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MEASURING PERFORMANCE OF MICROFINANCE INSTITUTIONS: A FRAMEWORK FOR REPORTING, ANALYSIS, AND MONITORING

TRAINER'S GUIDE

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Development Alternatives, Inc.

TABLE OF CONTENTS

OVERVIEW

Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring, is a training course to provide microfinance practitioners with the skills, knowledge and tools to develop financial statements and reports for meaningful analysis and monitoring, and that are in accordance with International Financial Reporting Standards. The centerpiece of the training is a spreadsheet tool that practitioners will learn how to use in the training environment and be able to incorporate into their microfinance institutions' financial reporting systems.

Microfinance is a diverse and growing industry around the world. As the industry matures the importance of common standards by which MFIs can be measured increases. This training course has been developed in response to the growing need to continue the standardization of financial terms, formats, and indicators so that MFI managers can develop consistent performance monitoring systems based on international standards. The training course presents an integrated framework for developing financial statements and reports, making adjustments to financial statements, an in-depth look at the recommended indicators to monitor, and templates for creating performance monitoring reports. The framework presented throughout the training is enhanced and complemented by a spreadsheet tool that mirrors the framework and is a ready to use excel spreadsheet.

The result of this training course is that MFI managers will be able to create performance monitoring reports to make decisions, inform board of directors, report to donors, investors and other interested parties based on sound and meaningful financial information.

WHO SHOULD ATTEND

Managers, finance and accounting staff of microfinance institutions who are instrumental in creating financial statements and/or responsible for using financial reports for analysis and monitoring. Prerequisites include familiarity with the microfinance industry and basic knowledge of accounting and financial reporting of a microfinance institution. This training course is also appropriate for staff of donor organizations who have worked with microfinance institutions and have an understanding of basic financial statements and reports.

AN INTEGRATED TRAINING DESIGN

The training design is an integrated approach to teaching Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring. The design of the training is based on the guide "Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring and uses a spreadsheet Tool as the centerpiece for creating financial statements, indicators, and reports. The design of the training is based on a participatory training model and incorporates theory, skill development, and practice through exercises, a case study, and practical use of the spreadsheet tool.

USING THE TRAINERS GUIDE

The Trainers' Guide is a suggested format to facilitate the training. This has been written as a guide to assist the trainer in conducting an efficient 3-day training program. The learning steps and activities outlined in this guide are based on adult learning principles and incorporate theory, skill development, practice, and relating the learned knowledge to participants' workplace. The trainer should use discretion when using this training guide to make decisions in regard to how fast/slow or thorough/brief each learning step should be. The trainers' knowledge of participant skill level will help to define those elements of the training.

This guide contains a brief section on Introduction to the Spreadsheet Tool that describes how to introduce the tool during the training and how to input the data into the tool using the case study financial data and information. The trainer must decide how to integrate the case study financial data and information and the use of the tool for analytical adjustments, ratios and indicators, and creating and analyzing performance monitoring reports.. The training timeline identifies times during the three days when to use the tool.

A powerpoint presentation accompanies the training. For this training the powerpoint slides are brief notes to accompany the training. Depending on your situation you can also write this information on flipcharts.

Pages 1 and 2 for each module is a description of the goals and objectives for the module and a session plan that includes topics, technique, time, and materials needed.

The training agenda is very aggressive, with approximately 7 and a half hours of training for day 1 and 2. There are evening assignments that must be completed. Day 3 is not as defined so that the trainer has some time at the end of the training if needed.

As the training is very intensive, the trainer might need to use some energizers during the day based on participants' ability to focus and concentrate. A list of energizers is presented in this guide at the end of the Introduction Module.

PARTICIPANT GUIDE

For this training participants will be given a copy of the guide Measuring Performance Of Microfinance Institutions: A Framework For Reporting, Analysis, And Monitoring. At times during the training participants will be asked to refer to their guide or read a section of their guide for the evening assignment. The small/large group exercises are all based on material that is in the guide.

DAILY AND END OF TRAINING EVALUATION

To regularly assess the relevancy, flow, timing, etc of the training two quick training assessments are included at the end of the Introduction module. These can be used at the end of the day for a quick assessment of participant's perceptions of the training.

Additionally a more detailed end of training is included at the end of the Introduction module.

THE TRAINING TIMELINE

The 3-day training timeline describes the flow of training topics and suggested timeframes.   The timeframes are for time budgeting only as they will vary depending on the audience and the trainer. This training timeline does not include time for breaks or an evening assignment. The training timeline does include time for lunch.

TRAINING TIMELINE	
DAY ONE	
35 minutes	Introduction
20 minutes	**Module 1: The Performance Monitoring Framework** **Module 2: Financial Statements and Reports**
10 minutes	Overview
1 hour 20 minutes	Income Statement
1 hour 20 minutes	The Balance Sheet
1 hour	*Lunch Break*
45 minutes	Introduction to the Spreadsheet Tool
1 hour 20 minutes	Cash Flow Statement
40 minutes	Portfolio Reports
20 minutes	Non-Financial Data Report
45 minutes	Using the Framework Tool and Financial Statements
DAY TWO	
1 hour	**Module 2: Financial Statements and Reports** **The Tool and Financial Statements**
45 minutes	Wrap-up: Linking Financial Statements **Module 3: Analytical Adjustments**
10 minutes	Overview of Analytical Adjustments
30 minutes	Making Adjustments in Subsidized Funds
30 minutes	In-Kind Subsidy Adjustments
30 minutes	Inflation Adjustments
30 minutes	Portfolio at Risk Adjustments
45 minutes	Understanding Adjusted Financial Statements
1 hour	*Lunch*
1 hour	Using the Spreadsheet Tool and Analytical Adjustments **Module 4: Financial Ratios and Indicators**
1 hour 30 minutes	An In-Depth Look at the SEEP 18
DAY THREE	
1 hour	Using Ratios to Identify Changes in Performance
1 hour	Using the Spreadsheet Tools and Financial Ratios **Module 5: Creating and Analyzing Financial Reports**
5 minutes	Overview
25 minutes	Trend Analysis
25 minutes	Variance Analysis
5 minutes	Benchmarking
1 hour 30 minutes	Performance Monitoring Reports
TBD	Using Tool and Creating Reports
TBD	Analyzing Reports

INTRODUCTION

Technique and Time	Session	Materials
Lecturette and discussion *5 minutes*	**Welcome and Overview of Course** ▪ Welcome participants and introduction of trainers ▪ Overview of training course	
Group Activity *20 minutes*	**Ice Breaker** ▪ Participant and Trainer introductions	**Handout 4.1** Instructions for People Hunter
Lecturette **Question and Answer** *5 minutes*	**Goals, Objectives and Agenda** ▪ Review goals, objectives and agenda ▪ Discuss expectations	Powerpoint 2-4
Lecturette **Discussion** *5 minutes*	**Additional Business** ▪ House Rules ▪ Training Methodology ▪ Other	
	Additional Materials	Additional ice breakers Daily Evaluation Forms End of Training Evaluation Energizer ideas
Step 1: Lecturette *5 minutes*	**Introduction** **Welcome participants to the training.** Representative from the host or partner organization welcomes participants and opens training. Introduction of and hand-over to Facilitators. Introduce main facilitators including background and additional biographical information appropriate for the specific country and/or setting. **Setting the stage for the training** Facilitator to welcome participants to the training. The welcome will include a brief overview of the training. Key points to discuss: ▪ The title of this course is Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring. ▪ As practitioners in the microfinance industry we need a way	

Technique and Time	Session	Materials
	to measure the performance of the institutions we work for. By "measure" we mean that we need to be able to take the financial information and create reports to manage for results and monitor progress. In order to do this a financial institution must first organize the data and information in formats that can then be meaningfully summarized into financial statements. The financial information needs to be "adjusted" to assess accurately the viability and soundness of a microfinance institution. You need to analyze ratios and indicators to get a multidimensional perspective on the financial health of the institutions, and then create reports to be able to analyze the performance of the institution. ▪ You may be saying to yourself we already do this, so why am I here. We will present a framework to provide microfinance practitioners with a means to develop financial statements and reports so that they can be used for analysis and monitoring and that are in accordance with International Financial Reporting Standards. This framework is the accepted standards by which MFIs can be measured, communicate with other MFIs in the industry, and compare performance to other MFIs. ▪ The framework presented in this course works hand-in-hand with a spreadsheet tool that will allow your institution to capture financial data and information and generate reports.	
Step 2: Group Activity *20 minutes*	**Ice Breaker** The ice breaker is used to introduce participants to one another. Below is an example of an ice breaker to use. Additional ice breaker activities are include at the end of the introduction. **Explain** To the group that they will play an introduction game called people hunter. Give each participant a people hunter worksheet (Handout Intro.1). Tell participants that we will be "hunting" for other people in the group with certain qualities. This exercise is to help us get to know each other a little better. Instructions for People Hunter: 1. Tell participants that they will have 5 minutes to circulate and find people who meet a requirement of each box on the handout sheet. When they find a person who meets a requirement, they are to write that person's name on the sheet in the appropriate space and then move on to find someone else. A participant is only allowed to sign one box on any sheet even though they may meet the requirements of another box. 2. After 5 minutes tell participants they are to stop what they are doing and stay with the person they are with. In these groups, participants are to interview each other. Participants are to get the following information from the person they will interview: name, name of organization, nature of job, time with organization, biggest challenge of the job. The groups will have 5 minutes to get this information. Each person should be prepared to introduce	**Handout Intro.1:** People Hunter guide

Technique and Time	Session	Materials
	that person to the rest of the group. 3. Each participant has one minute to introduce their partner to the entire group. Facilitator keep time. *Facilitator note: Optional – you can give a prize or congratulations to the person who is the best hunter by asking by a show of hands how many had 5 names on their list, etc.*	
Step 3: Lecture **Question & Answer** *5 minutes*	**Goals, Objectives, Agenda** Show PPT Slide 2-4 **Explain** The goals and objectives of the course. **Goal:** Microfinance practitioners will create and use financial performance monitoring reports that have been developed using International Financial Reporting Standards to be able to assess with accuracy the performance of their institution, make decisions in regard to future directions, inform boards of directors, and report to donors, investors and other interested parties. **Objectives:** At the end of the training, participants will be able to: ▪ Describe the importance of a consistent financial reporting framework and how a framework can be used to make decisions, provide important internal information, and be used for external reporting and comparisons. ▪ Produce accurate financial statements and reports in accordance with International Financial Reporting Standards (IFRS) to be used to measure performance of a microfinance institution. ▪ Create an adjusted income statement and balance sheet, using commonly accepted adjustments and standard calculations, to analyze and measure the “true performance” of a microfinance institution, analyze long-term viability, and make meaningful comparisons across the industry. ▪ Calculate and analyze up to 18 financial ratios and indicators to be able to evaluate the performance of a microfinance institutions’ activities. ▪ Create financial performance monitoring reports for a microfinance institution and analyze, using recommended tools, the performance and condition of the microfinance institution. ▪ Use the SEEP Framework tool to monitor financial performance of a microfinance institution. **Ask** Participants if anyone has other expectations about what they will get from this course. If the expectation cannot be met discuss with participants. If the expectation will be met explain.	Powerpoint 2-4

Technique and Time	Session	Materials
	Show PPT 5 Training Agenda Explain the training agenda. Point out times for start and finish, tea/coffee break, lunch.	
Step 4: Lecturette *5 minutes*	**Other Business** **Present Training Rules on flip chart** ▪ There is no such thing as a stupid question. ▪ Everyone needs to participate in order to succeed and reach goals. ▪ Please turn off cellphones or ask your friends, family and colleagues to minimize calls ▪ Please be on time. ▪ There is a blank flipchart posted titled “questions, clarifications and issues for further discussion”. That will remain posted for facilitators and participants to record unanswered and additional questions and issues on which they want further discussion. Leave the flip chart with rules posted on the wall throughout the training. *Facilitator Note: This is a guideline of rules. You need to make your rules list based on your situation.* **Methodology** Explain to participants the course has been developed using a participatory training model. This means that participants will have an active role in driving the training. The expectation the trainers have is that people will actively participate in large and small group discussions and activities.	

HANDOUT INTRO.1

PEOPLE HUNTER

Instructions: Find someone who has or did one of the following. When you have found a person, write the person's name in the box. A participant may appear only once on your sheet.

Has the same birth month as you	Has worked at their institution for 2 years or more
Has a name beginning with the same alphabet letter as you	Comes from the same city, town, village as you
Graduated from college the same year as you	Has the same number of children as you
Is wearing the same color clothes as you	Is not married
Is the same height as you	Has the same hobby as you do
Works in the same geographic area as you	Has been to Thailand

ADDITIONAL ICE BREAKER IDEAS

THE CIRCLE GAME

This activity is for people to introduce themselves to the large group.

Time: For a group of 20 participants and trainers approximately 15 minutes.

Material:

20 Statements that are written down, one statement per card/piece of paper. You need as many statements as participants. The statements should be a mixture of fun and work related. Examples of statements are included below.

Letter size paper: You will need one less piece of paper as there are participants, trainers, and observers.

1. Place the letter sized pieces of paper in a big circle.
2. Ask all participants and trainers to stand on one piece of paper. The trainer should be standing in the middle of the circle.
3. Tell participants that you will read a statement. If a participant agrees with the statement they need to step off their paper and move to another empty paper. The rule is when a participant moves they cannot move to a spot next to where they are standing, but across the circle. The trainer in the middle must also find an open spot.
4. The participant that is left without a piece of paper to stand on must introduce him/herself to the group. Name, organization work for, job position, location, etc.
5. Trainer to start the game by first introducing him/herself. The trainer then selects and reads a statement. Participants are to move around to find a new spot if they agree with the statement. The person without a spot must introduce them self and then select a statement and read it aloud.
6. Game continues until everyone has introduced them self.

Statements for the Circle Game

1. I work in a microfinance institution.
2. The institution I work for currently creates performance monitoring reports.
3. For my job I work with our institutions financial statements.
4. The financial institution I work for produces adjusted income statements and balance sheets.
5. I am familiar with financial ratios and indicators
6. My shirt has the color blue in it.
7. I have children.
8. I traveled over 6 hours to get to this training course.
9. I will be staying an extra day for shopping.
10. I work in the same place that I grew up.
11. I am not married.

FIND SOMEONE

This activity is for people to get acquainted with each other.

Time: 15-20 minutes

Material: Index card for each participant (you can include trainers as well)

1. Pass out one index card per participant.
2. Tell participants to write three statements on their card (such as favourite sports team, color, interest, book, etc).
3. Collect the cards and pass them out so everyone gets someone else's card.
4. Tell participants they need to find the person who wrote the card they were given. As they are mingling to find the person they should introduce themselves to people they meet.

MY NAME

This activity is for people to introduce themself to the group.

Time: 15-20 minutes (depending on how many participants)

People introduce themselves and tell what they know about why they have their name (their mother wanted to name me after her great aunt Helen who once climbed Pike's Peak in high heels, etc.). It could be the first, middle or nickname.

DAILY FEEDBACK/EVALUATION FORMS

ONE MINUTE FEEDBACK

So far I'm finding this training to be (circle your response)…

Interesting	1	2	3	4	5	Uninteresting
Too fast	1	2	3	4	5	Too slow
Too easy	1	2	3	4	5	Too difficult
Relevant	1	2	3	4	5	Irrelevant
Organized	1	2	3	4	5	Disorganized
Relaxed	1	2	3	4	5	Tense

Please provide a brief comment for improving this day.

ONE MINUTE FEEDBACK

So far I'm finding this training to be (circle your response)…

Interesting	1	2	3	4	5	Uninteresting
Too fast	1	2	3	4	5	Too slow
Too easy	1	2	3	4	5	Too difficult
Relevant	1	2	3	4	5	Irrelevant
Organized	1	2	3	4	5	Disorganized
Relaxed	1	2	3	4	5	Tense

Please provide a brief comment for improving this day.

DAILY FEEDBACK/EVALUATION FORMS

END OF SESSION/ DAY FEEDBACK I found the following most useful… Why:
I found the following least useful… Why:
Suggestions for improving this session/day ...

END OF SESSION/ DAY FEEDBACK I found the following most useful… Why:
I found the following least useful… Why:
Suggestions for improving this session/day ...

MEASURING PERFORMANCE OF MICROFINANCE INSTITUTIONS: A FRAMEWORK FOR REPORTING, ANALYSIS, AND MONITORING

COURSE EVALUATION

1. **What are the most significant skills and/or knowledge you gained from the course Measuring Performance of Microfinance Institutions?**

2. **What additional skills and knowledge do you need to learn more about to create financial statements in the recommended format?**

3. **What additional skills and knowledge do you need to be able to use the spreadsheet tool at the MFI you work at?**

4. **What will you do differently in your work as a result of this training?**

5. **What will you have difficulty applying to your work that you learned this week? Why?**

6. **What did you not learn in this training that you were expecting to learn:**

7. How did you feel about the length of the program?

□ Too Short □ Just Right □ Too Long

8. Please rate and comment on the following:

	1=Poor	2=Fair	3=Average	4=Good	5=Excellent
Course Content Comments:	1	2	3	4	5
Course Methods Comments:	1	2	3	4	5
Course Materials Comments:	1	2	3	4	5
Course Exercises and Activities Comments:	1	2	3	4	5
Overall Course Comments:	1	2	3	4	5
Course Organization Comments:	1	2	3	4	5
Pre-Course Organization/communication/ **Advertising** Comments:	1	2	3	4	5
Facilities Comments:	1	2	3	4	5

Feedback for the Trainers: To improve our training skills please provide feedback to the trainers.

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

	Knowledge of Subject	Style and Delivery	Responsiveness to Group	Producing a Good Learning Climate	Comments
Trainer name					
Trainer name					
Trainer name					
Trainer name					

ENERGIZERS

1. Simon Says: Tell all participants to stand up. The rules of the game are that the trainer will tell the group to do something by saying “Simon says…” For example “Simon says touch your head”. The trainer will then tell the group to do something without saying simon says. Those people who did as they were told must sit down. Continue until there is one participant left standing.
2. Ha Ha: Tell everyone to stand up. Explain that you will give the first person a word to say. The next person must repeat the same word saying it twice, the next person three times, etc. around the room. The word is ha. Try to go as fast as possible.
3. Scavenger Hunt: Put participants in teams of three or four people. Tell them this is a scavenger hunt. All teams must bring to you the items that you tell them. Come up with three or four items. Tell the teams that the items must be presented to you at one time.
4. Human Machines: Put participants into groups of 5 to 8 people. Each team has 5 minutes to design a human machine where the members are the components of the machine. At the end of 5 minutes the teams must demonstrate its human machine. The trainer can assign a machine to each team. Ideas include a clock, a bicycle, a computer, a motorboat, a fan.
5. Tied in Knots: (This energizer may not be appropriate for all groups). Ask the participants to stand and form a circle. Tell participants to raise their left hand in the air and place their right hand into the center of the circle. All participants must take their left hand and grab someone else’s right hand. Participants are to untangle themselves without breaking their grip on each other. Some of the participants could be facing away from the center of the circle at the end of this.

