would suggest that the job descriptions and requisite qualifications would call for those with backgrounds in accounting and bookkeeping.

STEP 5. Review and Refine

The draft job description is then reviewed by the staff principally responsible for its development, the immediate supervisor for the position, other staff in similar positions or with similar levels of responsibility, the personnel officer, and senior management. Once consensus has been obtained a final written job description can be produced.

STEP 6. Various Uses for a Job Description

Within an organization job descriptions serve a variety of functions.

(a) They can be used by management to insure that all critical functions and tasks are designated and assigned within the organization and to determine the interrelatedness and interdependencies within the organizational structure.

(b) They provide the basis for recruiting and interviewing.

(c) Contractual relationships with employees are based on the requirements of a job description, which should be acknowledged in the contract and attached. This sets employee performance expectations.

(d) Job descriptions form the basis for monitoring performance and providing feedback to employees. They provide an objective standard by which performance can be assessed.

Ideally, the job description should be reviewed and mutually agreed upon at the time of performance evaluation.

II. TASK ANALYSIS SYSTEM

A task analysis can be undertaken at several points in the life of a position. It can help to analyze the requirements of a position in order to determine the qualifications and experience required to successfully carry out the job. It can allow a supervisor and an employee to analyze time and effort allocation within a position. It can help to determine if a position needs to be upgraded because of additional duties and responsibilities. Analysis of each task includes ranking the task by the following three categories:

a. **Importance** (this is the importance each task has relative to others to be performed within the position):

Ranking	*Significance*
1	Critical, most important
2	Moderately important
3	Marginal/no importance or relevance

b. **Frequency** (i.e., how frequently each task is to be performed):

Ranking	*Significance*
1	Daily or more
2	Several times a week
3	Weekly
4	Monthly
5	Occasionally

c. **Difficulty** (i.e., how difficult relative to others will the task be to perform):

Ranking	*Significance*
1	Extremely difficult
2	Moderately difficult
3	Easy

This ranking system helps to quickly locate those tasks that are the most important and require particular attention within the overall job. For example, a task that is critical must be done frequently, is difficult and requires greater time allocation than a task that is easy, of only moderate importance, and needs to be done occasionally.

III. SAMPLE JOB DESCRIPTIONS

Three sample job descriptions follow.

Editor's Note: The first job description was provided by OICI. The two other job descriptions for the OICI Program in Cameroon were developed for this tool by the editors. Also see page 84 for an example of an Executive Director job description.

OICI JOB DESCRIPTION

JOB TITLE: Management/Training Specialist

JOB LOCATION: Philadelphia

REPORTS TO: Director of Program Development & Support

SUPERVISES: N/A

DEFINITION:

The Management/Training Specialist provides technical support services to interest groups and operating OIC programs. Specific areas of responsibility include development of affiliate Boards of Directors and management control teams, coordination of institutional development conferences (or technical assistance conferences), and monitoring the development of critical program documents.

DUTIES:

1. Provide training and technical support services to OICI interest groups.
2. Provide training and technical support services to OICI affiliate Boards of Directors.
3. Provide training and technical support services to OICI management control teams and staffs.
4. Assist in the development of OICI affiliate management control systems.
5. Coordinate the planning and implementation of OICI's annual institutional development conferences.
6. Coordinate and monitor the development, distribution and utilization of OICI's critical program documents, manuals and guidelines.
7. Assist in implementing preservice training activities for central office staff.
8. Perform other responsibilities as directed by management.

JOB DESCRIPTION

JOB TITLE: NEF Coordinator/Credit Advisor

JOB LOCATION: OIC Cameroon

REPORTS TO: SED Coordinator

SUPERVISES: Credit Officers

DEFINITION:

The NEF Project Coordinator/Credit Advisor plans and coordinates the activities of nine branch Credit Officers and provides direct technical assistance in the area of credit delivery methodology to COIC and NEF.

DUTIES:

1. NEF Coordinator:
   a. Provide liaison and act as advisor to COIC training center, NEF, Cameroon partners and clients.
   b. Coordinate COIC-provided technical assistance.
   c. Be responsible for preparation and monitoring of the credit delivery annual plan. The Plan will detail the tasks COIC will undertake during the year. It will include a timeline schedule for accomplishing all tasks, with designations of who performs each item.
2. Credit Advisor:
   a. Provide counsel and advice to COIC and the NEF on any and all matters related to credit operations, including interest rates, fees charged, improving efficiency of lending operations; most effective ways to reach women borrowers; self sustainability strategies.
   b. Advise on methods of including an effective savings mobilization component in the project.
   c. Investigate the feasibility of "borrower buying groups" to enable borrowers to save on purchases of raw materials or other items.

QUALIFICATIONS:

- Four years of experience working on small credit projects
- University degree in Business or Economics
- Two years experience supervising Credit Officers or equivalent level
- Demonstrated ability to develop computer financial models

JOB DESCRIPTION

JOB TITLE: Credit Officer

JOB LOCATION: COIC

REPORTS TO: Credit Advisor

SUPERVISES: N/A

DEFINITION:

The Credit Officer works directly with clients to promote the credit program, assist clients to determine credit needs, manage the application and approval process for assigned area, insure prompt delivery and collection of loans, track assigned loan portfolio performance, provide periodic portfolio information.

DUTIES:

1. Conduct survey to determine credit needs within area of assignment.
2. Initiate client contact.
3. Meet with clients to determine credit needs and business viability.
4. Assist clients with applications, including visits to workplace, completion of financial analysis forms, collection of client baseline data, verification of guarantee information.
5. Analyze loan applications and make recommendations to Credit Committee regarding creditworthiness of clients.
6. For approved loans, disburse funds, obtain signature on contract, verify conditions precedent, formalize relationship.
7. Follow-up with clients; ensure repayment procedures.
8. Data collection, data treatment, reporting.

QUALIFICATIONS:

- Previous experience working in "grassroots" activities
- Secondary or university degree
- Demonstrated ability in mathematics
- Previous credit experience preferred

PERSONNEL EVALUATION INSTRUMENT

DEFINITION:

The tool is a form used to assess staff performance in relationship to 11 critical criteria. The tool forms part of a participatory evaluation system aimed at achieving objectivity, motivating performance, and building teamwork in the organization.

SOURCE: Katalysis: North/South Development Partnerships and Organización de Desarrollo Empresarial Femenino (ODEF)

The Katalysis Foundation was established in 1984 to help low-income people in Central America become more self-sufficient and improve their standard of living. To do so, Katalysis works in partnership with indigenous development organizations. Currently, Katalysis has four southern partners including BEST (Belize Enterprise for Sustained Technology) in Belize, ODEF (Organization for Women's Enterprise Development) in Honduras, CDRO (Cooperative Association for Western Rural Development) and MUDE (Women in Development) in Guatemala. Katalysis provides technical assistance, institutional development services, strategic planning, and financial support to the four southern organizations which, in turn, provide hands-on development services to their low-income constituents.

THE TOOL:

One of the underlying goals of the Katalysis Partnership is to help its southern partners become sustainable over the long run. A Matching Grant from A.I.D., initiated in late 1990, has allowed the Partnership to focus on building the sustainability of each member agency. *Sustainability Strategies*, which address institutional strength, programmatic integrity, and financial stability, have been developed for each of the partners.

As part of the institutional development component of these strategies, the partners have each designed a personnel evaluation instrument. The instruments, designed by each partner, differ according to the structure and philosophy of their organizations. ODEF, the Honduran Partner, designed a detailed tool that provides quantifiable results. The tool was designed jointly by the management and staff of ODEF. The process was facilitated by Katalysis. Through extensive discussion and debate, 11 critical aspects of job performance were identified. These include:

1) **Work Quality:** Precision, presentation, efficiency and effectiveness of work according to established quality standards.
2) **Productive Capacity:** Satisfactory output, speed and consistency according to production standards.
3) **Interest and Cooperation:** Consistency and diligence at assigned duties. Willingness to work in cooperation with others for the common good of the organization.
4) **Sense of Responsibility:** Ability to complete tasks to specification and by the deadline.
5) **Desire To Learn:** Interest in learning new job-related skills to improve work quality.
6) **Initiative:** Ability to pursue avenues of improvement. Ability to resolve problems without supervision.
7) **Interpersonal Relations:** Demonstrated respect for others, ability to work on a team and avoid conflict, and good relations with supervisors, colleagues, and subordinates.
8) **Attendance and Punctuality:** Daily attendance and punctuality.
9) **Organization of Work:** Adequate organization in work.
10) **Adaptability:** Readily adaptable to changing job situations.
11) **Leadership:** Capable of orienting, instructing and motivating others.

HOW THE TOOL WORKS:

Each of these job aspects is assigned a total potential point value, based on its relative importance. Within these categories, ODEF decided to rank staff performance according to five levels; namely, deficient, fair, good, very good, and excellent. Each of these levels is assigned a maximum and minimum point value.

The distinctive feature of this evaluation methodology is that both the supervisor and the employee participate. Both complete the form independently and then come together for an interview to review and compare results. The final evaluation is based on an average of the points assigned by the supervisor and employee, or an agreed upon amount based on the interview.

CASE EXAMPLE:

Since July of 1991, ODEF has employed the personnel evaluation instrument with all members of its staff. Evaluations are conducted every six months. Each manager is responsible for carrying out evaluations in a timely fashion for all staff members falling under their supervision. The results of all evaluations are collated and reviewed by top management. The Board of Directors receives copies of all exceptional or problematic evaluations.

ODEF management reports that the evaluation instrument has greatly improved personnel relations and staff performance. It ensures systematic and relatively objective evaluation procedures. The staff reports that their evaluations are more fair as a result. They appreciate the opportunity to evaluate their own performance. They identify the evaluation interview as a useful forum for the clarification of outstanding issues, the resolution of any identified problems, and better communication.

ORGANIZACION DE DESARROLLO EMPRESARIAL FEMENINO (ODEF)

SERVICE AND MERIT EVALUATION

Employee Name: ____________________

Position: ____________________ Department: ____________________

Evaluator Name: ____________________

Evaluation Period From: ____________________ To: ____________________

Location: ____________________ Date: ____________________

INSTRUCTIONS (for Evaluator and Employee)

- The evaluation reviews 11 basic job aspects at five performance levels, with each level containing its own minimum and maximum values. A brief description is provided for each job aspect and each performance level.
- Both the employee and the evaluator should complete the evaluation form separately. A performance level should be selected for each job aspect. Points should be assigned accordingly and must fall between the minimum and maximum values for the chosen performance level.
- Be sure the evaluation is done **carefully** and **objectively**. Do not let personal feelings, positive or negative, influence the evaluation.
- If either the employee or the evaluator are upset or preoccupied, save the evaluation for a later time.
- An interview should be held to review and correlate the written results; this interview should lead to improved performance and help to harmonize relations.