MODULE 1: THE PERFORMANCE MONITORING FRAMEWORK

Goal	Microfinance Practitioners will articulate how their microfinance institution will benefit from using a performance monitoring framework.
Objectives	By the end of Module 1, participants will: ▪ Describe what a performance monitoring framework is and why a framework is critical to monitoring their institutions performance. ▪ Discuss how the framework provides standards for the microfinance industry and how individual institutions can benefit from those standards. ▪ Be familiar with the framework's referencing system to better identify terms used in the framework and help interpret formulas.
Duration	20 minutes

MODULE 1 SUMMARY

Time and Technique	Session	Materials
Lecturette and discussion *1 minute*	**Step 1: Introduction** Facilitator provides an overview of the session goal and objectives.	Powerpoint Slide 6
Lecture and Guided Discussion *10 minutes*	**Step 2: Overview of The Performance Monitoring Framework** ▪ Performance monitoring system ▪ Overview of what this course will provide to assist an institution to create and use a performance monitoring system ▪ The SEEP Framework and standardizing financial reporting systems for MFIs	Flipchart Markers
Lecturette *10 minutes*	**Step 3: Using the SEEP Performance Monitoring Framework** ▪ The SEEP Framework ▪ The Tool ▪ Important information to know before learning about the SEEP Framework	PowerPoint Slides 7-12

MODULE 1 FACILITATOR NOTES

STEP 1: LECTURE AND DISCUSSION	**INTRODUCTION**

Display

1 minute

PPT 6 Goals and Objectives: Module 1 The Performance Monitoring Framework

PowerPoint Slide 6

Describe

The objectives and discuss the topics for this module. By the end of Module 1, participants will:

- Describe what a performance monitoring framework is and why a framework is critical to monitoring their institutions performance.
- Discuss how the framework provides standards for the microfinance industry and how individual institutions can benefit from those standards.
- Be familiar with the framework's referencing system to identify terms used in the framework and help interpret formulas.

STEP 2: LECTURE AND DISCUSSION — **OVERVIEW OF THE PERFORMANCE MONITORING FRAMEWORK**

Ask

10 minutes

Flipchart

Markers

What is a performance monitoring system?

Write responses on a flipchart.

Ask

Why does an institution need a performance monitoring system?

Write responses on flipchart.

- Evaluate the financial performance
- Improve financial performance
- Make informed decisions
- Provide accurate and timely reports
- Accountability of management and staff

Summarize (if possible based on participants' responses) what a performance monitoring system is.

A performance monitoring system is a process and a set of tools that can help managers make decisions, inform board of directors, and report to donors, investors, and other interested parties. A performance monitoring system begins with a business plan and includes managing for results, monitoring progress, and holding management and staff accountable for results.

Describe to participants that the training will focus on creating standardized

financial statements and reports to use for analysis and monitoring.

One part of a performance monitoring system is creating financial statements and reports that can provide you with important information that can be used for analysis and monitoring of your institution. During this training we will focus on a framework that will provide you with tools and resources to develop these financial statements and reports and use the data for analysis, reporting, and monitoring.

Provide an overview of the Performance Monitoring Framework to include a brief narrative of why the industry needs standards

As with any global industry, microfinance needs accepted standards by which MFIs can be measured. The purpose of this Framework is to provide microfinance practitioners with a means to develop financial statements and reports. Your institutions already have the capacity to do this, so you could be asking yourself, "why am I here". The difference is that we have developed a standardized framework that uses the most up-to-date terms and calculations in the industry. By using this framework you will be:

- Institutionalizing a financial reporting framework that is defining the industry standard and in accordance with International Financial Reporting Standards.
- Creating meaningful reports for managers and board members to assess more accurately institutional performance.
- Creating transparency so that it is easier to benchmark good performance.
- Using common standards that other MFIs are using to enable you to communicate with others in the industry and measure your institution against those.

For MFIs that lack a comprehensive financial reporting framework, this Framework may provide it. Microfinance managers who already have reporting formats may also find this Framework useful to align their own framework with the industry-standard terms, ratios, and adjustments

This Framework will move the industry one step further in the standardization effort by providing examples, identifying adjustments, and highlighting the indicators that are most important to monitor.

STEP 3: LECTURETTE

10 minutes

Powerpoint Slides 7-12

USING THE SEEP PERFORMANCE MONITORING FRAMEWORK

Explain the SEEP Performance Monitoring Framework

Show PPT 7

The purpose of the Framework is for managers to know:

- How to categorize data into statements and reports
- Analyze the statements and reports
- Use the information for monitoring purposes

To use the Framework effectively managers and others involved in performance monitoring need to know the most up-to-date definitions, suggested formats and calculations. The Framework is divided into 4 sections:

Show PPT 8

- Financial Statements and Reports
- Analytical Adjustments
- Financial Ratios and Indicators
- Creating and Analyzing Performance Monitoring Reports

The sections of the Framework are linked and build on each other as, for instance, data from the financial statements and reports and analytical adjustments is used when calculating financial ratios and indicators. So in order to understand and use the Framework we will go through a step-by-step process of putting data into the suggested financial statements and report formats, how to express those financial statements on an adjusted basis, calculating and understanding financial ratios, and creating financial performance monitoring reports.

Explain how the Framework Tool will be a resource for people to use.

The performance monitoring framework that we will learn about works together with a spreadsheet tool that has been developed to match the format of the Framework. During this training we will learn how to use the Framework, what kink of information the Framework can provide to you as a manager of a microfinance institution, and how to use the spreadsheet tool to create financial statements and reports.

Review the referencing and calculation conventions

Show PPT 9

Describe the reference system

For each statement or report, the line items are numbered consecutively and begin with one of the following letters:

I Income Statement

B Balance Sheet

C Cash Flow Statement

P Portfolio Report and Activity Report

R Ratios

A Adjustments

N Non-Financial Data Report

Give example.

Show PPT 10

Discuss how multiple periods are described

To refer to accounts from different periods (that is, data from a previous period and data from the current period), a superscript number identifies the period as follows:

^{1} = end of current period

^{0} = end of previous period

As an example, during the calendar year 2004:

P^1 = December 31, 2004

P^0 = December 31, 2003

If a period is not indicated, then the account is for the current period.

Show PPT 11

Describe how to calculate averages

In this Framework, averages are indicated by the use of the superscript letters "avg"—for example:

P^{avg}

Show PPT 12

Averages for a period, such as a year, can be calculated by adding a beginning amount and an end amount and dividing the result by two—for example:

$P^{avg} = [(P^0 + P^1)/2]$

This is how averaging is calculated throughout this Framework.

MODULE 2: FINANCIAL STATEMENTS AND REPORTS

Goal	To construct and analyze financial statements and reports using terminology and formats that promote global standards for microfinance institutions.
Objectives	By the end of Module 2, participants will: Describe the income statement, balance sheet, cash flow statement, portfolio report and non-financial data report, and explain their significance and how they are related. Construct financial statements and reports based on the SEEP Framework. Discuss how the financial statements and report are interrelated.
Duration	8 hours

MODULE 2 SUMMARY

Time and Technique	Session	Materials
Lecturette and discussion *10 minutes*	**Overview of Financial Statements and Reports** Facilitator provides an overview of the session goal and objectives.	Powerpoint slides 13-14
Guided Discussion Demonstration Activity *1 hour 20 minutes*	**Step 2: Income Statement** ▪ Overview of income statement ▪ Income statement construction ▪ Terminology, definitions, xrefs ▪ Practice	Overhead/handout 2.1 Income Statement Template 2.2 Sample Income Statement 2.3 Case Study Instructions w/Income and Expense Information
Guided Discussion Demonstration Activity *1 hour 20 minutes*	**Step 3: Balance Sheet** ▪ Overview of balance sheet ▪ Construction of a balance sheet ▪ Terminology, definitions, xrefs ▪ Practice	Overhead /handout 2.4 Balance Sheet Template 2.5 Sample Balance Sheet 2.6 Case Study Instructions w/Balance Sheet information
Guided Discussion Group Activity Demonstration *1 hour 20 minutes*	**Step 4: Cash Flow Statement** ▪ Overview of cash flow statement ▪ Cash Flow construction ▪ Terminology, definitions, xrefs	Overhead 2.7 Classification of Cash Receipts and Payments Overhead/Handout 2.9 Cash Flow Template 2.10 Sample Cash Flow

		Activity Material 2.8 Cash Flow Activity 2.11 Indirect Cash Flow Example 2.12 Case Study Cash Flow Instructions
Discussion Lecturette *40 minutes*	**Step 5: Portfolio Reports** ▪ Overview of portfolio report ▪ Portfolio activity information, movement in the impairment loss allowance, and aging report ▪ Sample Portfolio report ▪ Terminology, definitions, xrefs	Overhead/handout 2.13 Sample Portfolio Report Handout 2.14 Micro MFI Portfolio Report
Discussion *20 minutes*	**Step 6: Non-Financial Data Report** ▪ Overview of non financial data report ▪ Operational and macroeconomic data ▪ Sample non-financial data report	Overhead/Handout 2.15 Non-financial Data Report
Discussion Activity *45 minutes*	**Step 7: Linking Financial Statements** ▪ Importance of understanding the links between financial statements ▪ Links between the financial statements and reports	Overhead/Handout 2.16 Matrix Need handouts 2.2 2.5, 2.10, 2.13

MODULE 2 FACILITATOR NOTES

STEP 1: DISCUSSION

10 minutes

Powerpoint slides 13-14

OVERVIEW OF FINANCIAL STATEMENTS AND REPORTS

Show PPT 13 and explain objectives of module 2 Financial Statements and Reports. Describe what will be covered during this module.

Ask

What is financial management?

Write answers on a flipchart.

- Timely and accurate production of financial reports
- Financial records
- Recording financial transactions and categorizing them by groups, and summarizing the information

Ask

What types of statements and reports are included in a financial management system?

List answers on flipchart. After a statement or report has been identified ask the class for a brief description of the statement.

Answers should include the following:

- *Income Statement (or profit and loss statement):* A flow statement that summarizes all revenues, expenses, gains, and losses over a given period.
- *Balance Sheet (or statement of financial position):* A stock statement that shows the financial position of the institution at a point in time, including its economic resources, claims on those resources, and the residual interest in them.
- *Cash Flow Statement:* A flow statement that summarizes the inflows and outflows of cash for an institution over a given period.
- *Portfolio Report:* A portfolio report represents an MFI's microlending activity, presents the quality of the loan portfolio, and provides detail on how the MFI has provisioned against potential losses. Unlike other statements, the design of this report varies from MFI to MFI.

Explain that the statements and reports are part of the Framework

Explain that common statements and reports, such as the ones the class identified, are included in the Framework. Add that to complete this Framework, a fifth report, a non-financial data report, is part of the Framework and needs to be completed for the Framework.

Facilitator to ask participants for a brief description of the non-financial data report. The **non-financial data report** includes data on products and clients served by the institution, as well as data on the resources used to serve them.

Describe to participants the statement and reporting formats that are presented in the Framework.

In designing the statements, the most commonly used formats were selected and the ones that contained a reasonable number of accounts organized as clearly as possible. The formats presented include the minimum breakdown of financial information required to complete the overall Framework and be in accordance with IFRS. These formats have been reviewed for IFRS compliance and no material conflicts exist.

Show PPT 13

Discuss with participants important clarifying information before financial statements are explored.

- *Mapping Accounts:* MFIs use different terminology. For example one MFI can refer to revenue and another use income. (You can ask the participants for additional examples). Encourage participants to begin using the terminology presented in this Framework. Stress that the terminology used in the Framework is the standard that will be used in the industry. Point out that the definitions presented in the following sessions will help participants match their MFIs accounts to the framework
- *Adding Accounts:* Participants may want to add sub-accounts under the income statement and balance sheet accounts for management purposes. Give example or use: The framework contains two categories of Administrative Expenses. If your institution has particular accounts that you want to track you just need to add the accounts such as: Write on flipchart.

  (I20) Other Administrative Expense

(I20-1) Rent

(I20-2) Transportation Expenses

(I20-3) Office Supplies

Give participants another example and ask them to add accounts.

- *Segregating Financial and Non-Financial Service:* If non-financial services account for a small portion of the MFI's activities you might want to classify all income and expenses as non-operating items. If non-financial operations are significant, a manager should allocate costs among different programs and develop segregated financial statements that treat the financial service operations as a separate business.
- *Cash or Accrual:* Institutions use cash or accrual accounting or a mixture of both. This Framework can be used for either method of accounting.

STEP 2: GUIDED DISCUSSION DEMONSTRATION

1 hour 20 minutes

Handouts:

2.1 Income Statement Template

2.2 Sample Income Statement

2.3 Case Study Instructions and Micro MFI Income and Expense Information

Overheads:

2.1 Income Statement

INCOME STATEMENT

Handout

Give participant's handout 2.1 The Income Statement.

Ask

What is an income statement?

Expected responses:

- Is a flow statement
- Represents activity over a given period, day, month, quarter or year
- Summaries of the revenue and expense transactions for a defined period
- Shows profit and loss (which flows to the net worth of the balance sheet)

Summarize the income statement

The income statement reflects a dynamic picture of (1) what is earned from the provision of financial services, (2) what the total costs involved in carrying out those activities, and (3) whether a net surplus or deficit (profit or loss) exists for the period.

Show the overhead 2.1 Sample income statement.

Point out that an income statement is divided between revenue accounts and expense accounts. Write Financial Revenue at the top of the income statement (I1) and Financial Expense (I7). Ask participants to fill in their income statements as you go along.

Ask. Write responses on flipchart.

What are revenue accounts?

What are expense accounts?

Summarize revenue and expenses.

As defined by IAS, REVENUE is the gross inflow of economic benefits during a period arising in the course of ordinary activities of an institution when those inflows result in increases in *equity* other than increases relating to contributions from *equity* participants.

As defined by IAS, EXPENSES are decreases in economic benefits during the accounting *period* in the form of outflows, depletions of *assets*, or incurred *liabilities* that result in decreases in *equity* other than those relating to distributions to *equity* participants.

Say that an income statement usually includes a division of operating accounts and non-operating accounts.

Write on the overhead

Operating Expense (I16), Non Operating Revenue (I23), Non-Operating Expense ((I24).

Ask

What are operating accounts?

What are non-operating accounts?

Summarize

Operating accounts include all *revenue* and *expense* accounts related to the institution's core business—the provision of financial services.

Non-operating accounts include all r*evenue* and *expense* accounts not related to the institution's core business—the provision of financial services. This could include training or the sale of merchandise.

Add that donations and grant funds from donors are considered to be non-operating revenue. In this Framework, all donations for loan capital and operating expenses are included in the income statement.

Ask

What accounts are included under financial revenue?

Responses include:

- Financial revenue from loan portfolio to include interest on loan portfolio and fees and commissions on loan portfolio
- Financial revenue from investments
- Other operating revenue

Write the account names on the overhead.

Participants could use different terminology for account names. The Facilitator must understand the type of account that is being discussed and translate the account to the terminology that is described in the Framework. The terminology in the Framework is the terminology that participants are encouraged to use.

Review the definition of each account of financial revenue

As you review the definition of each account identify the cross reference statement. For instance when talking about Financial Revenue from Loan Portfolio tell participants that this is cross referenced to the Cash Flow Statement (C1). This should be stated for all applicable accounts.

Ask participants how you calculate Financial Revenue from Loan Portfolio?

Response:

Interest on Loan Portfolio + Commission and Fees on Loan Portfolio

I3 +I4. Write this calculation on the overhead under calculations for Financial Revenue from Loan Portfolio.

Tell

Financial revenue is the total value earned from the provision of financial services.

Ask

How do we calculate financial revenue?

Response

Financial Revenue from Loan Portfolio + Financial Revenue from Investments + Other Operating Revenue
I2 + I5 + I6. Write this calculation on the overhead under calculations for financial revenue (I1).

Ask

What accounts are included under financial expense?

Responses include:

- Financial expense on funding liabilities to include interest and fee expense on deposits and interest and fee expense on borrowing
- Other financial expense

Write the account names on the overhead/word document.

Participants might use different terminology for account names. The Facilitator must understand the type of account that is being discussed and if necessary translate that language to use the terminology that is described in the Framework. The terminology in the Framework is the terminology that participants are encouraged to use.

Review the definition of each account

Ask

How do you calculate Financial Expense on Funding Liabilities?

Response

Interest and Fee Expense on Deposits + Interest and Fee Expense on Borrowings

I9 + I10.

Write the response on the overhead in the calculation column for Financial Expense on Funding Liabilities (I8).

Ask

How do you calculate Financial Expense?

Response

Financial Expense on Funding Liabilities + Other Financial Expense

(I8 + I11)

Write the response on the overhead in the calculation column for Financial Expense (I7).

Tell

The Net value of financial earnings from financial services is called Net Financial Income.

Write

Net Financial Income on (I12).

Ask

How do you calculate Net Financial Income?

Response

Financial Revenue – Financial Expense (I1) – (I7).

Ask

What does the net financial income tell you?

Describe Impairment Losses on Loans, Provision Expense for Loan Impairment, and Value of Loans Recovered

- *Impairment Losses on Loans:* Previously knows as net loan loss provision expense, it is ([I14]) Provision for Loan Impairment net of the (I15]) Value of Loans Recovered. This amount is used to create or increase the (B5) Impairment Loss Allowance on the balance sheet
- *Provision Expense for Loan Impairment:* Previously known as the Gross Loan Loss Provision Expense, the non-cash expense calculated as a percentage of the value of the loan portfolio that is at risk of default. This value is calculated in the portfolio report.
- *Value of Loans Recovered:* Total value of principal recovered on all loans previously written off. This includes principal on partially recovered loans and those recovered in full. Subsequent recoveries of loans previous written off decrease the amount of the (I14) Provision for Loan Impairment, and the net amount is booked as (113) Impairment Losses on Loans.

Ask

What accounts are included under Operating Expense?

Responses include:

- Personnel Expense
- Administrative Expense to include depreciation and amortization expense and other administrative expense

Write the account names on the overhead.

Participants might use different terminology for account names. The Facilitator must understand the type of account that is being discussed and use the terminology that is described in the Framework. The terminology in the Framework is the terminology that participants are encouraged to use.

Review the definition of each account (for definitions see XXX)

When reviewing the definitions remember to discuss how to calculate Administrative expense. The response you are looking for is:

Depreciation and amortization expense + other administrative expense. I19 + I20. Remember to write this calculation on the overhead.

Ask

How do you calculate the total Operating Expenses?

(I17) Personnel + (I18) Administrative Expenses

Describe Net Operating Income

Net Operating Income is the net earnings from the provision of financial services. To calculate this you must:

Net Financial Income - Impairment Losses on Loans – Administrative Expenses

I12 – I13 – I18

Review non-operating revenue and non-operating expense

Summarize or ask participants to review what was discussed about non-operating revenue and expense.

- *Non-operating Revenue:* All revenue not directly related to core microfinance operations, such as revenue from business development services, training, consulting services, management information system sales, or sale of merchandise. It does not include donations (see I28). This account also includes any exceptional gains and revenues. Large or relevant non-operating revenue categories should be listed as separate line items as appropriate.
- *Non-Operating Expense:* All expenses not directly related to the core microfinance operation, such as the cost of providing business development services or training. This account also includes any exceptional losses and expenses. Large or relevant expense categories should be listed as separate line items as appropriate.

Point out on the overhead these two accounts.

Describe Net Non-Operating Income/(Expense) and how it is calculated.

The net earnings from products and services not directly related to core microfinance operations. Institutions should disclose large material amounts of non-operating revenue separately by creating accounts under (I23) Non-Operating Revenue or (I24) Non-Operating Expense.

Ask

What is net income (before taxes and donations)?

Response to include All net earnings from the institution's operations before the inclusion of taxes and donations.

Describe how to calculate Net Income

Net Operating Income + Net Non-Operating Income/(Expense)

I21 + I22

Write the calculation on the overhead.

Discuss and define Taxes and Net Income (After Taxes and Before Donations.

- *Taxes:* Includes all taxes paid on (I26) Net Income or other measure of profit as defined by local tax authorities
- *Net Income (After taxes and before donations):* All net earnings from the institution's operations, net of (I26) Taxes, and before the inclusion of (I28) Donations.

Ask how Net Income is calculated.

Response Net Income Before Taxes and donations – Taxes

I25 – I26

Discuss donations

It was described earlier that in this Framework all donations are included in the income statement. This includes donations for loan capital and donations for operating expenses.

Write

Donations for Loan Capital (I29) and Donations for Operating Expenses (I30) on the income statement overhead.

Ask

Why are donations in the income statement? To increase transparency.

Show that (I28) Donations is the value of all donations recognized as revenue during the period, whether restricted or not.

To calculate Donations:

Donations for Loan Capital + Donations for Operating Expenses

(I29) + (I30)

Ask

How do we calculate Net Income (After Taxes and Donations)?

Net Income (After Taxes and Before Donations) + Donations

(I27) + (I28)

Ask

What does Net Income tell you about the institution?

Describe

Institutions may want to create subaccounts under some of the income statement and balance sheet accounts for management purposes. As an example, the Framework contains only two categories of Administrative Expenses: (I19) Depreciation and Amortization; and (I20) Other Administrative Expenses.

Ask

How would you add additional accounts under (I20) Other Administrative Expense?

(I20) Other Administrative Expense

(I20-1) Rent

(I20-2) Transportation Expenses

(I20-3) Office Supplies

Describe

Adding subaccounts enables users to track certain accounts particular to their business while maintaining consistency with industry standards. Note that this Framework is not a substitute for a chart of accounts, and any accounts added are for analytical rather than accounting purposes.

Show

Sample income statement (handout 2.2) on overhead projector. Give participants a copy of the income statement .

Practice mapping income and expense information into the SEEP Framework income statement.

After introducing the SEEP Framework income statement participants need to practice and use the new information.

Tell

Participants they will start to work with financial information from Micro MFI, a micro finance institution. This organization has made the decision to use the SEEP Framework as part of their performance monitoring system. In order to use the framework Micro MFI must create financial statements in the SEEP Framework format. As managers your job is to map the income and expense information into the SEEP Framework income statement.

Divide

Participants into pairs. These teams will work together during the training when working on the case study. It is recommended to have participants from the same organization work together during the case study.

Distribute

Handout 2.3 Micro MFI Income and Expense Information. This handout has 4 pages: an instruction page, Micro MFI Income and Expense Information (2 pages), a blank SEEP Framework Income Statement.

Describe

To participants that in their teams they need to review the income and expense information provided. Based on this information they need to map Micro MFI's income statement into the SEEP Framework Income Statement. This task requires identifying what account information from the institutions previous statements needs to be relocated into new accounts for the SEEP framework format. Participants need to create an Income Statement for two years. Participants have 30 minutes to work on this.

Review activity in large group. Depending on time there are a few ways to process this activity.

1. *Option one:* The facilitator can show an overhead of the completed Income Statement. The facilitator can walk participants through the mapping of the income and expense information through question and answer.
2. *Option two:* Using a blank overhead of the Income Statement the facilitator can ask one group at a time for specific information. For example, ask" What is the Financial Revenue from Loan Portfolio?" Ask what financial information they used to get this financial revenue? Write this information into the overhead. Continue asking each group for specific pieces of information to fill in the Income Statement.

Ask

Participants what was difficult/challenging about mapping the information? How can this be done efficiently in their organizations?

STEP 3: GUIDED DISCUSSION DEMONSTRATION

1 hour 20 min

Handouts:

2.4 Balance Sheet Template

2.5 Sample Balance Sheet

Overhead:

THE BALANCE SHEET

Give participants handout 2.4 The Balance Sheet

Ask

What is a balance sheet?

When is a balance sheet produced?

Summarize the balance sheet

- The balance sheet is a *stock* statement.
- Captures the *financial position* or *financial structure* of an MFI at a moment in

time.

2.3 Balance Sheet Template

- A balance sheet is usually produced monthly or quarterly (at a minimum, annually.
- The balance sheet summarizes the ending balance of all asset, liability, and equity accounts

Ask

What are the three major categories of accounts of the balance sheet?

- Assets—everything an MFI *has* (such as investments, vehicles) or is owed (such as microloans, interest receivable);
- Liabilities—everything the MFI owes to others (such as borrowings, deposits); and
- Equity—the MFI's net worth; that is, the difference between assets and liabilities.

As the name implies, the balance sheet is presented in a way that shows the following:

Write on flipchart Assets = Liabilities + Equity

Describe short-term and long-term

- Assets and liabilities are divided into short-term and long-term accounts in financial statements. Short-term (or current) assets and liabilities can be turned into cash within a year from the date of the statement or report - not from the date of disbursement, issuance, or purchase.
- In addition, short-term assets and liabilities include any portion of a long-term asset or liability that is receivable or payable within a year, even if the final maturity date is more than a year from the report or statement date.

Ask

How do you group assets and liabilities on the balance sheet?

According to IAS, the most useful approach to the classification of assets and liabilities on a balance sheet is to group them first by *type* and second by *maturity.*

Ask a participant to review what an asset is.

Everything an MFI *has* (such as investments, vehicles) or is owed (such as microloans, interest receivable); A resource controlled by an institution as a result of past events and from which future economic benefits are expected to flow to the institution.

Generate a list of assets to include on the balance sheet. Ask participants What accounts are included as Assets?

- Write this list on a flipchart.
- Facilitator to remember that the terminology participants' use may be different then the terminology in the Framework. Understand what kind of account a participant is describing and then translate that to use the terminology from the

Framework.

- Any accounts that are not introduced by the participants must be described by the Facilitator.

Additional talking point about assets on the balance sheet

- Contra Asset Accounts: Most accounts have positive numbers. In a few cases, accounting principles require an account that has a negative number. These subaccounts represent a *reduction* of an asset and are referred to as *contra asset accounts*. A typical contra asset account for an MFI is (B5) Impairment Loss Allowance (previously known as Loan Loss Allowance), which has the effect of reducing the value of the gross loan portfolio on the balance sheet.

Define and record assets on the balance sheet as presented in the Framework

- Facilitator to specifically note that the Framework balance sheet refers to (B2) Trade Investments and (B8) Other Investments rather than short-term and long-term investments. This reflects IFRS principles that state that an MFI's *use* or *intended use* of a financial asset is more relevant than its actual maturity.

- Include a description of how to calculate Net Loan Portfolio, Net Fixed Assets, and Total Assets.

Review what liabilities are. Ask a participant to summarize liabilities.

Everything the MFI owes to others (such as borrowings, deposits)A present obligation of the institution arising from past events, the settlement of which is expected to result in an outflow from the institution of resources with economic benefits.

Generate a list of liabilities

Tell participants to turn to their neighbor and work on a list of accounts to include as liabilities on the balance sheet. (5 minutes)

Go around the room and ask each group to name and describe one liability account. Write this on a flipchart.

When all accounts have been identified write the liability accounts on the balance sheet.

- Facilitator to remember that the terminology that participants use may be different then the terminology in the Framework. Understand what kind of account a participant is describing and then use the terminology from the Framework.

- Any accounts that are not introduced by the participants must be described by the Facilitator.

Define liabilities on the balance sheet as presented in the Framework

Review Equity

As defined by IAS, the residual interest in the *assets* of an institution after deducting all its *liabilities*. The MFI's net worth.

Generate a list of accounts to include under Equity. Write these on the flipchart

- Facilitator to remember that the terminology participants' use may be different then the terminology in the Framework. Understand what kind of account a participant is describing and then use the terminology from the Framework.
- Any accounts that are not introduced by the participants must be described by the Facilitator.

Define and record equity accounts on the balance sheet as presented in the Framework

Ask participants to list the equity accounts so that you can write them on the balance sheet. **Remember** to use the terminology presented in the framework.

Additional talking point

- *Donations*
  - This Framework recommends the income approach to donations so that all donations for operations and loan funds used in the current operating period are recorded as (I28) Donations on the income statement, which flow into (B25) Donations, Current Year on the balance sheet. At the beginning of a new year, they are transferred from (B25) to (B24) Donations, Previous Years. Donations for operations and loan funds to be used beyond the current operating period are recorded as deferred revenue. If the donation or grant agreement specifies when the donations must be used, record those that must be used within 12 months as (B17) Accounts Payable and Other Short-term Liabilities, and record the remainder as (B20) Other Long-term Liabilities. When a portion of donations is used, that portion is transferred to the income statement (I28) Donations
  - MFIs may record grants for fixed assets as deferred revenue (B20) Other Long-term Liabilities. When the asset is purchased, an the purchase amount is transferred to (I30) Donations for Operating Expense
  - If fixed assets are donated, MFIs should record their value as deferred revenue in (B20) Other Long-term Liabilities. Each accounting period, usually monthly or quarterly, an amount equal to the period's depreciation for the donated asset is transferred to (I28) Donations for Operating Expense, and the same amount is credited to (I17) Depreciation and Amortization. If the MFI is not recognizing a fixed asset donation in this manner, it should include the value of the fixed asset as part of the adjustment.

Include a description of how to calculate

Donated Equity B24 + B25

Retained earnings B27 + B28

Total Equity B22 + B23 +B26 +B29 +B30 + B31

Handout and show overhead 2.5

Tell

Participants they will continue to work with financial information from Micro MFI. They now have the information from Micro MFI's balance sheet. As was done with the income statement participants must map the financial information from the balance sheet into the SEEP Framework balance sheet format

Tell Participants they will work in their same groups as before.

Distribute

Handout 2.6 Micro MFI Balance Sheet Information. This handout has 4 pages: an instruction page, Micro MFI Balance Sheet (2 pages), a blank SEEP Framework Balance Sheet. Also included is the Micro MFI Balance Sheet Information with notes for facilitator, and a completed SEEP Framework Balance Sheet with Facilitator notes.

Describe

To participants that in their teams they need to review the information provided. Based on this information they need to map Micro MFI's balance sheet financial information into the SEEP Framework balance sheet. This task requires identifying what account information from the institutions previous statements needs to be relocated into new accounts for the SEEP framework format. Participants need to create a balance sheet for two years. Participants have 30 minutes to work on this.

Review activity in large group. Depending on time there are a few ways to process this activity.

1. Option one: The facilitator can show an overhead of the completed Balance Sheet. The facilitator can walk participants through the mapping of the balance sheet through question and answer.

2. Option two. Using a blank overhead of the Balance Sheet the facilitator can ask one group at a time for specific information.

Ask

Participants what was difficult/challenging about mapping the information? How can this be done efficiently in their organizations?

Note To Facilitator: At the end of the session on the balance sheet introduce the spreadsheet tool. Refer to the section in this manual on the Tool. As time is limited in this session participants can begin to use the tool to input data from the case study. They can continue with data input at the end of the day and into the evening.

STEP 4: GUIDED DISCUSSION ACTIVITY

1 hour 20 min

Handouts:

2.8 Cash Flow Template

2.9 Sample Cash Flow

Overhead:

2.6 Classification of Cash Receipts and Payments

2.8 Cash Flow Template

2.10 Indirect Cash Flow

Activity Material:

2.7 Cash Flow Activity

Prepared Flipchart:

Cash Flow Statement Categories with Definitions

THE CASH FLOW STATEMENT

Note to Facilitator: This session reviews in detail a Direct Cash Flow Statement. At the end of the session the Indirect Cash Flow Statement is mentioned but not in detail. Depending on time, participant interest, and knowledge the indirect cash flow statement can be expanded or just referenced.

Ask

What is a cash flow statement?

What valuable information does a cash flow statement provide?

- The cash flow statement is a flow statement that represents the inflows and outflows of cash during a specified period.
- The cash flow statement summarizes each transaction or event that causes cash to increase (sources of cash) or decrease (uses of cash).

Describe that a cash flow statement classifies the inflows and outflows of cash into three major categories.

- Operating Activities
- Investing Activities
- Financing Activities

Ask what each of the categories is? Have a prepared flipchart with the following information:

Cash Flow Statement Categories with Definitions

- *Operating Activities*, the cash receipts and payments related to the MFI's ongoing provision of financial services, including lending and deposit services;
- *Investing Activities*, the cash receipts or outlays for acquiring or selling (B10) Fixed Assets or financial investments; and
- *Financing Activities*, the borrowing and repayment of borrowings, the sale and redemption of (B22) Paid-In Capital, and the payment of dividends.

Show overhead 2.6 Classification of Cash Receipts or Payments or a flipchart that has a similar table

So that participants understand the differences of the classifications ask the group to list examples of receipts and payments for each classification. Responses that can be included are on the following page.

Classification	Receipts	Payment
Operating Activities	Principal repayments Interest and fee receipts on the (B4) Gross Loan Portfolio and investments Other receipts for the provision of financial services Funds received from accepting deposits	Loan disbursements (B2) Purchase of Trade Investments Interest and fee payments Payment to Personnel or for (I18) Administrative Expenses Taxes paid Funds repaid to depositors
Investing Activities	Proceeds from the sale of an investment Proceeds from the sale of (B10) Fixed Assets	Purchase of (B8) Other Investments Purchase of (B10) Fixed Assets
Financing Activities	Funds received from borrowings Receipt of (B22) Paid-In Capital from the sale of shares or membership	Principal repaid on borrowings Repurchase of (B22) Paid-In Capital Payment of dividends

Explain that there are two ways a cash flow statement can be constructed

- Direct method that shows all the cash transactions in and out of the Cash and Due from Banks account.
- The direct method for preparing a cash flow statement is the most intuitive of the methods. It reconstructs the income statement by tracing the movement of cash and adds other events not included on the income statement that have caused an inflow or outflow of cash.
- Indirect method deduces the movement of cash based on the changes in specific income statement and balance sheet accounts.
- It begins with the (I28) Net Income (After Taxes and Before Donations) and then adds back all other sources of cash (such as loan payments) and subtracts all other uses (such as loan disbursements) that can be deduced by changes in balance sheet accounts.

Add that both methods can be used for this Framework.

Construct, Define and review a direct cash flow statement.

1. Pass out to all participants 1 or 2 cards from material 2.7 (Constructing a Cash Flow Statement) and a copy of overhead/handout 2.8 Direct Cash Flow Statement Template. Each card has one term written on it from either operating activities, investing activities, or financing activities. Depending on how many participants are in the training, each person should get at least one card. If some

people need to get more than one card, make sure the cards they have are from the same category. Make sure that the cards are large enough so that people can read them from the back of the room.

2. Instruct participants to group themselves according to what “category” of account they have. For instance, operating, investing, or finances activity.
3. Once all participants are in their appropriate category, tell them to arrange themselves according to how a cash flow statement is constructed.
4. Start with the operating activities group. Ask them to describe how they constructed this category. Write this on the overhead 2.8 Direct Cash Flow Statement or on a prepared flipchart.
5. Ask the large group what they think about the ordering of this account. Change the account ordering on the overhead or flipchart when/if appropriate.
6. Ask the investing activities group how they constructed this category. Write this on the overhead 2.8 Direct Cash Flow Statement or on a prepared flipchart.
7. Ask the large group what they think about the ordering of this account. Change the account ordering on the overhead or flipchart when/if appropriate.
8. Finish with asking the finances activities group how they constructed their account. Write this on the overhead 2.8 Direct Cash Flow Statement or on a prepared flipchart.
9. Ask the large group what they think about the ordering of this account. Change the account ordering on the overhead or flipchart when/if appropriate.

Show overhead 2.8. Starting with the first account of the direct cash flow statement Cash Received from interest, fees, and Commissions on Loan Portfolio, ask the participant with that card to describe the account in more detail . Ask other participants for additions or corrections to the definition. Ask the participant to cross reference the account. Tell participants the cross reference if necessary. Write a brief definition and the cross reference on the overhead/projector. Proceed with working your way through the other terms until the Cash Flow Statement is complete.

Show and handout overhead/handout 2.9 Sample Direct Cash Flow Statement.

State that many of the accounts used for the indirect cash flow statement are the same as those in the direct cash flow statement.

Show overhead 2.10 Indirect Cash Flow Statement.

Review the accounts of the Indirect Cash Flow Statement, specifically identifying the cross references to the Direct Cash Flow Statement.

Tell Participants they will work on their case study in their same groups as before.

Distribute

Handout 2.12 Micro MFI Cash Flow. This handout has 3 pages: an instruction page, Micro MFI Cash Flow Data, a blank SEEP Framework Cash Flow Statement. Also included is a completed SEEP Framework Cash Flow.

Describe

To participants that in their teams they need to review the information provided. Based on this information they need to map Micro MFI's cash flow financial information into the SEEP Framework cash flow. This task requires identifying what account information from the institutions previous statements needs to be relocated into new accounts for the SEEP framework format. Participants need to create a cash flow statement. Participants have 30 minutes to work on this.

Review activity in large group. Depending on time there are a few ways to process this activity.

1. *Option one:* The facilitator can show an overhead of the completed cash flow statement. The facilitator can walk participants through the mapping of the cash flow through question and answer.
2. *Option two:* Using a blank overhead of the cash flow statement the facilitator can ask one group at a time for specific information. For example "Describe the financial data for cash flow from operating activities. Write this information into the overhead. Continue asking each group for specific pieces of information to fill in the cash flow statement.

Ask

Participants what was difficult/challenging about mapping the information? How can this be done efficiently in their organizations?

Note To Facilitator: At the end of the day there is time allocated for participants to continue with inputting data into the spreadsheet tool.

STEP 5: DISCUSSION LECTURETTE

40 minutes

Handout:

2.13 Sample Portfolio Report

2.14 Micro MFI Portfolio Report

Overhead:

2.13 Sample Portfolio Report

THE PORTFOLIO REPORT AND ACTIVITY REPORT

Say

A portfolio report and an activity report link the loan portfolio information of the income statement, balance sheet, and cash flow statement.

Ask

What is the purpose of a Portfolio Report?

Responses:

- Represent in detail an MFI's microlending activity
- Present the quality of the loan portfolio
- Provide detail on how the MFI has provisioned against potential losses

Ask

What is included in a Portfolio Report?

- Portfolio activity information
- Movement in the Impairment Loss Allowance

- Portfolio aging schedule

Show overhead 2.13 Sample Portfolio Report and describe

The Portfolio Report is the one statement that does not have a consistent design. Say that this is a sample portfolio report. Many MFI's design their reports differently. What is included in the Portfolio Report, however, should be the portfolio activity information, movement in the impairment loss allowance, and portfolio aging schedule.

Go through each account and describe and define.

Tell Participants they will work on their case study in their same groups as before.

Distribute

Handout 2.14 Micro MFI Portfolio Report. This handout has 2 pages: an instruction page and Micro MFI Portfolio Report.

Describe

To participants that in their teams they need to review the information provided in the Portfolio Report. Participants need to determine if the data presented is appropriate. Participants need to pay particular attention to the rescheduled loans. Participants have 10 minutes to review the report.

Ask

Participants in the large group what they uncovered during their review of the portfolio report.

Key points that need to be emphasized is that even though the rescheduled loans are tracked Micro MFI does not treat them different for provisioning. Micro MFI guesses that most of its overdue rescheduled loans are less than 60 days past due, and applies the rate of 25% to them.

Ask

Participants what they will do with this information. Will they change anything in this report?

Note To Facilitator: The data from the case study will be used as the financial data for the portfolio report for the case study. At the end of the session on the non-financial data report there will be additional time for inputting this data into the tool.