ODEF Personnel Evaluation

Job Aspect/Rating	Deficient		Fair	
I. Work Quality Precision, presentation, efficiency and effectiveness of work according to established quality standards.	15	35	45	60
	Frequently commits errors leading to setbacks and repetition. Spends more time than needed to complete a task.		Often less work completed than expected, a propensity to commit errors. Requires much supervision.	
II. Productive Capacity Satisfactory output, speed, and consistency according to production standards.	10	20	30	40
	Does not show sufficient productivity to justify retaining position. Shows no interest in improving.		Substandard productivity. Shows some interest in improving.	
III. Interest and Cooperation Always busy and working. Consistency and diligence at assigned duties. Willingness to work in cooperation with others for the common good of the organization.	5	10	15	20
	Does not cooperate. Careless with materials and tools. Personal appearance unacceptable.		Shows little interest in cooperation. Rather careless with materials and tools. Personal appearance substandard.	
IV. Sense of Responsibility Ability to complete tasks to specifications, satisfactorily and before the deadline.	10	20	30	40
	Work does not seem important. Needs constant supervision.		Has desire to be responsible and to do what is assigned but is not always dependable.	
V. Desire To Learn Interest in learning new job-related skills to improve work quality.	5	10	15	20
	Never demonstrates the desire to learn anything new.		Shows little interest in learning. Generally interested in the simple tasks.	
VI. Initiative Ability to pursue avenues of improvement. Ability to resolve problems without supervision.	10	20	30	40
	Never knows what to do when things go wrong or when a problem presents itself.		Sometimes looks for a solution to problems.	
VII. Interpersonal Relations This category measures behavior in: • Respect for others • Relations with supervisors, colleagues, and subordinates • Ability to work on a team and avoid conflict.	10	20	30	40
	Neither attentive nor courteous. Does not adapt to the group. Treats supervisors, colleagues and subordinates brusquely, elicits conflicts and problems. Not sociable.		Little ability to work with others. At times evokes conflicts with supervisors, colleagues and subordinates. Not very sociable.	
VIII. Attendance and Punctuality Refers to daily attendance and punctuality.	5	10	15	20
	Personal absences are frequent. Sick very often. Can't count on this person regularly. Often arrives late.		Often absent. Frequently incapable of working. Mistakes sometimes manifested due to absences. Sometimes arrives late.	
IX. Organization of Work Exhibits adequate organization in work.	10	20	30	40
	Does not organize work. What is accomplished is a product of an improvisation that often results in setbacks or mistakes.		Generally disorganized. Gets organized along the way and often is unable to coordinate effectively with co-workers.	
X. Adaptability Is able to adapt readily to changing job situations.	10	20	30	40
	Is not able to do job in a different way. Cannot accept new work methods or situations.		Sometimes accepts new work methods under supervision. Does not adapt quickly to new situations.	
XI. Leadership Capable of orienting, instructing and motivating others.	10	20	30	40
	Does not motivate or lead others. Does not use 0authority well or inspire the respect or confidence of others.		Sometimes motivates and leads others. Scarcely uses authority well and seldom gains the respect or confidence of others.	

Good		Very Good		Excellent	
75	90	105	120	135	150
Generally does good work, but still needs some improvement.		Work is good quality. Well organized, efficient. Shows interest and is consistent and fast.		Work quality is better than expected. An exceptional worker.	
50	60	70	80	90	100
Sufficient and satisfactory productivity according to what is assigned.		Productivity at times exceeds what is required.		General productivity exceeds what is required. Notably fast and consistent in their work.	
25	30	35	40	45	50
Interest and cooperation are enough to complete work. Somewhat careful with materials and tools. Personal appearance acceptable.		Interested in own work and that of colleagues. Very cooperative. Careful with tools, materials, and personal appearance.		Interested in own work and colleagues work. Shows great desire to learn more. Wants to improve systems and materials. Very careful with personal appearance.	
50	60	70	80	90	100
Fairly responsible and completes assigned tasks acceptably.		Always interested in work. Completes tasks on time and accurately.		Extraordinarily responsible. Finishes everything on time and without flaws.	
25	30	35	40	45	50
Occasionally seeks new information but is not anxious to learn.		Generally looks for new information and often tries to learn more.		Always seeks new information in order to learn and improve.	
50	60	70	80	90	100
Shows initiative but sometimes does not know how to resolve a problem.		When a process fails, looks for solutions.		Always finds a solution to a problem.	
50	60	70	80	90	100
Maintains good relations with supervisors, colleagues, and subordinates. Able to interact with the public. Maintains acceptable personal relations.		Courteous and attentive to others. Maintains very good relations with others. Very sociable.		Maintains excellent relations with others. Likable and inspires confidence. Is a leader and sets good examples.	
25	30	35	40	45	50
Seldom absent or tardy. Absences and tardiness are for the most part acceptable.		Almost never absent and very punctual. Always gives prior notice of absence or tardiness.		Superb punctuality and attendance. Can always be counted on. An exemplary employee.	
50	60	70	80	90	100
Organizes work but not as efficiently as possible. Is able to finish on time despite some setbacks.		Organizes and coordinates work with co-workers with great foresight. Results are suitable and correct.		An exceptional organizer and coordinator. Allows ample time to revise and plan for the next task.	
50	60	70	80	90	100
Accepts change despite rather slow progress. Adapts to new situations when the process is not very complicated.		Accepts changes with enthusiasm and helps to incorporate them. Easily adapts to a new work situation.		Rapidly adjusts to many different tasks. Very flexible and readily accepts any new process or method.	
50	60	70	80	90	100
Regularly motivates and leads. Often gains the respect and confidence of others. Wisely uses authority.		Almost always motivates, leads and wins the respect and confidence of others. Delegates authority well.		Motivates and leads others. Uses authority and delegates responsibility well. Assigns responsibility according to personal interest. Easily wins the respect and confidence of others. Negotiates well.	

Name of Employee: ________ Position: ________

Date Submitted: _______ Date of Evaluation: _______

Evaluation Period, From: ___To: ____

Evaluation Aspects	Assigned Points	Personal Evaluation	Professional Evaluation	Total Points (Average of Personal and Professional)
Work Quality	150			
Productive Capacity	100			
Interest & Cooperation	50			
Responsibility	100			
Desire to Learn	50			
Initiative	100			
Interpersonal Relations	100			
Attendance & Punctuality	50			
Organization	100			
Adaptability	100			
Leadership	100			
Points Received	**1000**			
Percent	**100%**			

1. **COMMENTS AND SUMMARY** (supervisor and employee) **attach extra pages if necessary:**

Improvement needed in:

Special circumstances that may have affected employee's performance during the evaluation period.

PROGRAM DIRECTOR SELECTION PROCESS CHECKLIST [28]

DEFINITION:

This tool is used as a checklist, reference and guideline to assist Boards of Directors of private development organizations to effectively perform the critical task of selecting and hiring a Program Director. It is a quantitative, objective and nonexclusive method for Boards to make the most important decision they ever have to make. Recruitment and selection cannot be casually approached, since the Board is the guardian of the interests of the PDO as well as the employer of the Program Director.

SOURCE: Opportunities Industrialization Centers International

The Program Director Selection Process Checklist was designed by Opportunities Industrialization Centers International (OICI) and is contained in Section 8, "Board, Management and Staff Relationships," of its Board of Directors Manual. The Manual itself is a critical reference and guideline which OICI and its affiliates in Africa, Asia, Central America and Europe use in developing Boards of Directors.

HOW THE TOOL WORKS:

Use of the checklist is but one of several steps a Board takes in recruiting and hiring a Program Director. The following are initial steps Boards take before, during and after using the checklist:

1. **Creation of a search committee:**

   The purpose of the search committee, made up of Board members, is to assist in recruiting and selecting the Program Director. The first task of the committee is to decide on the skills and attributes necessary. These will constitute the checklist and should be translated into a job description, salary scale, and recruiting advertisement(s).

2. **Screening of applications/resumes:**

   The search committee should screen the applicants down to five people and closely examine each. Personal and professional references should be checked.

[28] The term for the chief executive officer varies from executive director to program director, program manager, and president. For purposes of this tool, program director is used.

3. **Personal interview:**

   The entire committee should be involved in the interview process. Interviews should be conducted in a straightforward, candid manner. The goal is to determine if there is a match between the candidate and the skills and qualifications required of the position. A useful technique is to pose real-life issues and problems facing the PDO, and ask the candidate how s/he would solve them.

4. **Final selection:**

   It is in the final selection process where the checklist is used. Personal instincts, gut feelings, and certain biases of the committee should, of course, play a role in the final selection. However, the checklist, with its rating scale of 0 to 5 (with five being the highest mark) is suggested. The checklist should not be used during the interviews.

   Key elements of the checklist include:

   a. *Knowledge of the PDO's mission/vision.*

   b. *Appropriate technical knowledge of the service areas the PDO provides*: for example, small enterprise development, management skills training, and the design and implementation of a financially viable credit access program.

   c. *Understanding of the role of a PDO Board of Directors.*

   d. *An adequate grounding in overall financial management*, including budgeting, cost analysis, and the interpretation of financial results reported from the PDO's finance manager/section.

   e. *The ability to effectively communicate, both verbally and in writing.*

   f. *The ability to lead and direct fundraising campaigns.*

   g. *Experience with interpersonal relationships, leadership and supervision*, including a knowledge of how to develop and implement appropriate personnel policies and procedures.

   h. *A thorough knowledge of basic management concepts* such as planning, leading, organizing and controlling.

   i. *Candidate's commitment to* (i) PDOs in social and human services; (ii) working at a level of compensation likely to be lower than what the person could earn elsewhere; (iii) willingness to subordinate personal ambition to the needs and goals of the PDO; (iv) patience and tolerance; and (v) working hard to achieve success.