STEP 6: DISCUSSION SMALL GROUP

NON-FINANCIAL DATA REPORT

20 minutes

Handout:

2.15 Non-Financial Data

Ask

Whose institution produces a non-financial data report?

Why does the institution collect this information?

How do you use this information?

Report

Overhead:

2.15 Non-Financial Data Report

Describe

To use this Framework, Operational and Macroeconomic data must be captured to calculate key financial ratios.

Ask

What does operational data refer to?

Operational data refers to products and clients served by the institution as well as the resources used to serve the clients. An example of this is number of clients served.

Ask

Participants to work with their neighbor to come up with a list of additional examples of operational data that either their institution uses or they are familiar with.

Solicit responses of operational data and write this on a flipchart

Ask

What does macroeconomic data refer to?

Why do you need macroeconomic data?

Describe

Macroeconomic refers to data from the local economy, such as exchange rate.

Ask for additional examples of macroeconomic data. Write this on a flipchart.

Show overhead 2.15 Non-Financial Data Report

Review and Define the terms.

Say and ask

You may want to include additional items of interest in this report. What are other sources of data that we might want to include in this report? Why is that information important?

Give

To participants handout 2.16 Micro MFI Non-Financial Data.

Ask

Participants to review the information presented in the table and see if there are any questions.

Tell

Participants to keep all the case study information together as they will be using this over the next few days.

Note To Facilitator: After the session on non-financial data report, time is allocated for the tool. You can use this time for participants to input their data into the spreadsheet and to become more familiar with the tool.

At the beginning of day 2, time is allocated for the tool and financial statements. This time can be used to discuss questions the participants may have about the tool. Additionally, the time can be used to print the financial statements and to talk about what the financial statements are revealing about MICRO MFI and how the financial statements are linked.

Remind

Participants that for tomorrow they need to review the chapter in their books on Ratios and Indicators.

STEP 7 **LINKING FINANCIAL STATEMENTS**

45 minutes

Overhead/ Handout:

2.16 Matrix to Identify Linkages between Financial Statements

Review key points about financial statements and reports. Emphasize:

- A lot of time was spent on reviewing financial statements, learning how to categorize data into statements and reports, and becoming familiar with new terminology.
- The financial statements and reports presented in this chapter include the minimum of information necessary to present accurately an MFI's activities and results. All information presented in this framework is significant and noteworthy.
- Every item is also necessary for managers to analyze the MFI's performance and condition and to create performance monitoring reports for themselves and others.
- Communicating less (but meaningful) information is sometimes better than providing detailed information without explanation. Executive summaries, narratives, and footnotes are vital to making financial statements transparent and accessible to non-financial readers and financial analysts alike.

Say

The financial statements used in this Framework are linked. Managers should learn the primary connections among the statements.

Ask

Why is it important to know and understand the linkages between the financial statements? What does this tell us?

Describe activity

To understand and become more familiar with how the financial statements are linked we will work on an activity.

The purpose of the activity is for participants to compile a list of main links between financial statements that we have worked with. For this activity participants will need their copy of handout 2.2 Sample Income Statement, handout 2.5 Sample Balance Sheet, handout 2.10 Sample Direct Cash Flow Statement, handout 2.13 Sample Portfolio Report.

1. Describe the outcome of this activity: Each group is to identify as many linkages

between the financial statements (income statement, balance sheet, cash flow statement, and portfolio report.) in 20 minutes. Using the handout/overhead 2.16 Matrix to Identify Linkages Between Financial Statements the groups are to write the main links they can identify between the statements and determine the relationship in the last column. There is one example of a link in the matrix.

The facilitator can show the overhead 2.16 and describe the example.

2. Divide participants into groups of 3 people. Tell participants that each person needs a copy of the sample income statement, balance sheet, direct cash flow statement, and portfolio report. They need to consult these statements to identify the common links. Remind participants that cross references are included in their sample statements.
3. Give each participant a copy of handout 2.16.
4. The groups have 20 minutes to work.
5. Process activity. At the end of 20 minutes review the list of links that the groups identified.
6. Ask one group at a time to discuss one link they identified. They need to articulate the link between the statements and then describe the relationship. Write the information on the overhead 2.13 Matrix. Go around the room so all groups discuss at least one link.

Ask again

Why, as managers, do we need to know and understand the links between the financial statements?

What information can this tell us or reveal to us?

OVERHEAD AND HANDOUT 2.1

INCOME STATEMENT TEMPLATE

Ref.	X-Ref.	Account Name	Calculation
I1			
I2			
I3			
I4			
I5			
I6			
I7			
I8			
I9			
I10			
I11			
I12		Net Financial Income	
I13			
I14			
I15			
I16			
I17			
I18			
I19			
I20			
I21		Net Operating Income	
I22			
I23			
I24			

I25			
I26			
I27			
I28			
I29			
I30			
I31			

[a] If an MFI uses cash accounting, these accounts will have the same value as the cross-referenced accounts. If the MFI uses accrual accounting, these values will not be the same as the cross-referenced account.

OVERHEAD AND HANDOUT 2.2

SAMPLE INCOME STATEMENT

Ref.	X-Ref.	Account Name	From 1/1/2004 to 12/31/2004	From 1/1/2003 to 12/31/2003
I1		**Financial Revenue**	**18,976,898**	**10,521,727**
I2	C1[a]	Financial Revenue from Loan Portfolio	17,053,668	9,302,491
I3		Interest on Loan Portfolio	13,867,568	7,494,464
I4		Fees and Commissions on Loan Portfolio	3,186,100	1,808,027
I5	C2[a]	Financial Revenue from Investments	1,597,830	1,003,556
I6	C3[a]	Other Operating Revenue	325,400	215,680
I7		**Financial Expense**	**1,287,719**	**853,197**
I8	C5[a]	Financial Expense on Funding Liabilities	1,039,719	797,869
I9		Interest and Fee Expense on Deposits	256,343	250,000
I10		Interest and Fee Expense on Borrowings	783,376	547,869
I11	C6[a]	Other Financial Expense	248,000	55,328
I12		**Net Financial Income**	**17,689,179**	**9,668,530**
I13	C29	Impairment Losses on Loans	439,972	162,862
I14	P8	Provision for Loan Impairment	489,154	297,368
I15	P10	Value of Loans Recovered	(49,182)	(134,506)
I16	C7[a]	**Operating Expense**	**15,072,242**	**6,633,187**
I17		Personnel Expense	8,700,000	4,594,436
I18		Administrative Expense	6,372,242	2,038,751
I19	C28	Depreciation and Amortization Expense	1,597,669	317,057
I20		Other Administrative Expense	4,774,573	1,721,694
I21		**Net Operating Income**	**2,176,965**	**2,872,482**
I22	C22[a]	**Net Non-Operating Income/(Expense)**	**(1,403,143)**	**(1,838,992)**
I23		Non-Operating Revenue	586,471	—
I24		Non-Operating Expense	(1,989,614)	(1,838,992)
I25	C27	**Net Income (Before Taxes and Donations)**	**773,822**	**1,033,490**
I26	C8[a], C30[a]	Taxes	760,816	732,306
I27	B28	**Net Income (After Taxes and Before Donations)**	**13,006**	**301,184**

I28	**B25, C20[a], C44[a]**	Donations	4,582,000	**3,442,986**
I29		Donations for Loan Capital	—	1,258,291
I30		Donations for Operating Expense	4,582,000	2,184,695
I31		**Net Income (After Taxes and Donations)**	**4,595,006**	**3,744,170**

[a] If an MFI uses cash accounting, these accounts will have the same value as the cross-referenced accounts. If the MFI uses accrual accounting, these values will not be the same as the cross-referenced account.

HANDOUT 2.3

MICRO MFI INCOME AND EXPENSE INFORMATION

CASE STUDY INSTRUCTIONS

Micro MFI, a microfinance institution that you work for as a manager, has made a decision to use the SEEP Framework as part of their performance monitoring system. In order to use the framework Micro MFI must create financial statements in the SEEP Framework format. As managers your job is to map the income and expense information into the SEEP Framework income statement.

1. The task for your team is to create an income statement using the SEEP Framework Format.
2. The first step is to review the income and expense information and the trial balance of Micro MFI. When reviewing this information you need to determine what accounts, if any, need to be relocated into different accounts based on the SEEP Framework Income Statement.
3. Map the financial information into the SEEP Framework Income Statement format. To do this use the worksheet Micro MFI Income and Expense Information. The last column in this worksheet is to write the reference number for the SEEP Framework Income Statement. The last column is a guide for you to use if you choose.
4. Complete Micro MFI's SEEP Framework Income Statement for the current year and the past year.

HANDOUT 2.3

MICRO MFI INCOME AND EXPENSE INFORMATION

in thousands	From Income Statement		From Trial Balance	Current Year	Last Year	Framework Account
Interest and Fees on Loans	136,896.4	77,975.4	Interest on Loans	128,777.9	67,290.8	
			Registration Fees	6,097.2	3,704.0	
			Loan Application Fees	2,021.3	-	
			Risk Premium		6,980.6	
Direct Expenses						
Interest Expense	3,923.8	1,165.4	Interest on Loan	30.0	124.7	
			Interest on Savings	3,893.8	1,040.7	
Provision for Loan Losses	10,034.8	5,138.1				
Total Direct Expenses	13,958.6	6,303.5				
Net Interest after Provision for Loan Loss	122,937.8	71,671.9				
Other Operating Revenue	1,473.3	814.0	Bad Debt Recovered	503.5		
			Bank Interest Received	13.5	9.5	
			Income on Investments	260.5	254.2	
			Pass book sales	184.5	228.7	
			Sale of Fixed Assets	100.0	-	
			Other	411.3	321.6	
Net Operating Revenue	124,411.1	72,485.9				
Non-Interest Expenses						

Salaries and Benefits	45,252.4	28,575.3			
Administrative Expenses	42,283.6	22,676.7	Finance and Bank Charges	2,029.9	
			Services Charges	725.9	
			Overdraft Interest	1,304.0	
			Occupancy Expenses	2,226.0	1,840.0
			Travel	15,399.6	9,250.0
			Telephone	3,302.7	2,540.0
			Printing and Stationary	4,987.8	3,878.5
			Board Meetings	1,292.7	1,140.3
			Professional Fees	3,547.7	1,580.7
			Licensing and Insurance	502.6	
			Cleaning	873.9	587.4
			Advertising	124.1	
			Repairs and Maintenance	5,751.4	586.8
			Training Expenses	2,245.2	1,273.0
Depreciation of Fixed Assets	5,139.1	3,654.3			
Other Expenses	3,108.4	1,791.5	Audit Expense	217.0	580.1
			MIS Expenses	1,964.6	
			Miscellaneous	926.8	
			Bank Charges		1,211.4
Total Non-interest Expenses	95,783.4	56,697.8	Service Charges		664.1
			Overdraft Interest		547.3
Net Operating Surplus/(Loss)	**28,627.7**	**15,788.1**			

Operating Grants	-	748.2				
			Loan Capital Grants	20,897.2	43,159.9	
			Fixed Asset Grants	-	-	
Net Surplus After Grant	**28,627.7**	**16,536.3**				

MICRO MFI INCOME AND EXPENSE INFORMATION - FACILITATORS NOTES

in thousands	From Income Statement		From Trial Balance	Current Year	Last Year	Account
Interest and Fees on Loans	136,896.4	77,975.4	Interest on Loans	128,777.9	67,290.8	I3
			Registration Fees	6,097.2	3,704.0	I4
			Loan Application Fees	2,021.3	-	I4
			Risk Premium		6,980.6	I4
Direct Expenses						
Interest Expense	3,923.8	1,165.4	Interest on Loan	30.0	124.7	I10
			Interest on Savings	3,893.8	1,040.7	I9
Provision for Loan Losses	10,034.8	5,138.1				I14
Total Direct Expenses	13,958.6	6,303.5				
Net Interest after Provision for Loan Loss	122,937.8	71,671.9				
Other Operating Revenue	1,473.3	814.0	Bad Debt Recovered	503.5		I15
			Bank Interest Received	13.5	9.5	I5
			Income on Investments	260.5	254.2	I5
			Pass book sales	184.5	228.7	I6
			Sale of Fixed Assets	100.0	-	I6
			Other	411.3	321.6	I6
Net Operating Revenue	124,411.1	72,485.9				
Non-Interest Expenses						
Salaries and Benefits	45,252.4	28,575.3				I17
Administrative Expenses	42,283.6	22,676.7	Finance and Bank Charges	2,029.9		
			Services Charges	725.9		I19
			Overdraft Interest	1,304.0		I10
			Occupancy Expenses	2,226.0	1,840.0	I19
			Travel	15,399.6	9,250.0	I19

			Telephone	3,302.7	2,540.0	I19
			Printing and Stationary	4,987.8	3,878.5	I19
			Board Meetings	1,292.7	1,140.3	I19
			Professional Fees	3,547.7	1,580.7	I19
			Licensing and Insurance	502.6		I19
			Cleaning	873.9	587.4	I19
			Advertising	124.1		I19
			Repairs and Maintenance	5,751.4	586.8	I19
			Training Expenses	2,245.2	1,273.0	I19
Depreciation of Fixed Assets	5,139.1	3,654.3				I19
Other Expenses	3,108.4	1,791.5	Audit Expense	217.0	580.1	I19
			MIS Expenses	1,964.6		I19
			Miscellaneous	926.8		I19
			Bank Charges		1,211.4	I19
Total Non-interest Expenses	95,783.4	56,697.8	Service Charges		664.1	I19
			Overdraft Interest		547.3	I10
Net Operating Surplus/(Loss)	**28,627.7**	**15,788.1**				
Operating Grants	-	748.2				I30
			Loan Capital Grants	20,897.2	43,159.9	I29
			Fixed Asset Grants	-	-	I30
Net Surplus After Grant	**28,627.7**	**16,536.3**				

HANDOUT 2.3

SEEP FRAMEWORK INCOME STATEMENT

Ref.	Term	Current Year	Last Year
I1	**Financial Revenue**		
I2	Financial Revenue from Loan Portfolio		
I3	Interest on Loan Portfolio		
I4	Fees and Commissions on Loan Portfolio		
I5	Financial Revenue from Investments		
I6	Other Operating Revenue		
I7	**Financial Expense**		
I8	Financial Expense on Funding Liabilities		
I9	Interest and Fee Expense on Deposits		
I10	Interest and Fee Expense on Borrowings		
I11	Other Financial Expenses		
I12	**Net Financial Income**		
I13	Impairment Loss on Loans		
I14	Provision for Loan Impairment		
I15	(Value of Loans Recovered)		
I16	**Operating Expense**		
I17	Personnel Expense		
I18	Administrative Expense		
I19	Depreciation Expense		
I20	Other Administrative Expense		
I21	**Net Operating Income**		
I22	**Net Non-operating Income/(Expense)**		
I23	Non-operating Revenue		
I24	(Non-operating Expense)		
I25	**Net Income (Before Taxes and Donations)**		
I26	Taxes		

I27	**Net Income (After Taxes and Before Donations)**		
I28	Donations		
I29	Donations for Loan Capital		
I30	Donations for Operating Expense		
I31	**Net Income (After Taxes and Donations)**		

SEEP FRAMEWORK INCOME STATEMENT

FACILITATOR NOTES

The result is the following income statement for the past two years.

Ref.	Term	Current Year	Last Year
I1	**Financial Revenue**	**137,866**	**78,789**
I2	Financial Revenue from Loan Portfolio	136,896	77,975
I3	Interest on Loan Portfolio	128,778	67,291
I4	Fees and Commissions on Loan Portfolio	8,119	10,685
I5	Financial Revenue from Investments	274	264
I6	Other Operating Revenue	696	550
I7	**Financial Expense**	**5,228**	**1,713**
I8	Financial Expense on Funding Liabilities	5,228	1,713
I9	Interest and Fee Expense on Deposits	3,894	1,041
I10	Interest and Fee Expense on Borrowings	1,334	672
I11	Other Financial Expenses		
I12	**Net Financial Income**	**132,638**	**77,077**
I13	Impairment Loss on Loans	9,531	5,138
I14	Provision for Loan Impairment	10,035	5,138
I15	(Value of Loans Recovered)	(504)	-
I16	**Operating Expense**	**93,553**	**56,151**
I17	Personnel Expense	45,252	28,575
I18	Administrative Expense	48,300	27,575
I19	Depreciation Expense	5,139	3,654
I20	Other Administrative Expense	43,161	23,921
I21	**Net Operating Income**	**29,555**	**15,788**
I22	**Net Non-operating Income/(Expense)**	**(927)**	**-**
I23	Non-operating Revenue		
I24	(Non-operating Expense)	(927)	
I25	**Net Income (Before Taxes and Donations)**	**28,628**	**15,788**
I26	Taxes		
I27	**Net Income (After Taxes and Before Donations)**	**28,628**	**15,788**
I28	Donations	20,897	**43,908**
I29	Donations for Loan Capital	20,897	43,160
I30	Donations for Operating Expense	-	748
I31	**Net Income (After Taxes and Donations)**	**49,525**	**59,696**

OVERHEAD AND HANDOUT 2.4

BALANCE SHEET TEMPLATE

Ref.	X-Ref.	Account Name	As of 12/31/2004	As of 12/31/2003	Calculation
		Assets			
B1					
B2					
B3					
B4					
B5					
B6					
B7					
B8					
B9					
B10					
B11					
B12		Total Assets			
		Liabilities			
B13					
B14					
B15					
B16					
B17					
B18					
B19					
B20					
B21		Total Liabilities			
		Equity			
B22					
B23					
B24					
B25					
B26					

Ref.	X-Ref.	Account Name	As of 12/31/2004	As of 12/31/2003	Calculation
B27					
B28					
B29					
B30					
B31					
B32		**Total Equity**			

OVERHEAD AND HANDOUT 2.5

SAMPLE BALANCE SHEET

Ref.	X-Ref.	Account Name	As of 12/31/2004	As of 12/31/2003
ASSETS				
B1	**C26, C50**	Cash and Due from Banks	3,261,195	1,146,142
B2		Trade Investments	10,611,928	27,096,586
B3		Net Loan Portfolio	54,338,636	33,471,489
B4		Gross Loan Portfolio	55,609,309	34,701,961
B5		Impairment Loss Allowance	(1,270,673)	(1,230,473)
B6		Interest Receivable on Loan Portfolio	1,604,993	954,993
B7		Accounts Receivable and Other Assets	1,610,308	1,010,308
B8		Other Investments	1,165,420	1,165,420
B9		Net Fixed Assets	5,567,936	4,272,836
B10		Fixed Assets	10,640,051	7,747,282
B11		Accumulated Depreciation and Amortization	(5,072,115)	(3,474,446)
B12		**Total Assets**	**78,160,416**	**69,117,773**
LIABILITIES				
B13		Demand Deposits	—	—
B14		Short-term Time Deposits	3,423,878	1,030,868
B15		Short-term Borrowings	2,737,009	1,371,768
B16		Interest Payable on Funding Liabilities	237,177	137,177
B17		Accounts Payable and Other Short-term Liabilities	500,100	548,000
B18		Long-term Time Deposits	3,000,000	3,000,000
B19		Long-term Borrowings	16,661,750	16,661,750
B20		Other Long-term Liabilities	3,699,498	4,199,498
B21		**Total Liabilities**	**30,259,412**	**26,949,061**
EQUITY				
B22		Paid-In Capital	12,000,000	10,000,000
B23		Donated Equity	37,175,822	32,593,822
B24		Prior Years	32,593,822	29,150,836
B25	**I28, C20[a], C44[a]**	Current Year	4,582,000	3,442,986

Ref.	X-Ref.	Account Name	As of 12/31/2004	As of 12/31/2003
B26		Retained Earnings	(1,401,678)	(914,683)
B27		Prior Years	(1,414,683)	(1,215,867)
B28	**I27**	Current Year	13,006	301,184
B29		Reserves	126,860	489,574
B30		Other Equity Accounts		
B31		**Adjustments to Equity**		
B32		**Total Equity**	**47,901,004**	**42,168,713**

[a] If an MFI uses cash accounting, these accounts will have the same value as the cross-referenced accounts. If the MFI uses accrual accounting, these values will not be the same as the cross-referenced account.

HANDOUT 2.6

MICRO MFI BALANCE SHEET AND TRIAL BALANCE INFORMATION

CASE STUDY INSTRUCTIONS

To continue your work in organizing Micro MFI's financial statements into the SEEP Framework formats, you have been given the balance sheet information. You must map the balance sheet data into the SEEP Framework balance sheet

1. The task for your team is to create a balance sheet using the SEEP Framework Format.
2. The first step is to review the balance sheet and the trial balance from Micro MFI. When reviewing this information you need to determine what accounts, if any, need to be relocated into different accounts based on the SEEP Framework Balance Sheet.
3. Map the financial information into the SEEP Framework Balance Sheet format. To do this use the worksheet Micro MFI Balance Sheet and Trial Balance Information. The last column in this worksheet is to write the reference number for the SEEP Framework Balance Sheet. The last column is a guide for you to use.

Complete Micro MFI's SEEP Framework Balance Sheet for the current year and the past year.

HANDOUT 2.6

BALANCE SHEET AND TRIAL BALANCE INFORMATION

in thousands	Current Year	Last Year	From Trial Balance	Current Year	Last Year	Account
Assets	From Balance Sheet					
Cash and Bank Balances	20,444	5,458				
Deposits and Short-term Investments	3,450	9,450				
Loan Portfolio	248,875	179,816				
Less Reserve	(6,177)	(4,058)				
Loan Portfolio (net of reserve)	242,698	175,758				
Other Current Assets	27,414	14,050	Prepayments	1,712	1,421	
			Employee Advances	16,351	5,486	
			Accrued Interest	2,650	2,354	
			Capitalized MIS Expenses	1,913	2,476	
			Subsidiary Investments	4,788	2,313	
Total Current Assets	294,005	204,716				
Fixed Assets (Net)	49,402	40,897	Vehicles	9,067	8,717	
			Computer Equipment	5,987	1,508	
			Furniture	14,232	9,419	
			Machinery	3,992	2,727	
			Land and Building	35,505	33,597	
			Accumulated Depreciation on:			

			Vehicles	(6,820)	(6,891)	
			Computer Equipment	(2,519)	(627)	
			Furniture	(4,767)	(3,697)	
			Machinery	(840)	(151)	
			Land and Building	(4,434)	(3,706)	
Long-Term Investment	22,310	22,360		49,402	40,897	
Total Non-current Assets	71,712	63,257				
Total Assets	365,717.50	267,973.24	0			
Liabilities						
Client Deposits	101,062	58,799	Members Savings	97,168	58,799	
			Interest Due	3,894	-	
Other Liabilities	9,517	3,297	Accounts Payable	463	657	
			Bank Overdraft	3,196	2,380	
			Accrued Audit Fees	350	260	
			Due to Subsidiaries	3,604		
Total Current Liabilities	110,579	62,096	Deferred Grants	1,904		
Long-Term Debt	54,805	53,680				
Total Liabilities	165,384	115,776				
Equity						
Loan Fund Grant	99,298	78,401	Previous Year Loan Fund Grant Balance	78,401	35,241	
			Increase in Loan Fund Grants	20,897	43,160	
Capital Grant	43,310	43,310	Previous Year Capital	43,310	43,310	

			Grant Balance			
				-	-	
Accumulated Surplus	57,725	30,486	Previous Year Accumulated Operating Surplus	15,788	(3,700)	
			Previous Year Accumulated Operating Grants	19,034	18,286	
			Net Operating Surplus	28,628	15,788	
			Operating Grants	-	748	
Total Equity	200,334	152,197	Difference	(5,725)	(637)	
Total Liabilities and Equity	365,718	267,973				

BALANCE SHEET AND TRIAL BALANCE INFORMATION FACILITATOR NOTES

in thousands	Current Year	Last Year	From Trial Balance	Current Year	Last Year	Account
Assets	From Balance Sheet					
Cash and Bank Balances	20,444	5,458				B1
Deposits and Short-term Investments	3,450	9,450				B2
Loan Portfolio	248,875	179,816				B5
Less Reserve	(6,177)	(4,058)				B5
Loan Portfolio (net of reserve)	242,698	175,758				B4
Other Current Assets	27,414	14,050	Prepayments	1,712	1,421	B7
			Employee Advances	16,351	5,486	B7
			Accrued Interest	2,650	2,354	B6
			Capitalized MIS Expenses	1,913	2,476	B10
			Subsidiary Investments	4,788	2,313	B8
Total Current Assets	294,005	204,716				
Fixed Assets (Net)	49,402	40,897	Vehicles	9,067	8,717	B10
			Computer Equipment	5,987	1,508	B10
			Furniture	14,232	9,419	B10
			Machinery	3,992	2,727	B10
			Land and Building	35,505	33,597	B10
			Accumulated Depreciation on:			
			Vehicles	(6,820)	(6,891)	B11
			Computer Equipment	(2,519)	(627)	B11
			Furniture	(4,767)	(3,697)	B11
			Machinery	(840)	(151)	B11
			Land and Building	(4,434)	(3,706)	B11
Long-Term Investment	22,310	22,360		49,402	40,897	

Total Non-current Assets	71,712	63,257				
Total Assets	365,717.50	267,973.24	0			
Liabilities						
Client Deposits	101,062	58,799	Members Savings	97,168	58,799	B14
			Interest Due	3,894	-	B16
Other Liabilities	9,517	3,297	Accounts Payable	463	657	B17
			Bank Overdraft	3,196	2,380	B15
			Accrued Audit Fees	350	260	B17
			Due to Subsidiaries	3,604		B17
Total Current Liabilities	110,579	62,096	Deferred Grants	1,904		B17
Long-Term Debt	54,805	53,680				B19
Total Liabilities	165,384	115,776				
Equity						
Loan Fund Grant	99,298	78,401	Previous Year Loan Fund Grant Balance	78,401	35,241	B24
			Increase in Loan Fund Grants	20,897	43,160	B25
Capital Grant	43,310	43,310	Previous Year Capital Grant Balance	43,310	43,310	B24
				-	-	B25
Accumulated Surplus	57,725	30,486	Previous Year Accumulated Operating Surplus	15,788	(3,700)	B27
			Previous Year Accumulated Operating Grants	19,034	18,286	B24
			Net Operating Surplus	28,628	15,788	B28
			Operating Grants	-	748	B25
Total Equity	200,334	152,197	Difference	(5,725)	(637)	B30
Total Liabilities and Equity	365,718	267,973				

HANDOUT 2.6

SEEP FRAMEWORK BALANCE SHEET

Ref.	X-Ref.	Term	As of 31/12/2004	As of 31/12/2003
ASSETS				
B1		Cash and Due from Banks		
B2		Short-term Investments		
B3		Net Loan Portfolio		
B4		Gross Loan Portfolio		
B5		Loan Loss Allowance		
B6		Interest Receivable on Loan Portfolio		
B7		Accounts Receivable and Other Assets		
B8		Other Investments		
B9		Net Fixed Assets		
B10		Fixed Assets		
B11		Accumulated Depreciation		
B12		Total Assets		
LIABILITIES				
B13		Demand Deposits		
B14		Short-term Time Deposits		
B15		Short-term Borrowings		
B16		Interest Payable on Funding Liabilities		
B17		Accounts Payable and Other Short-term Liabilities		
B18		Long-term Time Deposits		
B19		Long-term Borrowings		
B20		Other Long-term Liabilities		
B21		Total Liabilities		
EQUITY				
B22		Paid-in Capital		
B23		Donated Equity		
B24		Prior Years		
B25		Current Year		

B26		Retained Earnings		
B27		Prior Years		
B28		Current Year		
B29		Reserves		
B30		Other Equity Accounts		
B31		Adjustments to Equity		
B32				

SEEP FRAMEWORK BALANCE SHEET

FACILITATOR NOTES

Ref.	X-Ref.	Term	As of 31/12/2004	As of 31/12/2003
ASSETS				
B1		Cash and Due from Banks	20,444	5,458
B2		Short-term Investments	3,450	9,450
B3		Net Loan Portfolio	242,698	175,758
B4		Gross Loan Portfolio	248,875	179,816
B5		Loan Loss Allowance	(6,177)	(4,058)
B6		Interest Receivable on Loan Portfolio	2,650	2,354
B7		Accounts Receivable and Other Assets	18,063	6,907
B8		Other Investments	27,097	24,673
B9		Net Fixed Assets	51,316	43,373
B10		Fixed Assets	70,697	58,445
B11		Accumulated Depreciation	(19,381)	(15,072)
B12		Total Assets	365,718	267,973
LIABILITIES				
B13		Demand Deposits	-	-
B14		Short-term Time Deposits	97,168	58,799
B15		Short-term Borrowings	3,196	2,380
B16		Interest Payable on Funding Liabilities	3,894	-
B17		Accounts Payable and Other Short-term Liabilities	6,321	917
B18		Long-term Time Deposits	-	-
B19		Long-term Borrowings	54,805	53,680
B20		Other Long-term Liabilities		
B21		Total Liabilities	165,384	115,776
EQUITY				
B22		Paid-in Capital		
B23		Donated Equity	161,643	140,745
B24		Prior Years	140,745	96,837

B25		Current Year	20,897	43,908
B26		Retained Earnings	44,416	12,088
B27		Prior Years	15,788	(3,700)
B28		Current Year	28,628	15,788
B29		Reserves		
B30		Other Equity Accounts	(5,725)	(637)
B31		Adjustments to Equity		
B32			200,334	152,197

OVERHEAD 2.7

CLASSIFICATION OF CASH RECEIPTS AND PAYMENTS

Classification	Receipts	Payment
Operating Activities		
Investing Activities		

Financing Activities		

MATERIAL 2.8

MATERIAL 2.8 CASH FLOW STATEMENT ACTIVITY

Cash Received from Interest, Fees, and Commissions on Loan Portfolio Operating Activity	Net (Purchase)/Sale of Other Investments Investing Activity
Cash Received from Interest on Investments Operating Activity	Net (Purchase)/Sale of Fixed Assets Investing Activity
Cash Received as Other Operating Revenue Operating Activity	Net Cash from Investing Activities Investing Activity
Value of Loans Repaid Operating Activity	Net Cash Received /(Repaid) for Short- and Long-term Borrowings Financing Activity
(Cash Paid for Financial Expenses on Funding Liabilities) Operating Activity	Issuance/(Repurchase) of Paid-In Capital Financing Activity
(Cash Paid for Other Financial Expenses) Operating Activity	(Dividends Paid) Financing Activity
(Cash Paid for Operating Expenses) Operating Activity	Donated Equity Financing Activity
(Cash Paid for Taxes) Operating Activity	Net Cash from Financing Activities Financing Activity
(Value of Loans Disbursed) Operating Activity	Net Cash Received/(Paid) for Non-Operating Activities Financing Activity
Net (Purchase)/Sale of Trade Investments Operating Activity	Net Change in Cash and Due from Banks Financing Activity
Deposits/(Withdrawals) from Clients Operating Activity	Cash and Due from Banks at the Beginning of the Period Financing Activity
Cash Received/(Paid) for Other Operating Assets and Liabilities Operating Activity	Exchange Rate Gains/(Losses) on Cash and Cash Equivalents Financing Activity
Net Cash from Operating Activities Operating Activity	Cash and Due from Banks at the End of the Period Financing Activity

OVERHEAD AND HANDOUT 2.9

DIRECT CASH FLOW STATEMENT TEMPLATE

Ref.	X-Ref.	Account Name	Period	Period	Calculation
		Cash Flows from Operating Activities			
C1					
C2					
C3					
C4					
C5					
C6					
C7					
C8					
C9					
C10					
C11					
C12					
C13					
		Cash Flows from Investing Activities			
C14					
C15					
C16					
		Cash Flows from Financing Activities			
C17					
C18					
C19					
C20					
C21					
C22					
C23					
C24					
C25					
C26					

OVERHEAD AND HANDOUT 2.10

SAMPLE DIRECT CASH FLOW STATEMENT

Ref.	X-Ref.	Term	From 1/1/2004 to 12/31/2004	From 1/1/2003 to 12/31/2003
Cash Flows from Operating Activities				
C1	I2[a]	Cash Received from Interest, Fees, and Commissions on Loan Portfolio	16,403,668	8,847,498
C2	I5[a]	Cash Received from Interest on Investments	1,597,830	1,003,556
C3	I6[a]	Cash Received as Other Operating Revenue	325,400	215,680
C4	C31	Value of Loans Repaid	137,620,072	107,900,427
C5	I8[a]	(Cash Paid for Financial Expenses on Funding Liabilities)	(939,719)	(810,692)
C6	I11[a]	(Cash Paid for Other Financial Expenses)	(248,000)	(55,328)
C7	I16[a]	(Cash Paid for Operating Expenses)	(13,522,473)	(7,426,274)
C8	I26[a]	(Cash Paid for Taxes)	(760,816)	(732,306)
C9	C32, P2	(Value of Loans Disbursed)	(159,603,437)	(121,456,864)
C10	C33	Net (Purchase)/Sale of Trade Investments	16,484,658	3,406,301
C11	C34	Deposits/(Withdrawals) from Clients	2,393,010	1,030,868
C12		Cash Received/(Paid) for Other Operating Assets and Liabilities	(1,100,000)	(1,010,308)
C13	C37	Net Cash from Operating Activities	(1,349,808)	(9,087,441)
Cash Flows from Investing Activities				
C14	C38	Net (Purchase)/Sale of Other Investments	—	334,580
C15	C39	Net (Purchase)/Sale of Fixed Assets	(2,892,769)	(747,282)
C16	C40	Net Cash from Investing Activities	(2,892,769)	(412,702)
Cash Flows from Financing Activities				
C17	C41	Net Cash Received /(Repaid) for Short- and Long-term Borrowings	1,365,241	6,533,518
C18	C42	Issuance/(Repurchase) of Paid-In Capital	2,000,000	1,000,000
C19	C43	(Dividends Paid)	(500,000)	—
C20	I28[a], C44, B25	Donated Equity	4,582,000	3,442,986
C21	C45	Net Cash from Financing Activities	7,447,241	10,976,504
C22	I22[a], C46	Net Cash Received/(Paid) for Non-Operating Activities	(1,403,143)	(1,838,992)

Ref.	X-Ref.	Term	From 1/1/2004 to 12/31/2004	From 1/1/2003 to 12/31/2003
C23	C47	Net Change in Cash and Due from Banks	1,801,521	(362,632)
C24	C48	Cash and Due from Banks at the Beginning of the Period	1,146,142	900,000
C25	C49	Exchange Rate Gains/(Losses) on Cash and Cash Equivalents	313,532	609,774
C26	C50	Cash and Due from Banks at the End of the Period	3,261,195	1,146,142

[a] If an MFI uses cash accounting, these accounts will have the same value as the cross-referenced accounts. If the MFI uses accrual accounting, these values will not be the same as the cross-referenced account. In the example above, the MFI uses accrual-based accounting for financial revenue, financial expense, and operating expenses so that (C1), (C5), and (C7) are not the same value as their income statement references.

OVERHEAD 2.11

SAMPLE INDIRECT CASH FLOW STATEMENT

Ref.	X-Ref.	Account Name	From 1/1/2004 to 12/31/2004	From 1/1/2003 to 12/31/2003
		Cash Flows from Operating Activities		
C27	**I25[a]**	Net Income (Before Taxes and Donations)	2,176,965	2,872,482
C28	**I19**	Depreciation and Amortization	1,597,669	317,057
C29	**I13**	Impairment Losses on Loans	439,972	297,368
C30	**I26[a], C8**	(Cash Paid for Taxes)	(760,816)	(732,306)
C31	**C4**	Value of Loans Repaid	137,620,072	107,765,921
C32	**C9, P2**	(Value of Loans Disbursed)	(159,603,437)	(121,456,864)
C33	**C10**	(Increase)/Decrease in Trade Investments	16,484,658	3,406,301
C34	**C11**	Increase/(Decrease) in Deposits	2,393,010	1,030,868
C35		(Increase)/Decrease in Receivables and Other Assets	(1,250,000)	(1,465,301)
C36		Increase/(Decrease) in Payables and Other Liabilities	(447,900)	(1,122,967)
C37	**C13**	Net Cash from Operating Activities	**(1,349,808)**	**(9,087,441)**
		Cash Flows from Investing Activities		
C38	**C14**	(Increase)/Decrease in Other Investments	—	334,580
C39	**C15**	(Increase)/Decrease in Book Value of Gross Fixed Assets	(2,892,769)	(747,282)
C40	**C16**	Net Cash from Investing Activities	**(2,892,769)**	**(412,702)**
		Cash Flows from Financing Activities		
C41	**C17**	Increase/(Decrease) in Short- and Long-term Borrowings	1,365,241	6,533,518
C42	**C18**	Increase/(Decrease) in Paid-In Capital	2,000,000	1,000,000
C43	**C19**	(Dividends Paid)	(500,000)	—
C44	**C20, I28[a], B25**	Donated Equity	4,582,000	3,442,986
C45	**C21**	Net Cash from Financing Activities	**7,447,241**	**10,976,504**
C46	**I22[a], C22**	Net Cash Received/(Paid) for Non-Operating Activities	**(1,403,143)**	(1,838,992)
C47	**C23**	Net Change in Cash and Due from Banks	**1,801,521**	**(362,632)**
C48	**C24**	Cash and Due from Banks at the Beginning of the Period	**1,146,142**	**900,000**
C49	**C25**	Effect of Exchange Rate Changes on Cash and Cash Equivalents	313,532	608,774
C50	**C26, B1**	Cash and Due from Banks at the End of the Period	**3,261,195**	**1,146,142**

HANDOUT 2.12

MICRO MFI CASH FLOW INFORMATION

CASE STUDY INSTRUCTIONS

You have now been told to create a cash flow for Micro MFI. You know from experience that Micro MFI does not usually create this document on its own. In preparation for your task Micro MFI has created a chart that you can use that compares how balance sheet accounts have increased or decreased. Micro MFI does not have detailed information for 2002 and decides that you should construct a cash flow for 2004, showing the movement in cash from the end of 2003 to the end of 2004. Using the financial data presented create a cash flow using the indirect method.

1. The task for your team is to create a Micro MFI cash flow, using the indirect method, for the period from the end of 2003 to the end of 2004.

2. The first step is to review the financial data. When reviewing this information determine what accounts, if any, need to be relocated into different accounts based on the SEEP Framework Indirect Cash Flow.