   The search committee then recommends two or three final candidates for the full Board or Executive Committee to interview before an official offer is made.

OTHER USES:

The checklist can be modified and used as an interview guide for other positions.

Items on the checklist can be weighted so that priority skills and attributes receive greater consideration in any final tally of interviewer assessments.

A CHECKLIST FOR USE IN THE SELECTION PROCESS

Checklists should follow a simple format and include both skills and traits. The following is a sample format that could be modified to reflect the needs of individual programs. The number 5 is the highest order and reflects an excellent rating; the number 0 reflects the lowest order and indicates a very poor rating.

	LOW					HIGH
1. Knowledge of the organizational mission and community resources that are available.	0	1	2	3	4	5
2. The ability to effectively provide vocational/ agricultural/SED training services to targeted populations.	0	1	2	3	4	5
3. An understanding of private not-for-profit community-based Boards and the ability to serve as staff to committees	0	1	2	3	4	5
4. A thorough grounding in budgeting, cost analysis, and financial reporting.	0	1	2	3	4	5
5. The ability to express himself or herself both orally and in writing.	0	1	2	3	4	5
6. The ability to direct a fundraising campaign and analyze resource potential.	0	1	2	3	4	5
7. Experience with interpersonal relationships, thus enabling him or her to work effectively with volunteers who have various interests, skills and motivations.	0	1	2	3	4	5
8. The "know how" to effectively apply community organization principles and techniques.	0	1	2	3	4	5
9. A thorough understanding of basic management concepts that utilize planning, leading, organizing and controlling.	0	1	2	3	4	5
10. Knowledge of effective staff recruitment, orientation, and training techniques.	0	1	2	3	4	5

(continued on next page)

The candidate:

1. Appears to be committed to not-for-profit social and human service.	0	1	2	3	4	5
2. Seems able to accept the possibility that he or she will be underpaid, overworked, and deal with constant change.	0	1	2	3	4	5
3. Appears to like people and can get along well with a wide variety of individuals.	0	1	2	3	4	5
4. Seems willing to subordinate personal needs and preferences to the needs and goals of the organization's program.	0	1	2	3	4	5
5. Appears to be flexible, and could easily adjust and concentrate on task achievement even in the face of schedule changes and plan modifications.	0	1	2	3	4	5
6. Seems to have a high amount of patience and tolerance and would be able to work with a wide variety of volunteers from industry, government, alumni and grassroots organizations.	0	1	2	3	4	5
7. Appears to have a maturity level that demonstrates the ability to forego short-term satisfactions in favor of long-term goals.	0	1	2	3	4	5
8. Gives the impression that he or she is willing to work hard to achieve success.	0	1	2	3	4	5

SUSTAINABILITY STRATEGY PLANNING AND DESIGN

DEFINITION:

This tool is both a process and a set of assessment questions used by organizations to design a long-term (three-year) strategic plan to address institutional, programmatic, and financial sustainability. The Sustainability Strategy allows the organization to: 1) assess current strengths and weaknesses; 2) establish appropriate long-term goals; 3) identify potential obstacles to achieving these goals; and 4) set action steps to overcome obstacles and reach stated goals.

SOURCE: Katalysis: North/South Development Partnerships

The Sustainability Strategy was designed by Katalysis: North/South Development Partnerships in conjunction with the Belize Enterprise for Sustained Technology (BEST) and the Organization for Women's Enterprise Development (ODEF).

THE TOOL:

Before starting it must be understood that sustainability does not just mean financial security. A sustainable organization is one that has a strong institution and viable program in addition to a stable financial base.

The tool's purpose is to analyze an organization's strengths and weaknesses, determine strategic goals, and then design a long-term strategy for achieving these goals within each of the three organizational areas — institutional, programmatic, and financial.

Within each area, there are specific issues to be considered in constructing a Sustainability Strategy:

Institutional Strength:

Organizational Development. Do you have a clear mission? Does your organizational structure help you carry out this mission and adapt to changes in your environment? How does your Board of Directors assist you in setting policy and managing change?

Administrative Skills. Are the skills of your administrative staff sufficient to meet organizational needs?

Management Information Systems. What types of systems, both manual and computerized, does your organization use to manage information, including accounting, evaluation, databases, etc.?

Planning. What systems and documents does your organization have in place for short and long-term planning?

Programmatic Effectiveness:

Field Programs. What programs and services does your organization provide? What resources are required to run these different programs?

Need and Impact. Who are the clients of your different programs and what is their level of need? Who determines your clients' needs? What is the potential for impact/social change in each of these programs?

Technical Skills. What technical skills are needed to service each of your programs? Do your staff members possess the requisite skills?

Monitoring and Evaluation. What kinds of data do you collect on your programs and how are they used? How do you monitor and evaluate the impact of your programs? How is the information then used in program development?

Networking. What is your interaction with other domestic and international organizations and how does this interaction assist you?

Financial Strength:

Funding Portfolio. Who are your donors? How stable is your funding base? How diverse is your funding base?

Reporting and Management. What types of systems do you have in place for managing grants/loans received and reporting to donors?

Cost Effectiveness and Cost Control. What is your cost per program? Cost per beneficiary? What systems do you use to control your costs?

Fiscal Skills. What systems do you use for fiscal management and who is responsible for overseeing these systems?

HOW THE TOOL WORKS:

A situational analysis is first completed to assess the strengths and weaknesses of an organization's institutional, program and financial areas, using the assessment questions outlined above.

Once the situational analysis is complete, the organization should then review the findings as a means of establishing goals to achieve programmatic effectiveness, institutional strength, and financial stability. To ensure that the goals are obtainable and realistic, they should be limited to three to five in each area and put in priority order.

The organization must then evaluate each of these goals separately and discuss possible obstacles. This part of the exercise should help the organization assess the realistic potential of achieving each of the stated goals. From here, specific action steps should be established to overcome the identified obstacles. Finally, the organization should develop a three-year plan as a means to achieving these goals. This step-by-step plan becomes a realistic and achievable sustainability strategy.

The stages of design and implementation are outlined in the Strategic Planning Design, which follows this discussion. Following these stages will ensure that the process utilizes a minimum of organizational resources and is as productive as possible.

CASE STUDY:

To date, this procedure has been successfully conducted with two southern PDOs, ODEF and BEST. To illustrate the process, the results of one component of ODEF's Sustainability Strategy are described here.

Situational Analysis. During ODEF's first workshop, it was noted that ODEF lacked a systematic approach for evaluating personnel and the impact of its different programs. Instead, ODEF was operating with a wide array of different systems, reflecting the specific needs of individual donors.

Setting Goals. During a second workshop, this issue was raised again. Several small groups identified evaluation as a critical issue to institutional strength. They determined that in order to have a productive and committed staff and maximum impact across programs, a systematic approach to evaluation had to be designed and implemented. Evaluation of personnel and programs, therefore, was selected as one of ODEF's five primary institutional goals.

Risk Analysis. One small group was given the task of analyzing potential obstacles to establishing a systematic structure for personnel and program evaluation.

For programs, the following problems or obstacles were identified:

- Filing systems needed to be organized so that program staff had easy access to information. This required better communication between the program and administrative departments.
- Because evaluation requirements were based on donor's needs and often appeared inconsistent, staff members lacked an appreciation of the need for evaluation.
- Evaluation and monitoring require a great deal of time and human resources. Yet the staff put all its time into collecting the data and getting it to donors rather than reviewing and comparing results.
- ODEF's database needed to be updated to provide information consistent with new programs. The staff had no effective way to measure changes over time or across programs for beneficiaries.
- A key way to learn about a program is by interviewing beneficiaries, but this approach was not built into current systems.

For personnel, the following problems or obstacles were identified:

- Because of rapid organizational changes, personnel evaluations needed to be conducted quarterly rather than annually.
- Evaluations of staff needed to be conducted by each manager directly responsible for them; those employees also needed a means to evaluate their manager. Without this two-way evaluation system, the organization was limited in its ability to adapt and to achieve maximum potential.
- Each department of the organization needed to conduct quarterly evaluations of group performance. This would allow staff members to learn from each other, create an incentive for high performance, and address problems before they became too serious.

Action Plans. With these problems in mind, ODEF designed an evaluation plan for both programs and personnel. The following chart presents ODEF action steps for the first year, to demonstrate how a timeline can be useful.

Application:

The design and implementation of a sustainability strategy would be useful and relevant for any organization, but it is particularly important for a four-to-seven year old agency hoping to become a sustainable institution.

Following is a list of lessons learned by ODEF and BEST in developing sustainability strategies.

Commitment. A sustainability strategy requires time and resources. There must be commitment to the process by all key constituencies; without commitment at all levels, the strategy will stand little chance of being adhered to and implemented.

Preparation. The more that participants are included in the planning and preparation, the more productive will be the workshops and the final document.

Facilitator. The facilitator should be objective, but also needs to have good knowledge of the organization before beginning the process. In addition, the facilitator should facilitate; in other words she or he **must** leave the substantive work during the workshops to the staff, management and Board.

Two Workshops. Completing the full process in one workshop is not feasible; people become too tired. Having two workshops and some time between them greatly enhances the final product.

Critical Goals. It is easy to get carried away in this process. In order to create a feasible strategy, it is important to set clear priorities and limit goals to those that are most critical.

Editor's Note: The issues outlined under the section "The Tool," are excerpted from a much longer set of questions which provide a detailed guide for the situational analysis completed by staff during the first workshop. For a complete set of the questions, please contact Katalysis, 1331 North Commerce, Stockton, California 95205 USA.

EVALUATION, Year One, ODEF

ACTION STEPS	1st QTR	2nd QTR	3rd QTR	4th QTR
PROGRAMS 1) Improve filing system	X			
2) Keep filing system in order and accessible to all staff		X	X	X
3) Update and improve community profiles		X		
4) Review and compare current evaluation formats	X			
5) Hold workshop on evaluation techniques		X		
6) Design simple but informative documents to monitor and evaluate all programs			X	
7) Complete these documents annually				X
8) Review and select appropriate program indicators			X	
9) Redesign database to collect data on these indicators				X
10) Share program experiences within zones		X	X	X
11) Share program experiences across zones		X	X	X
12) Conduct interviews with beneficiaries on program effectiveness	X			X
PERSONNEL 1) Conduct evaluations • Top-down • Bottom-up	X X	X X	X X	X X
2) Conduct interviews with beneficiaries on personnel performance				X
3) Conduct group evaluations	X	X	X	X

STRATEGIC PLANNING DESIGN

Stage One

Representatives from all key constituencies in an organization — staff, management and Board — must come together with a shared commitment to better understanding the organization and set strategic goals. Experience demonstrates that full representation of an organization is necessary to ensure that a long-term planning document, once designed, is consulted and used rather than filed away and never looked at again.

Stage Two

Once the commitment is made to undertake a Sustainability Strategy, the organization should set aside time for two workshops when all representatives can attend. These workshops should last two-to-three days each, depending on organizational resources and needs. A facilitator should also be selected; if possible this person should be from outside the organization, with experience in strategic planning. Prior to the first workshop, participants should receive an agenda containing the organizational areas and questions outlined above.

Stage Three

First Workshop. The purpose of the first workshop is to conduct a situational analysis. Basically, this entails an evaluation of the strengths and weaknesses of the organization, using the outline presented above. A minimum of a half-day should be devoted to each of the three main areas and to the final review session. The facilitator should make certain that notes are taken on large, visible paper to document the process and ensure that all participants are kept apprised throughout the workshop.

Institutional strength should be discussed first and then profiled by jointly designing a large organizational chart indicating each staff members' position and how information flows through the organization. The mission of the organization should be reviewed and rewritten if necessary. Then, proceed through each of the sub-elements of institutional strength, i.e. organizational development, administrative skills, management information systems, and planning.

This should be followed by a similar process with **program effectiveness**. Within this area, it may be useful to divide into small groups according to geographic zones or program specialties.

Next, an analysis of the status of the organization's **financial stability** should be conducted by proceeding through the questions outlined under the sub-elements.

Finally, using the notes taken on the large sheets of paper, the results of the situational analysis should be reviewed to identify key issues and organizational strengths and weaknesses.

Stage Four

The minutes from the first workshop should be distributed to, and reviewed by, all participants.

(continued on next page)

Stage Five

Second Workshop. This workshop builds on the results of the first workshop with the intention of setting strategic goals to ensure the sustainability of the organization. Again, this workshop should be conducted by proceeding through each of the three areas in turn — institutional strength, programmatic effectiveness, and financial stability. If possible, six working hours should be devoted to each area.

In each organizational area, the steps to be followed are:

(1) Review Key Issues.

Review minutes taken from previous workshop and decide which are the key issues facing the organization. *For example, under the institutional area, a key issue might be that communication between different levels of the staff is no longer working well due to growth in personnel.*

(2) Establish Primary Goals.

Break into small groups. Each group should discuss and select five primary goals.

Bring the group together and present each small group's chosen goals. Through group discussion, decide on three-to-five primary goals for achieving sustainability.

(3) Identify Possible Obstacles.

Divide into small groups again. This time the number of small groups should be equal to the number of primary goals identified. Each group is assigned one goal. Reviewing the strengths and weaknesses identified in the first workshop, each group should determine potential obstacles to achieving their assigned goal.

(4) Set Specific Action Steps.

Remaining in these same groups, decide on specific actions for a three-year period to overcome identified obstacles and achieve stated goals. Each action step should address necessary time and resource inputs.

(5) Review for Feasibility

Construct a timeline to graphically present these steps. Once these procedures have been completed for each of the three organizational areas, the group should reconvene to review timelines and to conduct a "reality check." It is critical at this stage to make sure that the stated goals and established action steps are feasible and mutually-reinforcing.

Stage Six

Based on the notes taken during both workshops and the timelines established for each stated goal, a Sustainability Strategy document should then be designed. It is important that this document is made "user-friendly" and accessible to all staff, management and Board members.

Stage Seven

Each individual organization must decide on an appropriate method for periodically reviewing goals and action plans within the Sustainability Strategy. Progress should be charted and problems corrected. Any adaptations should be agreed to by relevant parties and then included in the document.

GLOSSARY OF KEY FINANCIAL TERMS[29]

Amortization. An *amortized loan* is a loan in which the principal amount is repaid in installments over the life of the loan.

An *amortization schedule* shows how a loan will be repaid by listing payments required on a specific date, and a breakdown of each payment showing how much of it constitutes interest and how much principal.

Arrears. *Payments in arrears*, also called *delinquent payments*, are loan payments which are past due. *Loans in arrears*, also called *delinquent loans*, are loans on which any payments are past due.

Past due must be defined by the financial institution. A rule of thumb is that payments are past due when one complete cycle has been missed. Thus, loans with monthly payments are past due after thirty days; those with weekly payments are past due after one week, etc. The important point with past due is that it should be an indication of when the RISK that a loan will not be repaid increases. All of the above relates to principal owed on a loan. The same can be applied to interest payments, but they should be considered separately from principal. Principal in arrears are assets at risk, while interest in arrears disrupts a program's cash flow. See the Table of Formulas for methods of calculating arrears, or delinquency rates.

Assets. *Current assets* include cash and marketable securities, accounts receivable, and inventories which in the normal course of business will be turned into cash within a year.

Fixed assets, referred to as property, plant and equipment, represent those assets not readily redeemable to cash. This category will include land, buildings, machinery, equipment, furniture, automobiles, and long-term (more than one year) investments or receivables.

Productive assets are those assets that are earning revenue, either through investments or interest charges on use of the asset (e.g., loan fund).

Average outstanding balance. This is calculated by adding the amount of the loan fund that is outstanding at the end of each month and dividing by the number of months in the period. The average outstanding balance is used in formulas that cover activities over more than one month of time because it gives a more accurate picture of portfolio activity over the period.

[29] Adapted from the Glossary developed by The SEEP Network's Financial Services Working Group, July, 1991

Balance sheet. Financial statement that gives an accounting picture of assets owned by a company/entrepreneur and of claims against those assets on a specific date. One part of the balance sheet lists assets, while another part shows liabilities and the owner's equity. The two parts must be equal. The balance sheet is a snapshot of the company's position at one point in time.

Breakeven. The point at which all revenues cover all expenses. *Breakeven analysis* involves determining the appropriate balance between interest rates (and any fees charged) and the loan volume to achieve breakeven.

Cash flow. The actual net cash that comes in or leaves the entity during a specific period. There is a critical difference between cash flow and the income statement; cash flow shows actual flow of cash during the period, while the income statement shows income earned and expenses that may not yet have resulted in actual income or outflow of cash.

Commission (or fee). A charge (usually based on a percentage) for services offered. In credit programs, commissions are fees paid to an agent/loan officer for services performed as part of the cost of credit extension. Usually stated as a flat fee or percentage of the loan amount.

Default. A *defaulted loan* is a loan which the micro-enterprise finance institution is quite certain will not be paid back by the borrower. Usually a loan is declared in default when the debtor has stopped payment on a loan for more than two or three amortization due dates (e.g., 60-90 days), regardless of petitions by the lender and/or legal actions against the debtor. The *amount defaulted* depends on how much is outstanding when the borrower stops making payments. Amounts that will have to be "written off" or counted as "loan loss" may be different from the amount defaulted if the lender can collect any collateral or guarantee.

Delinquency. See *arrears*.

Equity. Paid in capital (the contributions of owners) plus retained earnings (see retained earnings).

Fee. See *commission*.

Grace period. Period of time granted after loan disbursal during which no principal has to be repaid. Interest payments may or may not have to be made.

Income (sometimes referred to as revenues). The amount earned in an accounting period.

Inflation. An increase in the volume of money and credit relative to the available supply of goods, resulting in a rise in the general level of prices. The *official rate* is usually determined by the government using the change in a specified basket of goods. The *real rate* is the actual increase in the price of a set combination of goods and services over time, as experienced in the marketplace.

Interest rate calculation – declining. Interest calculated on a *declining balance* means that the borrower pays interest based on the amount of the loan outstanding, not on the original loan amount. The amount of interest the borrower pays each payment depends upon how much principal the borrower was using during that period. The amount of interest the borrower pays decreases as the principal amount owed is reduced by payments.

Interest rate calculation – flat. The interest rate is fixed over the life of the loan. The amount of interest paid is calculated by multiplying the nominal interest rate of each period by the original loan amount for each payment period.

Interest rate types – commercial. Rates published by commercial banks based on cost of capital, loan losses, and cost of administration, including a profit margin.

Interest rate types – effective. Effective rates of interest bring all of the direct financial costs of a loan together including the effects of commissions, fees, the calculation method, and other loan requirements on the total cost of the loan to the borrower.

Interest rate types – positive/negative. *Positive rates* are those higher than the rate of inflation. *Negative rates* are those lower than the rate of inflation.

Interest rate types – real. *Real rates* are rates that have been adjusted to compensate for the effects of inflation. Real interest rates are either *nominal* or *effective rates* of interest less the inflation rate. In countries experiencing hyperinflation, real rates are computed with the following formula,

$$R = \frac{1 + N}{1 + I} - 1$$

where R = the real interest rate, N = the nominal rate, and I = the rate of inflation.

Interest rate types – stated. The quoted or nominal rate, i.e., 2% per month.

Liabilities. What a business or organization owes to others. Usually divided between *current liabilities*, those due within one year, and *long-term liabilities*, those due in more than one year.

Liquidity. The ability to meet current obligations or demands for cash as they become due.

Loan fund capital. Amount of capital the entity has that is to be used to lend to borrowers. Some may be in the portfolio (that is, lent out), and some may be temporarily on deposit for future lending.

Loan loss. Amount of principal an entity loses because a borrower does not repay a loan. Should be the same as the amount "written off" for that loan, but may be different from the amount defaulted if the institution can recover some of the collateral.

Loan term. Period from the date of disbursal to the final due date of the loan.

Loans outstanding. The *portfolio*, or *active portfolio*. It is the amount owed to an institution by its borrowers that the institution expects to receive. Gross portfolio is the amount outstanding, while net portfolio is the gross portfolio minus the loan-loss reserve.

Net worth. The retained earnings, fund balance, or profit of an organization. See *equity*.

Operational costs. Those costs incurred by an entity during a specified period to maintain operations. They do not include investments, but do include recurring costs like salaries, rent, transportation, etc. Depending on use, they may or may not include financial costs of borrowed money.

Past due. A term that must be defined by the microenterprise financial institution. It determines when a loan becomes delinquent or in arrears. It should indicate when the risk of nonpayment increases. See *arrears*.