3. Map the financial information into the SEEP Framework Cash Flow format.

HANDOUT 2.12

CASH FLOW INFORMATION

	Current Year	Previous Year	Difference Net Change
Loans to Clients			
Beginning	179,816		
Loans Disbursed	620,532		
Loans Repaid	(543,696)		
Principal Before Write-Off	256,652		
Write-off of Bad Debt	(7,777)		
Principal Balance At End	248,875		
Demand Deposits	-	-	-
Short-term Time Deposits	97,168	58,799	38,369
Long-term Time Deposits	-	-	-
Total Deposits			38,369
Short-term Investments	3,450	9,450	(6,000)
Interest Receivable on Loan Portfolio	2,650	2,354	296
Accounts Receivable and Other Assets	18,063	6,907	11,156
Other Investments	27,097	24,673	2,424
Total Other Assets			13,876
Interest Payable on Funding Liabilities	3,894	-	3,894
Accounts Payable and Other Short-term Liabilities	6,321	917	5,404
Other Long-term Liabilities	-	-	-
Total Liabilities			9,298
Other Investments	27,097	24,673	2,424
Fixed Assets	70,697	58,445	12,252
Short-term Borrowings	3,196	2,380	816
Long-term Borrowings	54,805	53,680	1,125
Total Borrowings			1,942

HANDOUT 2.12

SEEP FRAMEWORK CASH FLOW

Ref.	X-Ref.	Account Name	From 1/1/2004 to 12/31/2004	From 1/1/2003 to 12/31/2003
		Cash Flows from Operating Activities		
C27	I25[a]	Net Income (Before Taxes and Donations)		
C28	I19	Depreciation and Amortization		
C29	I13	Impairment Losses on Loans		
C30	I26[a], C8	(Cash Paid for Taxes)		
C31	C4	Value of Loans Repaid		
C32	C9, P2	(Value of Loans Disbursed)		
C33	C10	(Increase)/Decrease in Trade Investments		
C34	C11	Increase/(Decrease) in Deposits		
C35		(Increase)/Decrease in Receivables and Other Assets		
C36		Increase/(Decrease) in Payables and Other Liabilities		
C37	C13	Net Cash from Operating Activities		
		Cash Flows from Investing Activities		
C38	C14	(Increase)/Decrease in Other Investments		
C39	C15	(Increase)/Decrease in Book Value of Gross Fixed Assets		
C40	C16	Net Cash from Investing Activities		
		Cash Flows from Financing Activities		
C41	C17	Increase/(Decrease) in Short- and Long-term Borrowings		
C42	C18	Increase/(Decrease) in Paid-In Capital		
C43	C19	(Dividends Paid)		
C44	C20, I28[a], B25	Donated Equity		
C45	C21	Net Cash from Financing Activities		
C46	I22[a], C22	Net Cash Received/(Paid) for Non-Operating Activities		
C47	C23	Net Change in Cash and Due from Banks		
C48	C24	Cash and Due from Banks at the Beginning of the Period		
C49	C25	Effect of Exchange Rate Changes on Cash and Cash Equivalents		
C50	C26, B1	Cash and Due from Banks at the End of the Period		

MICRO MFI CASH FLOW

FACILITATOR NOTE

Ref.	X-Ref.	Term	From 1/1/2004 to 31/12/2004	From 1/1/2003 to 31/12/2003
Cash Flows from Operating Activities				
C26	I21	Net Operating Income	29,555	
C27	I19	Depreciation	5,139	
C28	I13	Impairment Loss on Loans	9,531	
C8	I26*	(Cash Paid for Taxes)	-	
C29		Value of Loans Repaid	543,696	
C30	P2	(Value of Loans Disbursed)	(620,532)	
C31		(Increase)/Decrease in Short-term Investments	6,000	
C32		Increase/(Decrease) in Deposits	38,369	
C33		(Increase)/Decrease in Receivables and Other Assets	(13,876)	
C34		Increase/(Decrease) in Payables and Other Liabilities	9,298	
C35		Net Cash from Operating Activities	7,179	
Cash Flows from Investing Activities				
C36		(Increase)/Decrease in Long-Term Investments	(2,424)	
C37		(Increase)/Decrease in the Book Value of Gross Fixed Assets	(12,252)	
C38		Net Cash from Investing Activities	(14,676)	-
Cash Flows from Financing Activities				
C39		Increase/(Decrease) in Short-and Long-term Borrowings	1,942	
C40		Increase/(Decrease) in Paid-in Capital	-	
C41		Dividends paid		
C42	I28*, B25	Donated Equity	20,897	
C43		Net Cash from Financing Activities	22,839	
C21	I22*	Net Cash Received/(Paid) for Non-operating Activities	(927)	

C44		Net Change in Cash and Due from Banks	14,414	
C45		Cash and Due from Banks at the Beginning of the Period	5,458	
C46		Effect of Exchange Rate Changes on Cash and Cash Equivalents	571	
C47	B1	Cash and Due from Banks at the End of the Period	20,444	5,458

OVERHEAD AND HANDOUT 2.13

SAMPLE PORTFOLIO REPORT

Ref.	X-Ref.	Account Name	From 1/1/2004 to 12/31/2004		From 1/1/2003 to 12/31/2003	
			Number of Loans	Value of Portfolio	Number of Loans	Value of Portfolio
Portfolio Activity						
P1, P2	**C9, C32**	Loans Disbursed	32,148	159,603,437	26,990	121,456,864
P3, P4	**B4**	Loans Outstanding	14,587	55,609,309	11,183	34,701,961
Movement in Impairment Loss Allowance						
P5^0	**B5^0**	Impairment Loss Allowance, Beginning of Period		1,230,473		933,150
P5^1	**B5^1**	Impairment Loss Allowance, End of Period		1,270,673		1,230,473
P6, P7		Loans Written Off	147	448,954	0	0
P8	**I14**	Provision for Loan Impairment		489,154		297,368
P9, P10		Loans in Recovery or Recovered	14	49,182	53	134,506
Portfolio Aging Schedule						
			Number of Loans	**Value of Portfolio**	**Loss Allowance**	**Impairment Loss Allowance**
P11, P12		Current Portfolio	8,729	51,155,003	0	-
P13, P14		Portfolio at Risk 1 to 30 days	2,110	2,224,372	10	222,437
		Portfolio at Risk 31 to 60 days	2,022	1,112,186	25	278,047
		Portfolio at Risk 61 to 90 days	927	556,093	50	278,047
		Portfolio at Risk 91 to 180 days	556	166,828	75	125,121
		Portfolio at Risk more than 180 days	204	244,681	100	244,681
P15, P16		Renegotiated Portfolio 1–30 days	28	55,609	50	27,805
		Renegotiated Portfolio > 30	11		100	

Ref.	X-Ref.	Account Name	From 1/1/2004 to 12/31/2004		From 1/1/2003 to 12/31/2003	
			Number of Loans	Value of Portfolio	Number of Loans	Value of Portfolio
		days		94,536		94,536
P3, P4	**B4**	Loans Outstanding	14,587	55,609,309		1,270,673

HANDOUT 2.14

MICRO MFI PORTFOLIO REPORT

CASE STUDY INSTRUCTIONS

Another Micro MFI manager has prepared the Portfolio Report and you are asked to review the report.

1. The task for your team is to review the prepared Portfolio Report to determine if Micro MFI has appropriately represented the Portfolio Activity, Movement in Impairment Loss Allowance, and the Portfolio Aging Schedule.

2. If your group determines that data in the report needs to be modified, identify that information and determine what you would do to the data.

HANDOUT 2.14

MICRO MFI PORTFOLIO REPORT

Ref.	X-Ref.		From 1/1/2004 to 31/12/2004		From 1/1/2003 to 31/12/2003	
			Number of Loans	Value of Portfolio	Number Of Loans	Value of Portfolio
Portfolio Activity						
P1, P2	C9, C30	Loans Disbursed during the period	52,146	620,532	28,440	361,190
P3, P4	B4	Loans Outstanding, end of period	31,254	248,875	21,053	179,816
Movement in Impairment Loss Allowance						
			Number of Loans	**Value of Portfolio**	**Number of Loans**	**Value of Portfolio**
$P5^0$	$B5^0$	Loan Loss Allowance, beginning of period		4,058		-
$P5^1$	$B5^1$	Impairment Loss Allowance, end of period		6,010		4,058
P6, P7		Loans Written Off	1,155	8,083		-
P8		Provision Expense for Loan Impairment		10,035		4,058
P9		Loans Recovered		504		0
Portfolio Aging Schedule						
			Number of Loans	**Value of Portfolio**	**Loan Loss Allowance Rate**	**Loan Loss Allowance**
P10, P11		Current Portfolio	23,286	223,646	1%	2,236
P2,P 13		Portfolio at Risk 1 to 30 days	4,315	12,328	1%	123
		Portfolio at Risk 31 to 60 days	1,974	4,650	25%	1,163
		Portfolio at Risk 61 to 90 days	687	2,368	50%	1,184
		Portfolio at Risk 91 to 180 days	401	1,286	50%	643
		Portfolio at Risk over 180 days	120	459	100%	459
P14, P15		Renegotiated Portfolio	420	3,469	1%	35

		Renegotiated Portfolio over 31 days	51	669	25%	167
P3, P4	B4	Gross Loan Portfolio	31,254	248,875		6,010

OVERHEAD AND HANDOUT 2.15

SAMPLE NON-FINANCIAL DATA REPORT

	Account Name	As of 12/31/2004	As of 12/31/2003
Operational Data			
N1	Number of Active Clients	14,658	11,458
N2	Number of New Clients during Period	7,584	7,589
N3	Number of Active Borrowers	13,472	10,857
N4	Number of Voluntary Depositors	752	254
N5	Number of Deposit Accounts	752	254
N6	Number of Savers Facilitated	13,005	11,023
N7	Number of Personnel	115	89
N8	Number of Loan Officers	75	48
Macroeconomic Data			
N9	Inflation Rate	5.6%	4.3%
N10	Market Rate for Borrowing	9.5%	8.6%
N11	Exchange Rate (Local Currency: U.S. Dollar, Euro, or other)	48.0	45.0
N12	Gross National Income (GNI) per capita	12,000.0	12,000.0

OVERHEAD/HANDOUT 2.16

MATRIX TO IDENTIFY LINKAGES BETWEEN FINANCIAL STATEMENTS

Income Statement (Table 2.1)	Balance Sheet (Table 2.3)	Cash Flow Statement (Tables 2.6 and 2.8	Portfolio report (Table 2.10)	Relationship
(I14) Provision for Loan Impairment	(B5) Impairment Loss Allowance		(P7) Value of Loans Written Off	$B5^1 = B5^0 + CI14^1 – P7^1$

Income Statement (Table 2.1)	Balance Sheet (Table 2.3)	Cash Flow Statement (Tables 2.6 and 2.8	Portfolio report (Table 2.10)	Relationship

MATRIX TO IDENTIFY LINKAGES BETWEEN FINANCIAL STATEMENTS

FACILITATOR NOTES

Income Statement (Table 2.1)	**Balance Sheet (Table 2.3)**	**Cash Flow Statement (Tables 2.6 and 2.8**	**Portfolio report (Table 2.10)**	**Relationship**
(I14) Provision for Loan Impairment	(B5) Impairment Loss Allowance		(P7) Value of Loans Written Off	$B5^1 = B5^0 + CI14^1 – P7^1$
(I19) Depreciation and Amortization Expense	(B11) Accumulated Depreciation and Amortization	(C28) Depreciation and Amortization		$B11^1 = B11^0 + I19^1$
(I28) Donations	(B25) Donated Equity, Current Year	(C20, C44) Donated Equity		$B24^1 = B24^0 + I28^0$
(I27) Net Income (After Taxes and Before Donations)	(B28) Retained Earnings, Current Year			I27 = B28
	(B1) Cash and Due From Banks	(C23) Net Change in Cash and Due from Banks; (C25) Exchange Rate Gains/ (Losses) on Cash and Cash Equivalents		$B1^1 = B1^0 + C23 + C25$
	(B4) Gross Loan Portfolio	(C9) Value of Loans Disbursed; (C4) Value of Loans Repaid	(P4) Value of Loans Outstanding; (P7) Value of Loans Written Off; (P2) Value of Loans Disbursed	$B4^1 = B4^0 + C9 – C4 – P7$

INTRODUCTION TO THE TOOL

Explain

Now that we are familiar with some of the statements and reports used in this Framework, complete with knowing the standardized formats and new terminology, we are going to take a look at the Framework

Show PPT 15 and describe what the tool is and what it is designed to do.

- To provide a spreadsheet tool that follows the format of the SEEP Framework document.
- The tool is designed to:

  Offer a simple financial performance monitoring tool that will satisfy an MFI Manager's basic financial performance monitoring needs

  Be a user-friendly tool that can maintain and export data.

Explain

This tool is a framework to organize your information and data so that you can focus on analyzing the information and understanding the financial condition of the MFI. Remember that the SEEP Framework and the Tool work together. The framework is the recommended method to organize, forecast and adjust financial data and the tool is a spreadsheet that will allow you to generate important ratios and management reports.

Show PPT 16 and explain the structure of the Tool.

Describe that the tool has input worksheets and result sheets. An input sheet is where you input your institutions' information and an output sheet is what is generated from the information.

Describe that the first input sheet is for institutional information and choices. The second worksheet is for data input. The data that is put into this worksheet is financial information from the income statement, balance sheet, cash flow statement, portfolio report, and non-financial information. Briefly describe the additional sheets.

Describe that for this course we will be learning about and using the advanced features of the tool. The advanced features of the tool include adjustments.

Continue the demonstration of the Tool by having the Tool displayed through a projection unit and all participants at their computer stations. Participants will work in pairs when they are working on the Tool. During this session participants will get an overview of the tool, how to set up the tool and enable features, and how to input data.

NOTE TO FACILITATOR: As you are instructing participants how to do this you must be inputting the information as a demonstration. First give a demonstration and then give participants time to work

Tell participants to open the Tool and to go to the first worksheet titled SETUP.

Walk participants through each line item and what they need to do for the Setup Sheet and the Enable Features. Describe how this information is used throughout the tool.

Instruct

Participants to go to data input.

Explain

The formats of the financial statements and reports are the same as those presented earlier and used in the SEEP Framework. Participants may need to refer to their handouts of sample income statement, balance sheet, cash flow statement, and portfolio report.

Describe

How the financial statements are layed out in the spreadsheet.

Tell

Participants that they will become familiar with using the tool by using the financial information they have been working with in the case study. Participants will use the financial information from the case study to first input the financial information and data.

Ask participants

To work in their small groups and input the financial data for the income statement and the balance sheet.

Tell

Participants that at the end of the day there will be additional time to work with the tool so that if they do not finish the data inputting now there will be time later.

MODULE 3: ANALYTICAL ADJUSTMENTS MATERIAL

HANDOUT 3.1

SUMMARY OF ADJUSTMENTS

Ref.	Account	Explanation
Subsidies		
A1	Subsidized Cost of Funds Adjustment	Examines the difference between an MFI's financial expense and the financial expense it would pay if all its funding liabilities were priced at market rates.
A2	In-Kind Subsidy Adjustment	The difference between what the MFI is actually paying for a donated or subsidized good or service and what it would have to pay for the same good or service on the open market. Donors often give MFIs funds and also goods and services at no cost or at below-market cost. Common examples of these in-kind subsidies are computers, consulting services, free office space, and free services of a manager.
Inflation		
A3	Inflation Adjustment	The rationale behind the inflation adjustment is that an MFI should, at a minimum, preserve the value of its equity (and shareholders or donors' investments) against erosion due to inflation. In addition, this adjustment is important to consider when benchmarking institutions in different countries and economic environments. Unlike subsidy adjustments, recording an inflation adjustment is common in many parts of the world and is mandated by Section 29 of the International Accounting Standards (IAS) in high inflation economies.
Non-performing loans		
A4	Write-off Adjustment	Intended to identify loans on an MFI's books that, by any reasonable standard, should be written off. This adjustment can significantly reduce the value of an MFI's assets if persistent delinquent loans are not counted as part of the gross loan portfolio.
A5	Impairment Loss Allowance Adjustment	Intended to bring an MFI's Impairment Loss Allowance in line with the quality of its Gross Loan Portfolio.

HANDOUT 3.2

SUBSIDIZED COST OF FUNDS ADJUSTMENT

MICRO MFI is primarily funding its loan portfolio with its own equity and a $100,000 six-year loan from an international development agency. The loan was received two years ago and carries an interest rate of 5 percent per annum in local currency. The management team has recently begun negotiations with a local bank to obtain additional funding and was quoted a rate of 13 percent per annum on those commercial funds. To analyze true performance of its MFI for the year, the manager opts to use the 13-percent rate as the alternate market rate of funds.

Calculate the subsidized cost of funds adjustment to measure true performance.

OVERHEAD AND HANDOUT 3.3

SUBSIDIZED COST OF FUNDS ADJUSTMENT FOR BENCHMARKING

Adjustment for Subsidized Cost of Fund	Formula	Adjustment
Average Short-term Borrowings plus Average Long-term Borrowings	$B15^{avg} + B19^{avg}$	18,716,138
Market Rate, End of Period	$N10^{1}$	9.5%
Market Cost of Funds	$(B15^{avg} + B19^{avg}) \times N10^{1}$	1,778,033
Interest and Fee Expense	I10	1,039,719
Adjustment for Subsidized Cost of Fund[a]	$[(B15^{avg} + B19^{avg}) \times N10^{1}] - I10$	738,314

[a] The adjustment is applied only if the result is > 0.

HANDOUT 3.4

IN-KIND SUBSIDY ADJUSTMENT FOR TRUE PERFORMANCE

MICRO MFI was founded by a large international organization, RELIEF, which continues to provide it with support. In addition to supplying an international executive director, RELIEF provides in-country staff that supports MICRO MFI by providing accounting services, management information systems assistance, and a full-time business trainer for MICRO's clients. MICRO MFI's headquarters is in a building owned by RELIEF, and MICRO has a five-year agreement to rent the building at a below-market rate. RELIEF also granted two one-year-old vehicles and four computers to MICRO from its flood relief program in the south of the country. MICRO did not account for these donated Fixed Assets when it received them.

Calculate the In-Kind Subsidy Adjustment using the information below.