Portfolio. See *loans outstanding*.

Portfolio income. Includes all interest income, commissions and fees collected from borrowers to secure and pay back a loan. This, along with interest-generated income on investments, is referred to as *internally-generated income* or *funds* as opposed to grants or donations given to an institution which are *externally-generated funds*.

Principal. The face or stated amount of the loan upon which interest is calculated. *Outstanding principal* is the amount owed by the borrower at any time, excluding interest.

Profit/loss (income statement). The *financial statement* that shows how much an enterprise/PDO makes or loses during a specified period of time, usually monthly or yearly. It is different from cash flow because it may include income not yet received and expenses not yet paid.

Refinancing. The process of developing a new loan agreement before a previous one is completed. It can include increases in principal amount, extension of term, etc.

Repayment. Payment of principal in the process of amortizing a loan; may include payment of interest, but payment of interest alone does not constitute a repayment. See the Table of Formulas for a method to calculate *Repayment Rates*.

Repayment schedule. See *amortization schedule*.

Rescheduling. The process of changing the payment period and/or the size of payments, on an outstanding loan. It is usually done to prevent a borrower from falling in arrears, or so that a borrower is no longer in arrears and is more likely to meet payments on time.

Reserves. Reserves are a preestablished amount of money (usually a percent of a loan portfolio) that are kept aside, either physically or solely as a separate account on the balance sheet, to off-set unpaid loans or bad debt. Most countries have a law requiring that financial institutions maintain loan loss reserves.

Retained earnings. Net profits kept to accumulate in an enterprise after dividends are paid; also called undistributed profits or earned surplus.

Savings/deposit liabilities. The amount an institution is holding that actually belongs to others. Although it is a liability for the institution, it is different from borrowed funds because there is no due date or amortization schedule.

Self-sufficiency. The percent or level of self-sufficiency can be calculated for a specific period (monthly or yearly), cumulative since a certain date, or cumulative since the program's inception.

Operational self-sufficiency occurs when internally generated income (investment and operational) is equal to or greater than expenses.

Financial self-sufficiency occurs when internally generated income (investment and operational) covers direct operating and financial costs, and is sufficient to maintain the real value of the credit portfolio. See the Table of Formulas for methods to calculate self-sufficiency.

Spread/margin. *Margin* is the difference between gross and net amounts of income. *Spread* or margin on interest rates is the percentage points between the cost of money (to a financial institution) and the interest rate charged the borrower. The spread on a loan must be sufficient to cover all operational costs, risk reserve, inflation, and some profit (to help capitalize a loan fund and/or reinvest in the institution — computers, training for staff, etc.) for that institution to obtain self-sufficiency and grow.

Sustainability. Full sustainability occurs when internally-generated income (investment and operational) and long-term, dependable sources of externally-generated income (such as donations) cover direct operating and financial costs, and are sufficient to maintain the real value of the credit portfolio.

Write off. That point where a financial institution removes a bad, or nonperforming loan, from the assets side of the balance sheet and shows it as a loss. This usually occurs after all attempts have been taken to activate or collect a portion of the loan. The write-off policies of financial institutions should spell out at what point loans are written off.

TABLE OF FINANCIAL FORMULAS

NUMBER and NAME	FORMULA	USE	Pg
I. PORTFOLIO PERFORMANCE RATIOS			
1. Repayment Rate	***Payment Received Last Month*** / ***Payments Due + Past Due Last Month*** (Repayment rate for other periods can be calculated by substituting the period, quarterly, yearly, for month)	shows how much of the money that was due was actually paid — measures loan recovery performance	59
2. Arrears: Amount Past Due	***Principal Past Due*** / ***Amount Outstanding***	shows the percentage outstanding that has not been repaid	60
3. Arrears: Portfolio at Risk	***Outstanding Bal. of Loans with Pmts. Past Due*** / ***Amount Outstanding***	shows that portion of the portfolio that is made up of loans that have missed one or more payments	60
4. Aging of Arrears	***Bal of Loans with Pmts 30-60-90 Days Past Due*** / ***Amount Outstanding***	shows, by period past due, the riskiness of the portfolio. The greater the proportion of loans in the later categories, the riskier the portfolio	61
5. Loan Loss Rate	***Amount Declared Nonrecoverable*** / ***Average Outstanding Balance***	shows the percentage of loans that have been written off or declared nonrecoverable	61
6. Average Outstanding Balance	***Total Outstanding Bal at the End of Each Month*** / ***Number of Months***	average outstanding balance is a more accurate indicator of portfolio activity	61 & 93
7. Surplus/(Deficit)	***Revenue – Expenses = Surplus/(Deficit)***	shows whether or not revenue is covering expenses	64
II. OPERATING EXPENSE RATIOS			
8. Loan Portfolio Value	***Number of Borrowers X Average Loan Size***	shows the value of the portfolio and is used to project income from interest	66
9. Interest Income	***Value of Loan Portfolio X Interest Rate***	projects the revenue generated from interest on the loan portfolio	66
10. Total Costs	***Fixed Costs + Variable Costs***	shows operating costs of program	67

(continued on next page)

NUMBER and NAME	FORMULA	USE	Pg
11. Operating Self-Sufficiency Rate	***Total Income from Loan Fund*** / ***Total Expenses***	shows what percent of expenses are covered by earned income	93
12. Operating Cost Rate/Credit Program All Operating Expenses	***Credit Program Expenses*** / ***Average Amount Outstanding*** ***All Operating Expenses*** / ***Average Amount Outstanding***	shows the cost rate for operating the credit program shows the rate for operating the program as a whole	94
13. Cost of Capital and Devaluation	***The SUM of*** ***Amount of Loan A*** / ***Total Loan Fund*** ***X Interest Rate of Loan A*** ***Amount of Loan B*** / ***Total Loan Fund*** ***X Interest Rate of Loan B*** ***Amount of Loan C*** / ***Total Loan Fund*** ***X Interest Rate of Loan C*** ***(Donated Funds X Inflation Rate / Total Loan Fund) + Cost of Capital***	shows the cost rate of borrowed funds and the rate needed to pay the costs of financing loans plus maintaining the value of donated funds	95
14. Portfolio Cost Rate	***Operating Cost Rate + Cost of Capital and Devaluation + Loan Loss Rate***	shows the total cost rate of delivering credit as a percentage of the average loan portfolio	96
15. Portfolio Yield Rate	***Total Income from Loan Fund*** / ***Average Amount Outstanding***	shows what the loan portfolio will generate in revenue as a percentage of the average loan portfolio	96
III. SETTING INTEREST AND FEES			
16. Percentage of Idle Funds	***Loan Fund on Deposit at Bank*** / ***Total Loan Fund***	shows the percentage of the loan fund that is not productive	111
17. Foregone Income Rate	***Interest Paid by Bank*** / ***Portfolio Yield Rate***	shows the percent of revenue lost by not lending money that is sitting in the bank	111
18. Adjustment to Portfolio Cost Rate for Idle Funds	***Portfolio Cost Rate*** / ***1 – (Percentage of Idle Funds X Foregone Income Rate)***	shows the effective rate of interest needed to take into account idle funds	112
19. Adjustment to Portfolio Cost Rate for Late Payments	***Portfolio Cost Rate (adjust for Idle Funds)*** / ***Repayment Rate***	shows the effective rate of interest required to make up for idle funds and late payments	112
20. Calculating Fees to Earn an Effective Interest Rate	***Fee % Required X Aver. Loan Amt. X Loan Term*** / ***12***	calculates the fee that needs to be charged, per loan, to earn the effective interest rate	113

(continued on next page)

NUMBER and NAME	FORMULA	USE	Pg
IV. BREAKEVEN PORTFOLIO SIZE			
21. Variable Cost Rate	$\dfrac{\textit{Total Costs} - \textit{Fixed Costs}}{\textit{Average Amount Outstanding}}$	shows what the loan fund needs to yield to cover variable costs	116
22. Overhead Contribution Rate	***Portfolio Yield Rate – Variable Cost Rate***	shows what the loan fund is contributing to overhead	116
23. Breakeven Portfolio Size	$\dfrac{\textit{Fixed Costs}}{\textit{Overhead Contribution Rate}}$	shows the size of the portfolio needed to breakeven	116
V. FINANCIAL HEALTH OF THE INSTITUTION RATIOS			
24. Net Worth	$\dfrac{\textit{Net Worth}}{\textit{Total Assets}}$	shows to what extent the assets are of equity or debt	148
25. Debt to Equity Ratio	$\dfrac{\textit{Total Debt}}{\textit{Net Worth}}$	shows the debt burned being carried	149
26. Liquidity Adequacy	$\dfrac{\textit{Cash on Hand}}{\textit{Total Disbursements Next 30 Days}}$	shows the availability of cash to cover short-term debt	149
27. Short-Term Debt Exposure	$\dfrac{\textit{Current Assets}}{\textit{Short-Term Debt}}$	shows cash available to cover expected disbursements	150
28. Return on Equity	$\dfrac{\textit{Operating Income} - \textit{Operating Expenses}}{\textit{Equity}}$	shows the revenue generated on equity	150
29. Return on Productive Assets	$\dfrac{\textit{Operating Income} - \textit{Operating Expenses}}{\textit{Liquid Assets}}$	shows the return on productive assets	151

RECOMMENDED MANUALS, GUIDEBOOKS, AND MONOGRAPHS

The ADEMI Approach to Microenterprise Credit (Lewin, A. Christopher, GEMINI, 1991) is a book which gives a thorough overview of the Association for the Development of Microenterprises (ADEMI) in the Dominican Republic. It reviews the history of the program, its growth, and its impact on microenterprise development in the Dominican Republic. Most useful is the second part, in which the day-to-day operations of ADEMI are discussed, including organizational and operating structure, credit methodology, and financial and organizational management systems. Extremely useful are samples in the appendices of job descriptions, loan documents, and monitoring reports used by ADEMI in its operations. Available from: Development Alternatives, 7250 Woodmont Ave., Suite 200, Bethesda, MD 20814, USA.

Board of Directors Manual (OIC International) covers all aspects of Board establishment and development, including reason for a Board, Board functions, building effective Boards, causes of ineffective Boards, building effective Board committees, improving full Board meetings, and the roles of Board officers. Also covered in separate modules are short and long-range planning, and selecting an executive director, both functions of the Board. A module is devoted to discussing how positive working relationships between the Board, program director and staff can be developed. The manual is particularly effective in stressing the point that Board development is an ongoing process, and that Boards need continuing attention and exposure to new ideas, concepts and events in order to keep current with the external environment and incorporate new members effectively. Available from: OICI, 240 West Tulpehocken St., Philadelphia, PA 19144, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

Bookkeeping Manual (TechnoServe, Inc.) presents a simple, practical bookkeeping system for enterprises and institutions owned by low-income people. The manual provides samples of source documents, books of account, and financial statements, and explains their use. A document flowchart in Appendix A clarifies how the overall system works. A glossary of terms is also provided. The manual does not explain debits and credits or any accounting theory, and makes it clear that technical assistance may be required to adapt the system for local use. However, the manual is excellent in providing a simple yet comprehensive system which start-up organizations can easily adapt to their needs. Available from: PACT Publications,777 United Nations Plaza, New York, NY 10017, USA

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

Breaking Through: The Expansion of Micro-Enterprise Programs as a Challenge for Non-Profit Institutions (Otero, Maria, ACCION, 1989) explores the factors and issues involved in the expansion stage of institutional development. The book defines expansion and discusses the issues of by whom, for whom, and of what. Sections are devoted to considering expansion in relation to the institution's vision, structure, financial systems, human resources, and local context. ACCION's major findings regarding expansion are summarized, and issues to address during the expansion phase are listed and discussed. This book is must reading for an organization contemplating or planning expansion. Available from: ACCION, 130 Prospect Street, Cambridge, MA 02139, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

The Central Finance Facility: A Guide to Development and Operations (Jerving, Jim, World Council of Credit Unions (WOCCU), 1987) is a guide to setting up and operating "a credit union for credit unions." Covered are: the history and purpose of central finance facilities; planning for start-up and operation; capitalization; legislation and bylaws; policies; training and development; liquidity support; investments and pricing; risk management; creditworthiness analysis and financial ratios; loan procedures; loan control and delinquency; and the loan contract. A glossary of terms and sample forms are provided at the back of the book. Because of the operational similarities between a central finance facility and a credit union, this book is also very useful as a guide to financial management of credit unions and similar organizations. It is highly recommended for making financial concepts and formulas easy to understand. Available from: The World Council of Credit Unions, P.O. Box 391, 5810 Mineral Point Road, Madison, WI 53701, USA.

The Community Banking Promotion Manual (Catholic Relief Services (CRS)) is a manual which contains forms and explanations for setting up a community banking program. Sections cover community banking methodology and principles, guidelines on preparing community bank bylaws, monitoring and data collection, financial requests and receipts, and program agreements. Some of the information is pertinent only to situations in which PDO partnerships are involved. The manual is very useful in outlining the information that must be collected and utilized to design the program, and in setting up bylaws and data collection systems. Available from: Catholic Relief Services, 209 West Fayette Street, Baltimore, MD 21201-3443, USA.

Computer Analysis of Small-Scale Production Projects (Allen, Hugh, CARE, 1989) is a manual of instructions including diskette, which can be used to evaluate the feasibility of small-scale production projects. They are not considered suitable for assessing the feasibility of retail or service operations. Three different feasibility formats are offered for use in different scenarios involving single products. Lotus 1-2-3 version 2.01 or higher is required. This manual and diskette are recommended to staff of microenterprise development organizations as a means of increasing their own technical assistance skills and for training program participants in feasibility assessment. Available from: CARE, 660 First Avenue, New York, NY 10017, USA.

Creating Jobs: A Project Planning Guide for Organizations of Disabled Persons in Africa (Roche, Susan, Goodwill Industries, 1986) is a workbook available in French and English which helps institutions plan a job-creation project. The workbook takes the user through a series of five steps to produce a detailed plan for starting up and operating such a project. All the forms and charts to produce this detailed plan are included in the text. Especially useful are the sections on developing feasibility studies and workplans. Although the guide was written for institutions that want to create jobs for disabled youths and adults, it also very useful for organizations that are setting up any kind of job-creation activity. Available from: Goodwill Industries, 9200 Wisconsin Ave., Washington, DC 20814, USA.

Democratizing Development: The Role of Voluntary Organizations - Part II (Clark, John, 1991) suggests expanding the impact of a successful program through three types of activities: project replication; building grassroots movements; and influencing policy reform. The local conditions considered necessary for implementing each type of activity are listed and discussed in Chapter 6 on "Scaling Up." Chapters 7 through 9 then cover each type of activity in greater depth. The book is especially helpful in elucidating the opportunities and threats PDOs face in the process of expansion, providing suggestions on how to capitalize on the former while anticipating and dealing with the latter. The book promotes the democratization of development organizations and processes. It is useful in helping us to reexamine what we mean by scaling up or expanding impact. Available from: Earthscan Publications, 3 Endsleigh Street, London WC1H 0DD, England.

Enhancing the Productivity and Competitiveness of Small-Scale and Microenterprises: The Subsector Approach to Enterprise Development (GEMINI, 1990) is a collection of papers presented at a working seminar sponsored by GEMINI in November 1990. Included are nine papers on the use of the subsector approach in particular countries with specific industries, plus one paper providing an overview of the subsector approach, and two papers on how technology transfer can enhance development of subsectors. Especially recommended are the overview paper and the case study of the palm oil subsector in Ghana, presented by Technoserve. This publication is useful to organizations in program planning and development, particularly in terms of defining subsectors where they can achieve the greatest impact and determining which methodology will be most effective. Available from: Development Alternatives, Inc., 7250 Woodmont Ave., Bethesda, MD 20814, USA.

A Field Manual for Subsector Practitioners (Haggblade, Steven and Matthew Gamser, GEMINI Technical Note, 1992) is a guide to the use of subsector analysis as a means for analyzing the small and microenterprise sector and identifying which interventions promise to assist this sector in the most cost-effective way. The manual explains subsectors and characteristics of the subsector approach, describes the analytical procedures involved in subsector analysis, and provides suggestions on how to move from analysis to action. Analytical worksheets, a glossary of terms, and other helpful information are presented in the appendices. Available from: Development Alternatives, Inc., 7250 Woodmont Avenue, Bethesda, MD 20814, USA.

Financial Management of Micro-Credit Programs (Christen, Robert Peck, ACCION, 1990) is a manual targeted to executive directors, financial managers and accountants of institutions administering microenterprise credit programs. It offers practical tools for the financial management of these programs. Guidance on hardware configurations and software design of computerized financial information systems is given, along with coverage of fund accounting and samples of accounting report formats. Formulas, tables and worksheets for analyzing program performance in terms of credit, investment, liquidity and operating risks are presented and explained. Individual chapters are devoted to setting interest rates and other fee structures and producing simplified budgeting and financial projections. The contents of this guide were derived from years of practical experience in ACCION affiliates, and testing in a series of financial workshops. The tools are therefore highly recommended, particularly for organizations that wish to establish and meet high standards of performance in the financial management of their micro-credit programs. Available from: ACCION, 130 Prospect St., Cambridge, MA 02139, USA.

A Handbook for the Development of Savings Groups and Women's Business Skills (Clark, Peggy, Editor, Save the Children Federation/Philippines Field Office) is a training manual for setting up women's savings groups and promoting the business skills of women participants. The manual is presented in a fun, easy-to-use format. Phase one of the book focuses on group development, particularly in terms of process, structure and policies. Phase two deals with business skills development, addressing business attitudes, interests, and then requisite skills of the women members. This manual is especially helpful as a guide to staff in working with program participants, because it presents different tools and approaches for effecting skills transfer. Available from: Save the Children Federation, 54 Wilton Road, P.O. Box 950, Westport, CT 06881, USA.

A Handful of Rice: Savings Mobilization by Micro-Enterprise Programs and Perspectives for the Future (Otero, Maria, ACCION, 1989) addresses savings mobilization in microenterprise assistance programs, primarily as a program activity, but also as a means of generating additional income and protecting the loan portfolio. Why people save, and what kinds of savings schemes are used by the poor, are analyzed. Existing examples of savings mobilization programs on a larger, more organized scale are presented and the factors contributing to their success are extracted. Guidelines on how to establish a methodology for mobilizing savings and how to structure a savings program are offered in the final section. Available from: ACCION, 130 Prospect Street, Cambridge, MA 02139, USA.

Human Resources Management: Course Design and Concept Paper (ARIES, 1991) is a training manual to orient managers of institutions designing and implementing small and microenterprise development projects on the key issues involved in human resources management. This orientation is given in three materials: (1) a paper presenting a framework for conceptualizing the human resources management function in an organization and discussing the four key issues of recruitment and staff selection, training, performance evaluation, and employee compensation and incentives; (2) a literature review and bibliography; and (3) a conceptual design and agenda for a 3-to-5-day course on human resources management. It is particularly useful in outlining the issues which need to be addressed in recruiting and developing an institution's staff. Available from: Nathan Associates, 2101 Wilson Blvd., Arlington, VA 22201, USA.

Leader's Resource Manual (Christian Reformed World Relief Committee (CRWRC), 1990) is a manual on leadership development which has useful modules on the topics of "Board Development and Control Skills" and "Management Skills." Module VIII on Board development explains the role and function of a Board, including direction-setting, establishing boundaries through policies and procedures, and determining standards of performance, and provides a skill rating scale that CRWRC has developed to assess a Board's level of independence and ability in carrying out these different functions. The major skills needed by Board members are discussed in one of the module's appendices. Module IX on management skills discusses the purpose and goal of management and the elements of planning, monitoring and evaluation. Particularly helpful is Appendix B, which provides a mini-workbook to use in developing an effective long-range plan. Both modules provide a recommended reading list. This manual has a Christian focus. Available from: Christian Reformed World Relief Committee (CRWRC), 2850 Kalamazoo Ave., SE, Grand Rapids, MI 49560, USA.

A Manual to Evaluate Small-Scale Enterprise Development Projects (Goldmark, Susan and Jay Rosengard, USAID, 1985) provides guidance on how to conduct cost-effective evaluations of the impact of microenterprise development projects in developing country contexts. Options for three levels of rigor and sophistication in evaluation techniques are offered to accommodate variations in evaluation objectives, timeframes, and budget. The manual covers preparation for the evaluation, and guidelines for data collection and analysis. Individual chapters deal with evaluation of donors, credit institutions, technical assistance implementing institutions, and small-scale enterprises.