	Personnel	**Estimated Monthly MarketCost (a)**	**Actual Monthly Cost (b)**	**No. of Months (c)**	**Subsidy (a – b) x c**
i	*Executive Director*	2,000	0	12	
ii	*Accountant*	800	0	12	
iii	*Part-time MIS Manager*	400	100	12	
iv	*Trainer*	400	200	6	
	Adjustment for Personnel Expenses				
Other Administrative Expenses					
i	*Rent*	1,500	400	12	
ii	*Software Support*	50	0	12	
	Adjustment for Other Administrative Expenses	—			
Fixed Assets Depreciation Rate				**Depreciation Rate**	
i	*Head Office Vehicle*	12,000	0	20%	
ii	*Branch Office Vehicle*	18,000	0	20%	
iii	*Four Computers, Branch Office*	3,600	500	33.33%	
	Adjustment to Depreciation Expense				
Total In-Kind Subsidy Adjustment					

OVERHEAD 3.5

SAMPLE INCOME STATEMENT

Ref.	X-Ref.	Account Name	From 1/1/2004 to 12/31/2004	From 1/1/2003 to 12/31/2003
I1		**Financial Revenue**	**18,976,898**	**10,521,727**
I2	C1[a]	Financial Revenue from Loan Portfolio	17,053,668	9,302,491
I3		Interest on Loan Portfolio	13,867,568	7,494,464
I4		Fees and Commissions on Loan Portfolio	3,186,100	1,808,027
I5	C2 [a]	Financial Revenue from Investments	1,597,830	1,003,556
I6	C3 [a]	Other Operating Revenue	325,400	215,680
I7		**Financial Expense**	**1,287,719**	**853,197**
I8	C5[a]	Financial Expense on Funding Liabilities	1,039,719	797,869
I9		Interest and Fee Expense on Deposits	256,343	250,000
I10		Interest and Fee Expense on Borrowings	783,376	547,869
I11	C6[a]	Other Financial Expense	248,000	55,328
I12		**Net Financial Income**	**17,689,179**	**9,668,530**
I13	P9	Impairment Losses on Loans	439,972	162,862
I14	C29, P6	Provision for Loan Impairment	489,154	297,368
I15	P8	Value of Loans Recovered	(49,182)	(134,506)
I16	C7[a]	**Operating Expense**	**15,072,242**	**6,633,187**
I17		Personnel Expense	8,700,000	4,594,436
I18		Administrative Expense	6,372,242	2,038,751
I19	C28	Depreciation and Amortization Expense	1,597,669	317,057
I20		Other Administrative Expense	4,774,573	1,721,694
I21		**Net Operating Income**	**2,176,965**	**2,872,482**
I22	C22[a]	**Net Non-Operating Income/(Expense)**	**(1,403,143)**	**(1,838,992)**
I23		Non-Operating Revenue	586,471	—
I24		Non-Operating Expense	(1,989,614)	(1,838,992)
I25	C27	Net Income (Before Taxes and Donations)	773,822	1,033,490
I26	C8[a], C30[a]	Taxes	760,816	732,306
I27	B28	**Net Income (After Taxes and Before Donations)**	**13,006**	**301,184**
I28	B25, C20[a], C44[a]	Donations	4,582,000	3,442,986
I29		Donations for Loan Capital	—	1,258,291
I30		Donations for Operating Expense	4,582,000	2,184,695
I31		**Net Income (After Taxes and Donations)**	**4,595,006**	**3,744,170**

HANDOUT 3.6

INFLATION ADJUSTMENT FOR TRUE PERFORMANCE

MICRO MFI operates in a country where inflation is fairly stable each year and is usually between 4 and 12 percent. According to the Central Bank, the average annualized inflation rate for the year was 6.5 percent. MICRO MFI has a grant agreement with a multilateral donor. The MFI draws down funds at the beginning of every month according to its grant agreement and liquidates the advances at the end of each quarter. At the end of the year, MICRO MFI used some of its cash from retained earning to purchase two new vehicles. The purchase nearly doubled the value of the MFI's net fixed assets.

To calculate the true performance inflation adjustment, MICRO MFI determined that it was best to use the value of its Net Fixed Assets from the beginning of the year before the purchase of the two new vehicles shortly before the end of the year. At the same time, management believes that using average equity is the best approach because its Donated Equity and Retained Earnings were fairly steady throughout the year. Management uses a monthly average.

Net Fixed Assets, Beginning of Year =	**150,000**
Average Equity =	**1,800,000**
Inflation Rate =	**6.5%**

MICRO MFI calculates its Inflation Adjustment as follows:

A3.1 = Average Equity x Inflation Rate =

A3.2 = Net Fixed Assets x Inflation Rate =

A3 = A3.1 – A3.2 =

The effect on MICRO MFI's income statement is to increase the Net Inflation Expense by 107,250, resulting in the same decrease in Net Income (After Taxes and Before Donations). On its balance sheet, management records an increase of 9,750 in Net Fixed Assets. Because Assets have increased by 9,750, and Equity has decreased by 107,250, MICRO MFI must add 117,000 to the Adjustments to Equity account to bring the balance sheet back in balance.

HANDOUT 3.7

INFLATION ADJUSTMENT

Adjustment for Inflation	Formula	Adjustment
Equity, Beginning of Period	$B32^0$	
Inflation Rate	N9	
Adjustment to Equity	A3.1 = $B32^0$ x N9	
Net Fixed Assets, Beginning of Period	$B9^0$	
Inflation Rate	N9	
Adjustment to Fixed Assets	A3.2 = $B9^0$ x N9	
Net Adjustment for Inflation	A3.1 – A3.2	

HANDOUT 3.8

ADJUSTMENT FOR IMPAIRMENT LOSS ALLOWANCE

Complete the table below to adjust for impairment loss allowance. Refer to the sample portfolio report and use the minimum recommended loan loss allowance rates discussed.

	Adjustment for Provision Expense Loan Impairment	Number of Loans	Value of Portfolio	Loss Allowance Rate (%)	Impairment Loss Allowance
	Current Portfolio				
	PAR 1–30 days				
	PAR 31–90 days				
	PAR 91–180 days				
	PAR > – 180 days				
	Renegotiated Portfolio				
B4	Total Gross Loan Portfolio			Adjusted Loan Loss Allowance	
$B5^{adj}$	Adjusted Impairment Loss Allowance				
P8	Less Value of Recovered Loans				(489,154)
B5	Less Actual Impairment Loss Allowance				
$A4 = B5^{adj} – B5$	Adjustment to Impairment Loss Allowance (if > 0)				

SAMPLE PORTFOLIO REPORT

Ref.	X-Ref.	Account Name	From 1/1/2004 to 12/31/2004		From 1/1/2003 to 12/31/2003	
			Number of Loans	Value of Portfolio	Number of Loans	Value of Portfolio
Portfolio Activity						
P1, P2	**C9, C32**	Loans Disbursed	32,148	159,603,437	26,990	121,456,864
P3, P4	**B4**	Loans Outstanding	14,587	55,609,309	11,183	34,701,961
Movement in Impairment Loss Allowance						
P5^0	**B5^0**	Impairment Loss Allowance, Beginning of Period		1,230,473		933,150
P5^1	**B5^1**	Impairment Loss Allowance, End of Period		1,270,673		1,230,473
P6, P7		Loans Written Off	147	448,954	0	0
P8	**I14**	Provision for Loan Impairment		489,154		297,368
P9, P10		Loans in Recovery or Recovered	14	49,182	53	134,506
Portfolio Aging Schedule						
			Number of Loans	**Value of Portfolio**	**Loss Allowance Rate (%)[a]**	**Impairment Loss Allowance**
P11, P12		Current Portfolio	8,729	51,155,003	0	-
P13, P14		Portfolio at Risk 1 to 30 days	2,110	2,224,372	10	222,437
		Portfolio at Risk 31 to 60 days	2,022	1,112,186	25	278,047
		Portfolio at Risk 61 to 90 days	927	556,093	50	278,047
		Portfolio at Risk 91 to 180 days	556	166,828	75	125,121
		Portfolio at Risk more than 180 days	204	244,681	100	244,681
P15, P16		Renegotiated Portfolio 1–30 days	28	55,609	50	27,805
		Renegotiated Portfolio > 30 days	11	94,536	100	94,536
P3, P4	**B4**	Loans Outstanding	14,587	55,609,309		1,270,673

HANDOUT 3.9

SUMMARY OF THE EFFECTS OF ADJUSTMENTS

Adjustment	Key Accounts Affected	Effect of Adjustments on Financial Statements	Type of Institution Most Affected by Adjustment
A1 Adjustment for Subsidized Cost of Funds	**I8** **B28** **B31**	Increase Interest and Fee Expense on Funding Liabilities **(II8 + A1)** Decrease Retained Earnings, Current Year **(B28 + A1)** Increase Adjustments to Equity **(B31 + A1)**	MFIs with heavily subsidized borrowings
A2 Adjustment for In-Kind Subsidy	**I17** **I20** **B28** **B31**	Personnel Expense: Increase Personnel Expense **(I17 + A2.1)** Increase Administrative Expense[1] **(I20 + A2.2)** Decrease Retained Earnings, Current Year **(B28 + A2)** Increase Adjustments to Equity **(B31 + A2)**	MFIs with expatriate staff financed by third-party supporters; MFIs using goods or services for which they are not paying market rates.
A3 Adjustment for Inflation	**B9** **I11** **B31**	Increase Net Fixed Assets **(B9 + A3.2)** Increase Net Inflation Expense **(I11 + A3)** Increase Adjustments to Equity **(B31 + A3.1)**	MFIs funded more by equity than by liabilities; MFIs in high-inflation countries
A4 Adjustment for Impairment Loss Allowance	**B5** **I13** **B28**	Increase Impairment Loss Allowance **(B5 + A4)** Increase Impairment Losses on Loans **(I13 + A4)** Decrease Retained Earnings **(B28 – A4)**	MFIs that have lenient loan loss provisioning policies and a high portfolio at risk
A5 Write-off Adjustment	**B4** **B5** **P3** **P6**	Decrease Gross Loan Portfolio **(B4 – A5.1)** Decrease Impairment Loss Allowance **(B5 – A5.1)** Decrease Number of Loans Outstanding **(P3 – A5.2)** Increase Number of Loans Written Off during the Period **(P6 + A5.2)**	MFIs that do not write off nonperforming loans aggressively

[1] If the MFI is adjusting for donated fixed asset, this item may also include (I17) Depreciation and Amortization Expense.

HANDOUT 3.10

ADJUSTED INCOME STATEMENT

Ref.	X-Ref.	Term	From 1/1/2004 to 31/12/2004	Adjustments	From 1/1/2004 to 31/12/2004 Adjusted
I1		**Financial Revenue**	**18,976,898**		**18,976,898**
I2		Financial Revenue from Loan Portfolio	17,053,668		17,053,668
I3		Interest on Loan Portfolio	13,867,568		13,867,568
I4		Fees and Commissions on Loan Portfolio	3,186,100		3,186,100
I5		Financial Revenue from Investments	1,597,830		1,597,830
I6		Other Operating Revenue	325,400		325,400
I7		**Financial Expense**	**1,287,719**		**4,148,202**
I8	A1	Financial Expense on Funding Liabilities	1,039,719	**738,314**	1,778,033
I9		Interest and Fee Expense on Deposits	256,343		256,343
I10		Interest and Fee Expense on Borrowings	783,376		783,376
I11	A3	Other Financial Expense	248,000	2,122,169	2,370,169
I12		Net Financial Income	**17,689,179**		**14,828,696**
I13	A4	Impairment Losses on Loans	439,972	—	439,972
I14		Provision Expense for Impaired Loans	489,154		134,506
I15		Value of Loans Recovered	(49,182)	—	
I16		Operating Expense	**15,072,242**		**17,641,842**
I17	A2.1	Personnel Expense	8,700,000	670,000	9,370,000
I18		Administrative Expense	6,372,242		8,271,842
I19		Depreciation and Amortization Expense	1,597,669		1,597,669
I20	A2.2	Other Administrative Expense	4,774,573	1,899,600	6,674,173
I21		Net Operating Income	**2,176,965**		**(3,253,119)**
I22		Net Non-Operating Income	**(1,403,143)**		**(1,403,143)**
I23		Non-Operating Revenue	586,471		586,471
I24		Non-Operating Expense	(1,989,614)		(1,989,614)
I25		Net Income (Before Taxes and Donations)	**773,822**		**(4,656,262)**
I26		Taxes	760,816		760,816
I27		Net Income (After Taxes and Before Donations)	**13,006**		**(5,417,078)**
I28		Donations	4,582,000		4,582,000
I29		Donations for Loan Capital	—		—
I30		Donations for Operating Expense	4,582,000		4,582,000
I31		Net Income (After Taxes and Donations)	**4,595,006**		**(835,078)**

HANDOUT 3.11

ADJUSTED BALANCE SHEET

Ref.	Adj.	Account Name	Current Year	Adjustment	Adjusted Current Year
Assets					
B1		Cash and Due from Banks	3,261,195		3,261,195
B2		Trade Investments	10,611,928		10,611,928
B3		Net Loan Portfolio	54,338,636		54,338,638
B4	**A5**	Gross Loan Portfolio	55,609,309	(244,681)	55,364,628
B5	**A4 A5**	Impairment Loss Allowance	(1,270,673)	244,681	(1,025,992)
B6		Interest Receivable on Loan Portfolio	1,604,993		1,604,993
B7		Accounts Receivable and Other Assets	1,610,308		1,610,308
B8		Other Investments	1,165,420		1,165,420
B9	**A3.2**	Net Fixed Assets	5,567,936	239,279	5,807,215
B10		Fixed Assets	10,640,051		10,640,051
B11		Accumulated Depreciation and Amortization	(5,072,115)		(5,072,115)
B12		**Total Assets**	**78,160,416**	**239,279**	**78,399,695**
Liabilities					
B13		Demand Deposits	—		—
B14		Short-term Time Deposits	3,423,878		3,423,878
B15		Short-term Borrowings	2,737,009		2,737,009
B16		Interest Payable on Funding Liabilities	237,177		237,177
B17		Accounts Payable and Other Short-term Liabilities	500,100		500,100
B18		Long-term Time Deposits	3,000,000		3,000,000
B19		Long-term Borrowings	16,661,750		16,661,750
B20		Other Long-term Liabilities	3,699,498		3,699,498
B21		**Total Liabilities**	**30,259,412**		**30,259,412**
Equity					
B22		Paid-In Capital	12,000,000		12,000,000
B23		Donated Equity	37,175,822		37,175,822
B24		Prior Years	32,593,822		32,593,822
B25		Current Year	4,582,000		4,582,000
B26		Retained Earnings	(1,401,678)		(6,831,761)
B27		Prior Years	(1,414,683)		(1,414,683)
B28	**A1, A2, A3, A4**	Current Year	13,006	(5,430,083)	(5,417,078)
B29		Reserves	126,860		126,860
B30		Other Equity Accounts			—
B31		Adjustments to Equity		5,669,362	5,669,362
B31-1	**A1**	Subsidized Cost of Funds Adjustment		738,314	
B31-2	**A2**	In-Kind Subsidy Adjustment		2,569,600	
B31-3	**A3**	Inflation Adjustment		2,361,448	
B32		**Total Equity**	**47,901,004**		**48,140,283**

HANDOUT 3.12

MICRO MFI ADJUSTMENT INFORMATION

CASE STUDY INSTRUCTIONS

Using the information provided below, create a set of adjusted financial statements for the current year for MICRO MFI.

1. To calculate the subsidized cost of funds adjustment for benchmarking MICRO MFI has told you to use a market rate of 18%
2. MICRO MFI does not have all the information on in-kind subsidies, but provides information on what they can estimate. This information is provided to you on the in-kind subsidy adjustment worksheet.
3. For the adjustment for inflation MICRO MFI wants you to use 10%
4. Use the *MicroBanking Bulletins* minimum allowance rates to calculate the loan loss allowance.

HANDOUT 3.12

ADJUSTMENT WORKSHEETS

ADJUSTMENT FOR SUBSIDIZED COST OF FUND

	Formula	Adjustment
Average Short-term Borrowings + Average Long-term Borrowings	$B15^{avg} + B19^{avg}$	
Market Rate, End of Period	N10[1]	
Market Cost of Funds	$(B15^{avg} + B19^{avg}) \times N10^{1}$	
Interest and Fee Expense	I10	
	$((B15^{avg} + B19^{avg}) \times N10^{1}) - I10$	

ADJUSTMENT FOR IN-KIND SUBSIDIES

		Estimated	Actual Paid	Adjustment
		(x)	(y)	(x-y)
	Personnel Expenses			
i	*Technical Advisor (Part-time)*	2,100		
ii	*On-Site MIS Advisor*	3,240		
	A2.1 Sub-total Personnel Adjustment			
	Administrative Expenses			
i	*On and Off-site Technical Support from Network*	6,300	1,575	
	A2.2 Sub-total Administrative Adjustment Subsidies: A2.1 + A2.2			
	Adjustment for In-kind			

HANDOUT 3.12

ADJUSTMENT WORKSHEETS

ADJUSTMENT FOR INFLATION

	Formula	Adjustment
Average Equity	B32	
Inflation Rate	N9	
Adjustment to Equity	A3.1 = $B32^{avg}$ x N9	
Net Fixed Assets	$B9^{avg}$	
Inflation Rate	N9	
Adjustment to Fixed Assets	A 3.2 = $B9^{avg}$ x N9	
Net Adjustment for Inflation	A3.1 – A3.2	

ADJUSTMENT FOR IMPAIRMENT LOSS ALLOWANCE

Formula	Adjustment for Loan Loss Allowance	Number of Loans	Value of Portfolio	Loan Loss Allowance Rate (%)	Loan Loss Allowance
P11,P12	Current Portfolio	23,286	223,646		
P13,P14	PAR 1-30 days	4,315	12,328		
	PAR 31 - 90 days	2,661	7,018		
	PAR 91 - 180 days	401	1,286		
	PAR > 180 days	120	459		
P15,P16	Renegotiated Portfolio	471	4,138		
	Total Adjusted Gross Loan Portfolio		248,875	**Adjusted Loan Loss Allowance**	
$B5^{adj}$	**Adjusted Loan Loss Allowance**	8,707			
	Less Value of Loans Recoverd	(504)			
B5	Less Actual Loan Loss Allowance	6,177			
A4 = $B5^{adj}$- B5	**Adjustment to Loan Loss Allowance**	2,530			-

HANDOUT 3.12

ADJUSTMENT WORKSHEETS

ADJUSTMENT FOR WRITE-OFFS

	Formula	Adjusted Value
PAR > 180 days past due	A5.1 =P14 > 180 days	
Number of Loans > 180 past due	A5.2 =P13> 180 days	

HANDOUT 3.12

ADJUSTED INCOME STATEMENT WORKSHEET

Ref.	X-Ref.	Term	From 1/1/2004 to 31/12/2004	Adjustments	From 1/1/2004 to 31/12/2004 Adjusted
I1		**Financial Revenue**	**137,866**		
I2		Financial Revenue from Loan Portfolio	136,896		
I3		Interest on Loan Portfolio	128,778		
I4		Fees and Commissions on Loan Portfolio	8,119		
I5		Financial Revenue from Investments	274		
I6		Other Operating Revenue	696		
I7		**Financial Expense**	**5,228**		
I8	A1	Financial Expense on Funding Liabilities	5,228		
I9		Interest and Fee Expense on Deposits	3,894		
I10		Interest and Fee Expense on Borrowings	1,334		
I11	A3	Other Financial Expenses	-		
I12		**Net Financial Income**	**132,638**		
I13	A4	Loan Loss Provision Expense	9,531		
		Provision Expense for Loan Impairment	10,035		
		(Value of Loans Recovered)	(504)		
I14		**Operating Expense**	**93,553**		
I15	A2.1	Personnel Expense	45,252		
I16		Administrative Expense	48,300		
I17		Depreciation Expense	5,139		
I18	A2.2	Other Administrative Expense	43,161		
I19		**Net Operating Income**	**29,555**		
I20		**Net Non-Operating Income**	**(927)**		
I21		Non-Operating Revenue	-		
I22		Non-Operating Expense	(927)		
I23		**Net Income (Before Taxes and Donations)**	**28,628**		
I24		Taxes	-		
I25		**Net Income (After Taxes and Before Donations)**	**28,628**		
I26		Donations	20,897		

I27		Donations for Loan Capital	20,897		
I28		Donations for Operating Expense	-		
I29		**Net Income (After Taxes and Donations)**	**49,525**		