Although parts of the manual may be overly sophisticated in terms of economic concepts and terminology, the manual is extremely helpful in outlining what needs to be evaluated in these kinds of programs and how it can be done. Available from: US Agency for International Development, PPC/CDIE, SA-18, Room 209, Washington, DC 20523, USA.

MARKTRAIN: A Marketing Game for Development Agents (CARE, 1990) is a game in English, Spanish or French that institutions can use to train staff in marketing principles. The game is geared toward small and microenterprise assistance institutions. Its objective is to teach players about the "four P's" of the marketing mix by having them form teams and answer questions correctly. Once staff understand marketing principles, they are then expected to be more effective in advising and training small and microenterprises participating in the institution's programs in marketing their products and services. It may also help staff to become more effective in marketing the products and services of the institution itself. Available from: PACT Publications, 777 United Nations Plaza, New York, NY 10017, USA.

Methods for Managing Delinquency (Stearns, Katherine, GEMINI Technical Note, 1991) is a tool for microenterprise programs to use in controlling delinquency in the credit component of their program. Covered are the importance of controlling delinquency, measuring portfolio quality, calculating the costs of delinquency and default, and means for controlling delinquency. Especially useful is a practice problem set, which allows users to test how well they have understood the material. Available from: Development Alternatives, Inc., 7250 Woodmont Avenue, Suite 200, Bethesda, MD 20814, USA.

Microenterprise Credit Programs: Projecting Financial Viability (King, Mark and Larry Reed, Opportunity International and SEEP, 1991) is a manual and diskette which present a computer model for projecting the financial viability of a microenterprise credit program. The model allows the user to determine how strict a definition of financial viability they wish to use in testing program parameters and assumptions. It requires users to come up with program design inputs on lending patterns, income projections, and cost projections before they can begin. Worksheets are included to make the development of these projections easier. The model allows the user to add training and savings components to the credit program if they desire. This model is especially useful in highlighting for program designers and managers what variables will have a key effect on the financial viability of their microenterprise credit program. It has also been found useful as a training tool for exposing staff to the design variables and environmental factors that have an impact on program viability. Because the model is somewhat complex, it may require customization to make it appropriate to the local context. Lotus 1-2-3, Version 2.2 or above is required to use this model. Available from: SEEP Network, c/o PACT, 777 UN Plaza, New York, NY 10017, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

Mobilizing Resources for Self-Sufficiency and Scale-Up (Small Enterprise Education and Promotion Network (SEEP), 1991) is a collection of papers presented at the workshop on Financial Services for the Poor, sponsored by SEEP in July 1991. The papers deal with the challenge organizations face in mobilizing resources at the point when they are struggling to achieve self-sufficiency and expand their client base, but find funding for this largely unavailable from traditional donors. Strategies covered include savings mobilization, guarantee funds, commercial banks for the informal sector, second tier financial institutions, and increased operational efficiency. Papers describe the experiences of institutions with successful track records using these strategies, including ACCION, World Council of Credit Unions, PRODEM in Bolivia, Fondomicro Dominican Republic, and the Kenya Rural Enterprise Program. This collection of papers is especially useful as an exploration of alternative strategies for resource mobilization, in terms of the benefits and demands of each. Available from: SEEP, c/o PACT, 777 UN Plaza, New York, NY 10017, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

Monitoring and Evaluating Small Business Projects: A Step by Step Guide (Buzzard, Shirley and Elaine Edgcomb, Editors, PACT, 1987) is a guide to assist microenterprise development organizations in defining, monitoring and evaluating their program activities. The guide takes the user through an eight-step process coordinated by a Master Plan Worksheet at the beginning of the book. The second section of the book contains forms, graphs and detailed business procedures which are offered as tools for implementing the eight steps. The manual is based on the experience of eight PDOs, and is recommended as a starting point for organizations in defining their program purpose and focus, and choosing indicators and tools to measure their impact and effectiveness. Available from: PACT Publications, 777 United Nations Plaza, New York, NY 10017, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

An Operational Guide for Micro-Enterprise Projects (ACCION and Calmeadow Foundation, 1988) is a guide to the practices and methodologies utilized by ACCION in selecting and assisting partner agencies to establish microenterprise programs. It describes the informal sector and characteristics of assistance programs that work. It covers definition of target group and operational objectives, planning and implementing the project, project management, project expansion, monitoring and evaluation, Board development, public relations, and financial reporting and monitoring. Although only 98 pages, this guide contains a wealth of useful information and guidance on all aspects of setting up and administering a microenterprise development program. Available from: ACCION, 130 Prospect Street, Cambridge, MA 02138, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

Operational Manual for Village-Based Income-Generating Projects (Ashe, Jeffrey, Freedom from Hunger Foundation, 1988) is a package of tools for designing, implementing, staffing, monitoring and evaluating a village-based loan fund. The package includes a needs assessment questionnaire and instructions as prelude to design of the loan fund, as well as formats for projecting the financial performance and viability of the loan fund. A nine-step process for implementing the loan fund is discussed, as well as staffing and management requirements. A format and instructions for periodic monitoring of the loan fund are also included. The manual is especially recommended in terms of the specific tools developed by Freedom for Hunger, which can be utilized by other organizations as a guide in developing similar formats and tools appropriate to their own programs. Available from: Freedom for Hunger, 1644 Da Vinci Court, P.O. Box 2000, Davis, CA 95617, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

The Process of Institutional Development: Assisting Small Enterprise Institutions to Become More Effective (Edgcomb, Elaine and James Cawley, GEMINI, 1991) is a paper which evolved out of a workshop on institutional development sponsored by the Small Enterprise Education and Promotion Network (SEEP) in 1990. The paper presents a framework developed during the workshop for understanding the process of institutional development, and applies it to an analysis of 25 cases of organizations which implement small enterprise programs. The framework identifies four components, or areas of endeavor, which organizations must master: vision; capacity; resources, and linkages; as they mature through three distinct stages: development, sustainability and expansion. The paper discusses the challenges faced by organizations at each stage, and the major tasks that must be accomplished and obstacles overcome in mastering each component during that stage. The paper is most useful in helping organizations understand the process of institutional development and identifying the challenges they will have to address and overcome as they move through each stage in that process. Available from: SEEP Network, c/o PACT, 777 United Nations Plaza, New York, NY 10017 and Development Alternatives, Inc., 7250 Woodmont Ave., Suite 200, Bethesda, MD 20814, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

A Question of Impact: Solidarity Group Programs and Their Approach to Evaluation (Otero, Maria, ASEPADE and PACT, 1989) is a book which describes the evaluation systems used by 22 of the organizations affiliated with ACCION. It examines the conceptual framework for each system and defines four areas for evaluation of institutional impact: the beneficiary; the program; the institution; and the local context. It discusses the factors that affect impact evaluation in solidarity group programs, and summarizes experiences to date of some institutions in solidarity group impact evaluation. The book is especially helpful to institutions thinking through how to define and measure impact evaluation. Available from: PACT, 777 UN Plaza, New York, NY 10017, USA.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

Small Business Development Program Operations Manual (Mennonite Economic Development Associates (MEDA), 1991) is a comprehensive guide for MEDA staff on establishing and operating a small business development program, whether through an existing indigenous organization, by developing a new indigenous organization, or through MEDA's direct ownership of the project. The manual covers all aspects of program start-up and operation, including situational assessment, organizational structure, program development, credit, technical assistance, program personnel, sustainability, funding, expansion, diversification into other services, monitoring and evaluation, and financial systems and reporting. It provides many useful formats and tools in 20 appendices. Interesting in this manual is the distinction made between service and member organizations, and the organizational implications of this distinction. The manual is an excellent overview of the issues and decision areas which must be addressed in establishing a small business development organization. Available from: MEDA, 402-280 Smith Street, Main Office/Int. Division, Winnipeg, Manitoba R3C 1A2, Canada.

DEVELOPMENT SUSTAINABILITY EXPANSION

VISION CAPACITY RESOURCES LINKAGES

Small Economic Activity Development (SEAD) Workshop: The Facilitator's Manual (CARE, 1990) is a manual designed by CARE to help workshop facilitators in other organizations to plan, organize and deliver a workshop covering project design, issues, interventions and tools in the area of small enterprise activity development. The manual offers a wealth of materials which can be adapted for local use. It is organized into training session outlines which list session objectives, methodology, content, time frame, facilitator preparation notes, materials to be used, and advice on adapting the session for local use. The manual is available in English and Spanish. Institutions planning and implementing any kind of SEAD activity will find it useful as a staff reference or training manual. It can be useful at all stages of institutional development, but particularly in the development stage, when a program or activity is being designed. Available from: CARE, 660 First Avenue, New York, NY 10016, USA.

Towards Greater Financial Autonomy: A Manual on Financing Strategies and Techniques for Development PDOs and Community Organizations (Vincent, Fernand and Piers Campbell, IRED, 1989) outlines different strategies PDOs can use to achieve financial autonomy and describes a variety of practical techniques which will move them toward this goal. The manual is based on the premise that PDOs should work toward becoming development enterprises, meaning organizations which provide well-managed, cost-effective products and services to the community, not welfare or charitable organizations. Becoming a development enterprise will require PDOs to develop their own sources of funding, rather than depending on donors from the North, by selling products and services at a reasonable price, making investments that generate income, and raising funds locally. The manual suggests a model in which the core budget is covered by interest earned on investment of a capital reserve fund, and additional income is derived from sale of services and other income-generating projects. The manual is particularly effective in assisting PDOs to assess their own strengths and weaknesses through an organizational audit and then develop an overall organizational strategy and corresponding program and financing strategies. Because the authors recognize that PDOs will still need to rely on donors until financial autonomy is achieved, chapters are included that cover donor relations, proposal preparation, grant reporting, and related topics. A list with the names and addresses of donors by country is given at the back of the manual. Available from: IRED, 3, Rue de Varembe, P.O. Box 116, 1211 Geneva 20, Switzerland.

Voluntary Aid for Development: The Role of Non-Governmental Organisations (OECD, 1988) is a book that discusses various aspects of PDO and institutional development. It defines PDOs and traces the history of their development, assesses the experience of "self-help" organizations in Africa, and briefly reviews selected issues and illustrations such as policy reform, self-evaluation, appropriate technology, and triangular operations. Chapters are devoted to PDO relationships with official agencies like the UN, World Bank, and regional development banks, and the role of PDOs in development education. Annex 3 provides a listing of institutional development categories and indicators produced by DAI and Cornell University. Available from: OECD Publications Service, 2 rue Andre-Pascal, 75775 PARIS CEDEX 16.

Welty's Book of Procedures for Meetings, Boards, Committees & Officers (Welty, Joel David, 1982) is a manual that describes the functions the various parts of a membership organization should perform and prescribes decisionmaking processes to make a membership organization operate more effectively. The book contains chapters on active membership, committees, boards of directors, officers, managers, meetings, setting up a new organization, bylaws, standard policies, elections, leadership, and conflict resolution. Although it covers some "rules of order" for meetings, its value in institutional development is the guidance it gives on how to define the roles and functions of the various parts of a membership organization. Available from: NCBA, 1401 New York Ave., NW, Suite 1100, Washington, DC 20005, USA.

DEVELOPMENT | SUSTAINABILITY | EXPANSION
VISION | CAPACITY | RESOURCES | LINKAGES

Women's Ventures: Assistance to the Informal Sector in Latin America (Berger, Marguerite and Mayra Buvinic, Editors, Kumarian Press, 1989) is a book that explores the environment in which microenterprises operate, called the informal sector, and the kinds of programs and policy efforts which have produced the greatest impact in this sector in Latin America. Although focused on women and Latin America, the book is useful in understanding the context in which microenterprises around the world must compete, and the economic trends and policies which work to either thwart or advance their activities. Many excellent analyses of programs currently operating in Latin America that target women are included. Available from: Kumarian Press, Inc., 630 Oakwood Avenue, Suite 119, West Hartford, CT 06110-1529, USA.

BIBLIOGRAPHY

✍ Entries so designated are reviewed in more detail in the section entitled Recommended Manuals, Guidebooks and Monographs.

ACCION International. Undated. *Institutional Profile: A Tool for Selecting Affiliates.* Cambridge: ACCION International.

✍ ACCION International and Calmeadow Foundation. 1988. *An Operational Guide for Micro-Enterprise Projects.* Cambridge: ACCION International.

Bath, Paquita and Dinora Mendez de Sanchez. 1990. *The Evolution of a Relationship: A History of OEF International and OEF de El Salvador.* Washington, D.C.: OEF International.

Boomgard, James, J. and Kenneth J. Angell. 1990. *Developing Financial Services for Microenterprises: An Evaluation of USAID Assistance to the BRI Unit Desa System in Indonesia.* Bethesda: Development Alternatives, Inc. GEMINI Technical Report No. 6.

✍ Buzzard, Shirley and Elaine Edgcomb, Editors. 1987. *Monitoring and Evaluating Small Business Projects: A Step by Step Guide.* New York: SEEP.

Castello, Carlos and Diego Guzman. 1988. *Expansion and Replication of Benefits in Microenterprise Programs: The Colombia Model.* Bogota: AITEC/Colombia.

✍ Christen, Robert. 1990. *Financial Management of Micro-Credit Programs.* Cambridge: ACCION International.

✍ Christian Reformed World-Relief Committee (CRWRC). 1990. *Leader's Resource Manual.* Grand Rapids: CRWRC

Coyle, Mary and Douglas Salloum. 1992. Interviewed by Elaine Edgcomb, May 1992, Calmeadow Foundation, Ottawa.

Drake, Deborah. 1991. "Guarantee Funds: ACCION International's Bridge Fund". In *Mobilizing Resources for Self Sufficiency and Scale-Up.* New York: SEEP.

Drake, Deborah and Maria Otero. 1992. *Alchemists for the Poor? NGOs as Financial Institutions.* Cambridge: ACCION International. Monograph No. 6.

✍ Edgcomb, Elaine and James Cawley. 1991. *The Process of Institutional Development: Assisting Small Enterprise Institutions to Become More Effective*. Bethesda: Development Alternatives, Inc. GEMINI Working Paper No. 15.

Esman, Milton J. and Norman Uphoff. 1984. *Local Organizations: Intermediaries in Rural Development*. Ithaca: Cornell University Press.

Flaming, Mark. 1992. *Informal Sector Credit Workshop Manual: Dar Es Saalam, Tanzania, 23–28 February 1992*. Winnipeg: Mennonite Economic Development Associates.

Frankel, Larry. 1992. The "Open Mike". In *NEXUS*. No. 17 (June): page 2.

✍ Goldmark, Susan and Jay Rosengard. 1985. *A Manual to Evaluate Small-Scale Enterprise Development Projects*. Washington: US Agency for International Development.

Gomez, Arelis, Nan Borton and Carlos Castello. 1992. *Apex Study of the Asociación de Grupos Solidarios de Colombia*. Bethesda: Development Alternatives, Inc. GEMINI Working Paper No. 28.

✍ Haggblade, Steven and Matthew Gamser. 1992. *Field Manual for Subsector Practitioners*. Bethesda: Development Alternatives, Inc. GEMINI Technical Note, Nonfinancial Assistance to Microenterprise Sector No. 1.

✍ Jerving, Jim. 1987. *The Central Finance Facility: A Guide to Development and Operations*. Madison: World Council of Credit Unions.

King, Mark. 1992. Interviewed by Elaine Edgcomb, June, Opportunity International.

✍ King, Mark and Larry Reed. 1991. *Microenterprise Credit Programs: Projecting Financial Viability*. New York: SEEP

✍ Lewin, Christopher A. 1991. *The ADEMI Approach to Microenterprise Credit*. Bethesda: Development Alternatives. GEMINI Special Publication No. 3.

Long, Carolyn, Daouda Diop and James Cawley. 1990. "Report of Program Working Group." In *Towards Partnership in Africa*, eds. Phyllis and Jerry Ingersoll. Washington, D.C.: Interaction and FAVDO.

Lovell Catherine. 1990. "BRAC (B): Management Development Program: Outcome Notes." In *Seeking Solutions: Cases Leader's Guide*, eds. Charles K. Mann, Merilee Grindle and Amy Sanders. West Hartford: Kumarian Press.

_____________. 1989. "Case 3: BRAC (B): Management Development Program." In *Seeking Solutions: Framework and Cases for Small Enterprise Development Programs*, eds. Charles K. Mann, Merilee Grindle and Parker Shipton. West Hartford: Kumarian Press.

✍ Opportunities Industrialization Centers International (OICI). Undated. *Board of Directors Manual*. Philadelphia: OICI.

———. Undated. *Supervisors and Managers Manual*. Philadelphia: OICI.

———. Undated. *Resource Development Manual*. Philadelphia: OICI.

✍ Otero, Maria. 1989. *Breaking Through: The Expansion of Micro-Enterprise Programs as a Challenge for Non-Profit Institutions*. Cambridge: ACCION International. Monograph No. 4.

✍ ———. 1989. *A Handful of Rice: Savings Mobilization by Micro-Enterprise Programs and Prospectives for the Future*. Cambridge: ACCION International. Monograph No. 3.

Peters, A Thomas. 1987. *Thriving on Chaos: Handbook for a Management Revolution*. New York: Harper and Row

Peters, Thomas J, and Robert H. Waterman Jr. 1982. *In Search of Excellence: Lessons from America's Best-Run Companies*. New York: Harper and Row.

Reed, Larry and David Befus. 1992. *Transformation Lending: Helping Microenterprises Become Small Businesses*. Chicago: Opportunity International.

Salloum, Douglas, and Nan Borton. 1991. *Steps to the Creation of a Viable Financial Institution for Microenterprise Development: Notes on a Process for the Staff and Board of: Tulay sa Pag-ynlad, Inc*. Bethesda: Development Alternatives, Inc. GEMINI Working Paper No. 24.

SEEP. 1992. *Local and International Financial Mechanisms for Poverty Lending*. New York: SEEP.

✍ ———. 1991. *Mobilizing Resources for Self-Sufficiency and Scale-Up*. New York: SEEP.

✍ ———. 1989. *Small Enterprise Development and Income Generating Activities Through Indigenous Nongovernmental Organizations: Towards a Strategy*. Submitted to the International Labour Office. New York: SEEP.

✍ Stearns, Katherine. 1991. *Methods for Managing Delinquency*. Bethesda: Development Alternatives, Inc. GEMINI Technical Notes, Financial Assistance to Microenterprise Sector No. 1.

———. 1991. *The Hidden Beast: Delinquency in Microenterprise Programs*. Cambridge: ACCION International.

✍ Vincent, Fernand and Piers Campbell. 1989. *Towards Greater Financial Autonomy: A Manual on Financial Strategies and Techniques for Development NGOs and Community Organizations*. Geneva: IRED.

✍ Welty, Joel David. 1982. *Welty's Book of Procedures for Meetings, Boards, Committees & Officers*. Washington, D.C.: National Cooperative Business Association

THE SEEP NETWORK

SEEP Member Agencies

ACCION International

Agricultural Cooperative Development International

ADRA International

American Near East Refugee Aid

Appropriate Technology International

Calmeadow Foundation

CARE

CARE Canada

Catholic Relief Services

Christian Children's Fund

Council for International Development

Enterprise Development International

Food for the Hungry International

Foundation for International Community Assistance

Freedom from Hunger Foundation

Katalysis

Mennonite Economic Development Associates

National Cooperative Business Association

Opportunities Industrialization Centers International

Opportunity International

PACT, Inc.

Pan American Development Foundation

Plan International

Project HOPE

Save the Children Federation, Inc.

Seed Capital Development Fund

Trickle Up Program

Volunteers in Technical Assistance

World Council of Credit Unions

World Education, Inc.

World Relief

World Vision International

The Small Enterprise Education and Promotion Network (SEEP) is an association of more than 30 North American private development organizations that support enterprise development programs in the South. The Network provides a forum for members to engage in joint research and training, and for the development and dissemination of publications for field use. Through these endeavors, it promotes professional standards of practice, as well as serves as a center for collaboration on a broad range of sector-related issues. In existence since 1985, the Network has produced materials related to evaluation, credit program design, financial projections, training and technical assistance, poverty lending, and institutional development. Its first publication, *Monitoring and Evaluating Small Business Projects: A Step by Step Guide*- is available in English, French, Spanish and Indonesian, and is currently in its fourth printing.