HANDOUT 3.12

ADJUSTED BALANCE SHEET WORKSHEET

Ref.	Adj.	Term	Current Year	Adjustment	Adjusted Current Year
		Assets			
B1		Cash and Due from Banks	20,444		
B2		Short-term Investments	3,450		
B3		Net Loan Portfolio	242,698		
B4	**A5**	Gross Loan Portfolio	248,875		
B5	**A4, A5**	Loan Loss Allowance	(6,177)		
B6		Interest Receivable on loanportfolio	2,650		
B7		Accounts Receivable and Other Assets	18,063		
B8		Long-term Investments	27,097		
B9	**A3.2**	Net Fixed Assets	51,316		
B10		Fixed Assets	70,697		
B11		Accumulated Depreciation	(19,381)		
B12		**Total Assets**	365,718		
		Liabilities			
B13		Demand Deposits	-		
B14		Short-term Time Deposits	97,168		
B15		Short-term Borrowings	3,196		
B16		Interest Payable on fundingliabilities	3,894		
B17		Accounts Payable and OtherShort-term Liabilities	6,321		
B18		Long-term Time Deposits	-		
B19		Long-term Borrowings	54,805		
B20		Other Long-term Liabilities	-		
B21		**Total Liabilities**	165,384		
		Equity			
B22		Paid-in Capital	-		
B23		Donated Equity	161,643		
B24		Prior Years	140,745		
B25		Current Year	20,897		
B26		Retained Earnings	44,416		
B27		Prior Years	15,788		
B28	**A1, A2, A3, A4**	Current Year	28,628		
B29		Reserves	-		
B30		Other Equity Accounts	(5,725)		
B31		**Adjustments to Equity**			
B31-1	**A1**	Subsidized Cost of Funds Adjustment			
B31-2	**A2**	In-kind Subsidy Adjustent			
B31-3	**A3.1**	Inflation Adjustment			
B32		**Total Equity**	200,334		

CASE STUDY ADJUSTMENT FACILITATOR NOTES

ADJUSTMENT FOR SUBSIDIZED COST OF FUND

	Formula	Adjustment
Average Short-term Borrowings + Average Long-term Borrowings	$B15^{avg} + B19^{avg}$	57,030
Market Rate, End of Period	N10[1]	18.0%
Market Cost of Funds	$(B15^{avg} + B19^{avg}) \times N10^{1}$	10,265
Interest and Fee Expense	I10	5,228
	$((B15^{avg} + B19^{avg}) \times N10^{1}) - I10$	**5,038**

A2 IN-KIND SUBSIDY ADJUSTMENT

		Estimated	Actual Paid	Adjustment
		(x)	(y)	(x-y)
	Personnel Expenses			
i	*Technical Advisor (Part-time)*	2,100		2,100
ii	*On-Site MIS Advisor*	3,240	-	3,240
	A2.1 Sub-total Personnel Adjustment			**5,340**
	Administrative Expenses			
i	*On and Off-site Technical Support from Network*	6,300	1,575	4,725
	A2.2 Sub-total Administrative Adjustment Subsidies: A2.1 + A2.2			**4,725**
	Adjustment for In-kind			**10,065**

CASE STUDY ADJUSTMENT FACILITATOR NOTES

ADJUSTMENT FOR INFLATION

	Formula	Adjustment
Average Equity	B32	152,197
Inflation Rate	N9	10.0%
Adjustment to Equity	$A3.1 = B32^{avg} \times N9$	15,220
Net Fixed Assets	$B9^{avg}$	43,373
Inflation Rate	N9	10.0%
Adjustment to Fixed Assets	$A\ 3.2 = B9^{avg} \times N9$	4,337
Net Adjustment for Inflation	A3.1 – A3.2	10,882

ADJUSTMENT FOR IMPAIRMENT LOSS ALLOWANCE

Formula	Adjustment for Loan Loss Allowance	Number of Loans	Value of Portfolio	Loan Loss Allowance Rate (%)	Loan Loss Allowance
P11,P12	Current Portfolio	23,286	223,646	0%	-
P13,P14	PAR 1-30 days	4,315	12,328	10%	1,233
	PAR 31 - 90 days	2,661	7,018	30%	2,105
	PAR 91 - 180 days	401	1,286	60%	772
	PAR > 180 days	120	459	100%	459
P15,P16	Renegotiated Portfolio	471	4,138	100%	4,138
	Total Adjusted Gross Loan Portfolio		248,875	**Adjusted Loan Loss Allowance**	8,707
$B5^{adj}$	Adjusted Loan Loss Allowance	8,707			
	Less Value of Loans Recoverd	(504)			
B5	Less Actual Loan Loss Allowance	6,177			
$A4 = B5^{adj-}$ B5	Adjustment to Loan Loss Allowance	2,530			-

CASE STUDY ADJUSTMENT FACILITATOR NOTES

Adjustment for Write-offs	Formula	Adjusted Value
PAR > 180 days past due	A5.1 =P14 > 180 days	459
Number of Loans > 180 past due	A5.2 =P13> 180 days	120

ADJUSTED INCOME STATEMENT

FACILITATOR NOTES

Ref.	X-Ref.	Term	From 1/1/2004 to 31/12/2004	Adjustments	From 1/1/2004 to 31/12/2004 Adjusted
I1		**Financial Revenue**	**137,866**		**137,866**
I2		Financial Revenue from Loan Portfolio	136,896		136,896
I3		Interest on Loan Portfolio	128,778		128,778
I4		Fees and Commissions on Loan Portfolio	8,119		8,119
I5		Financial Revenue from Investments	274		274
I6		Other Operating Revenue	696		696
I7		**Financial Expense**	**5,228**		**21,148**
I8	A1	Financial Expense on Funding Liabilities	5,228	5,038	10,265
I9		Interest and Fee Expense on Deposits	3,894		3,894
I10		Interest and Fee Expense on Borrowings	1,334		1,334
I11	A3	Other Financial Expenses	-	10,882	10,882
I12		**Net Financial Income**	**132,638**		**116,718**
I13	A4	Loan Loss Provision Expense	9,531	2,530	12,061
		Provision Expense for Loan Impairment	10,035		5,138
		(Value of Loans Recovered)	(504)	-	
I14		**Operating Expense**	**93,553**		**103,618**
I15	A2.1	Personnel Expense	45,252	5,340	50,592
I16		Administrative Expense	48,300		53,025
I17		Depreciation Expense	5,139		5,139
I18	A2.2	Other Administrative Expense	43,161	4,725	47,886
I19		**Net Operating Income**	**29,555**		**1,040**
I20		**Net Non-Operating Income**	**(927)**		**(927)**
I21		Non-Operating Revenue	-		-
I22		Non-Operating Expense	(927)		(927)
I23		**Net Income (Before Taxes and Donations)**	**28,628**		**113**
I24		Taxes	-		-

I25		**Net Income (After Taxes and Before Donations)**	**28,628**		**113**
I26		Donations	20,897		20,897
I27		Donations for Loan Capital	20,897		20,897
I28		Donations for Operating Expense	-		-
I29		**Net Income (After Taxes and Donations)**	**49,525**		**21,010**

ADJUSTED BALANCE SHEET

FACILITATOR NOTES

Ref.	Adj.	Term	Current Year	Adjustment	Adjusted Current Year
		Assets			
B1		Cash and Due from Banks	20,444		20,444
B2		Short-term Investments	3,450		3,450
B3		Net Loan Portfolio	242,698		240,168
B4	**A5**	Gross Loan Portfolio	248,875	(459)	248,416
B5	**A4, A5**	Loan Loss Allowance	(6,177)	(2,071)	(8,248)
B6		Interest Receivable on loanportfolio	2,650		2,650
B7		Accounts Receivable and Other Assets	18,063		18,063
B8		Long-term Investments	27,097		27,097
B9	**A3.2**	Net Fixed Assets	51,316	4,337	55,653
B10		Fixed Assets	70,697		70,697
B11		Accumulated Depreciation	(19,381)		(19,381)
B12		**Total Assets**	**365,718**	**1,808**	**367,525**
		Liabilities			
B13		Demand Deposits	-		-
B14		Short-term Time Deposits	97,168		97,168
B15		Short-term Borrowings	3,196		3,196
B16		Interest Payable on fundingliabilities	3,894		3,894
B17		Accounts Payable and OtherShort-term Liabilities	6,321		6,321
B18		Long-term Time Deposits	-		-
B19		Long-term Borrowings	54,805		54,805
B20		Other Long-term Liabilities	-		-
B21		**Total Liabilities**	165,384		165,384
		Equity			
B22		Paid-in Capital	-		-
B23		Donated Equity	161,643		161,643
B24		Prior Years	140,745		140,745
B25		Current Year	20,897		20,897
B26		Retained Earnings	44,416		15,901
B27		Prior Years	15,788		15,788
B28	**A1, A2, A3, A4**	Current Year	28,628	(28,515)	113
B29		Reserves	-		-
B30		Other Equity Accounts	(5,725)		(5,725)
B31		**Adjustments to Equity**		**30,322**	**30,322**
B31-1	**A1**	Subsidized Cost of Funds Adjustment		5,038	
B31-2	**A2**	In-kind Subsidy Adjustent		10,065	
B31-3	**A3.1**	Inflation Adjustment		15,220	
B32		**Total Equity**	200,334		202,141

MODULE 4: FINANCIAL RATIOS AND INDICATORS

Goal	Understand and calculate "The SEEP 18" indicators and apply these to measure the performance of an MFI.
Objectives	By the end of Module 4, participants will: Calculate and understand "The SEEP 18" recommended ratios Describe why each ratio is important in measuring performance of a MFI Use adjusted data in calculating the SEEP 18 ratios and understand how using adjusted data affects the information.
Duration	2 hours 30 minutes

Time and Technique	Session	Materials
Lecturette and Discussion *10 minutes*	**Overview of "The SEEP 18"** Purpose and Importance of Ratios Why The SEEP 18 Review of how ratios are grouped	Powerpoint Slide 21
Game **Group Discussion** *1 hour 30 minutes*	**The SEEP 18 Ratios** Detailed study of each ratio to include the ratio formula, why the ratio is important and how to use adjusted data in the calculation and the effects of using adjustments	Handout 4.1 Instructions for the Name that Ratio Game 4 pieces of paper with the name of one group of ratios
Group Discussion **Exercise** *1 hour*	**Using Ratios to Identify Changes in Performance** Identify potential causes that result in changes in ratios	Handout 4.2 The SEEP 18 Ratios

STEP 1: **Lecturette** *10 minutes*	**OVERVIEW OF "THE SEEP 18" RATIOS** **Present an overview of the importance and purpose of ratios** Describe how the 18 ratio's were selected emphasizing the fact that they help managers evaluate the performance of their organization in several different aspects of its activity. The 18 indicators selected in this Framework reflect the areas of measurement that are priorities for most MFIs. **Show PPT 31 and Describe** The "SEEP 18" are divided into the following four groups: • Profitability and sustainability, • Asset/liability management, • Portfolio quality, and • Efficiency and productivity. **Explain** Briefly the purpose of each group of ratios. **Say** During this module we will present each ratio, its formula, and an explanation of its purpose within each of the four groups of ratios. Specifically the following: • The formula, • Why the ratio is important, and • How to use adjusted data in the calculations and the effects of using adjustments. Summarize by telling participants that the ratios in this Framework provide a multidimensional perspective on the financial health of the lending and savings operations of the institution. The ratios must be analyzed together; selective ratio use can create an incomplete picture.
STEP 2 *1 hour 30 minutes*	**THE 18 SEEP RATIOS: NAME THAT RATIO GAME** *Note to Facilitator: A more detailed description of Name that Ratio game is included at the end of the facilitator notes for module 4.* **Write** on small pieces of paper the name of each one of the four ratio groups: • Profitability and sustainability, • Asset/liability management,

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- Portfolio quality, and
- Efficiency and productivity

Divide

the participants into four sub-groups and have one member of each group draw the name of a ratio group.

Each group of participants will be given 45 minutes to create 6 questions and an answer sheet related to the group of ratios they have selected. (see the handout of the ratio game and refer participants to Chapter 4 in the measuring Performance Guidebook. This is their study guide.)

Facilitate the Ratio Game

To conduct a game each group will need to have four bells and will need select one participant for the following roles:

1. a person to pose the question
2. a person to identify which team hit the bell first
3. a person to check the answer and then to read out a complete explanation of the answer
4. a person to keep score by team.

The facilitator serves as overall judge in matters of disagreement.

Keep in mind that the objective of the game is to get the participants to review and study the definitions and formulas related to the ratios and to create a fun way of sharing the information. Don’t be afraid to stop the game for a few minutes to clarify a technical issue on the ratio.

Provide members of the winning group with pre-determined prizes and make sure you have consolation prizes for the remaining three teams.

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STEP 3

1 hour

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USING RATIOS TO IDENTIFY CHANGES IN PERFORMANCE

During this session the participants will review the ratios calculated for an MFI during two separate periods. The objective of the session is for the participants to review ratios and to generate ideas on what might have caused the change in ratio.

Explain the activity

1. Ask the participant to break into the same group that they were in during the game.
2. Explain that each group must review the results for the ratio group they have been assigned (this is the same group of ratios that they created the questions for during the game). When reviewing the rations on handout 4.2 they must identify:
    - The change between 2003 and 2004

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	• Identify possible explanations for what might have led to positive or negative change in the ratio. 3. The groups have 30 minutes to identify possible explanations. Remind the participants that they should consult the relevant section of Chapter 4 to help them develop their theories on why the change occurred. 4. Ask each group to give a brief presentation. Refer to the TBD facilitator answer sheet for highlights of changes in each group and potential explanation. **(Need Till to Create)** *NOTE TO FACILITATOR:* *Go back to the tool to have participants generate the SEEP 18 Ratios and Indicators using the financial information from the case study.* *Review this information. At the end of this section are the calculated SEEP 18 Ratios for the facilitator.*

THE RATIO GAME

The point of this game is to create a competition among participant groups to see who has the best understanding of the SEEP 18 ratios, how they are calculated and what the ratio measures. The game is played in two phases:

1. Creation of questions and preparing for the Competition
2. The Competition

Each group of participants will be given 45 minutes to create 5 questions (with answers) and a bonus question (with answers) related to the group of ratios they have been assigned. The groups need to allocate time within the 45 minutes to refresh their knowledge of the other ratios.

CREATING THE QUESTIONS:

The questions should generally end with the phase name that ratio….

For example:

This ratio measures how well an MFI covers its costs related to operating revenues, expenses also taking into account adjustments….

(the answer is Financial Sustainability)

The bonus question should be more elaborate.

Tell me why this ratio is sometimes used as a proxy for commercial viability….

(the answer is “because the numerator does not include non-operating items or donations and is net of taxes.”)

The questions created by each group will be asked to the other three groups during the competition.

THE COMPETITION

The competition will be completed in four rounds. During each round one group will pose the questions they have created to the members of the other teams. Before starting with the question the presenter will read a brief overview of the group of ratios. For example:

Profitability and sustainability ratios reflect the MFI’s ability to continue operating and grow in the future. Most reputable MFIs are striving for sustainability, regardless of their nonprofit or for-profit status; donors and investors alike look to fund sustainable institutions. Several factors can affect profitability and sustainability. Although startup or rapidly growing institutions may have low profitability, they are building the basis for a sustainable future. The ratios recommended in this section are the most widely accepted in the industry.

The designated presenter from each group will pose the questions one at a time. The groups responding must listen to the question and when they believe they know the answer, they must ring a bell. The first team to ring the bell gets five seconds to answer the question. If they guess incorrectly, then the question is read again (in its entirety) and the remaining two groups get the chance to ring the bell to answer. If the second guess fails, the third team gets to answer.

The team posing the questions will ask all six questions.

Teams answering the question correctly get 5 points and bonus question get 10 points for a total of 35 points per round.

A complete game consists of all four groups asking a total of 20 questions.

At the end of each round the facilitator must provide a summary of the ratios to include:

- The formula,
- Why the ratio is important, and
- How to use adjusted data in the calculations and the effects of using adjustments.

HANDOUT 4.2

THE SEEP 18 RATIOS

Ref.	Account Name	Formula	As of 31/12/2004	As of 31/12/2003
R1	Operational Self-sufficiency (OSS)	$R1 = \frac{I1}{(I7 + I13 + I16)}$	113%	138%
	Financial self-sufficiency (FSS)	$R1^{ADJ} = \frac{I1}{(\text{Adjusted } I7 + \text{Adjusted } I13 + \text{Adjusted } I16)}$	85%	73%
R2	Return on Assets (ROA)	$R2 = \frac{(I21 - I26)}{B12^{avg}}$	1.9%	3.4%
	Adjusted Return on Assets (AROA)	$R2^{ADJ} = \frac{\text{Adjusted } I21 - I26}{\text{Adjusted } B12^{avg}}$	– 5.5%	– 17.6%
R3	Return on Equity (ROE)	$R3 = \frac{(I21 - I26)}{B32^{avg}}$	3.1%	5.4%
	Adjusted Return on Equity (AROE)	$R3^{ADJ} = \frac{\text{Adjusted } I21 - I26}{\text{Adjusted } B32^{avg}}$	– 8.9%	– 28.4%
R4	Yield on Gross Portfolio	$R4 = \frac{C1}{B4^{avg}}$	36.3%	29.6%
R5	Portfolio to Assets	$R5 = \frac{B4}{B12}$	71%	50%
R6	Cost of Funds Ratio	$R6 = \frac{I8}{(B13^{avg} + B14^{avg} + B15^{avg} + B18^{avg} + B19^{avg})}$	4.3%	4.4%
	Adjusted Cost of Funds	$R6^{ADJ} = \frac{(\text{Adjusted } I8)}{(B13^{avg} + B14^{avg} + B15^{avg} + B18^{avg} + B19^{avg})}$	7.4%	8.6%
R7	Debt to Equity	$R7 = \frac{B21}{B32}$	63%	64%
	Adjusted Debt to Equity	$R7^{ADJ} = \frac{B21}{\text{Adjusted } B32}$	63%	64%
R8	Liquid Ratio	$R8 = \frac{B1 + B2}{(B13 + B14 + B15 + B16 + B17)}$	201%	915%
R9	PAR Ratio	$R9 = \frac{P14 > 30 \text{ Days} + P16}{B4}$	3.8%	4.5%
	Adjusted PAR Ratio	$R9^{ADJ} = \frac{\text{Adjusted } P14 > 30 \text{ Days} + P16}{\text{Adjusted } B4}$	3.8%	6.8%
R10	Write-off Ratio	$R10 = \frac{P7}{B4^{avg}}$	1.0%	0%
	Adjusted Write-off Ratio	$R10^{ADJ} = \frac{P7 + A5}{\text{Adjusted } B4^{avg}}$	1.6%	4.4%

Ref.	Account Name	Formula	As of 31/12/2004	As of 31/12/2003
R11	Risk Coverage Ratio	$R11 = \frac{B5}{P14 > 30\ Days}$	60%	78%
	Adjusted Risk Coverage Ratio	$R11^{ADJ} = \frac{Adjusted\ B5}{Adjusted\ P14 > 30\ Days - A5}$	54%	26%
R12	Operating Expense Ratio	$R12 = \frac{I16}{B4^{avg}}$	33%	22%
	Adjusted Operating Expense Ratio	$R12^{ADJ} = \frac{Adjusted\ I16}{Adjusted\ B4^{avg}}$	40%	34%
R13	Cost per Active Client	$R13 = \frac{I16}{N1^{avg}}$	1,154	650
	Adjusted Cost per Active Client	$R13^{ADJ} = \frac{Adjusted\ I16}{N1^{avg}}$	1,351	951
R14	Borrowers per Loan Officer	$R14 = \frac{N3}{N8}$	180	226
R15	Active Clients per Staff Member	$R15 = \frac{N1}{N7}$	127	129
R16	Client Turnover	$R16 = \frac{N1^{0} + N2 - N1^{1}}{N1^{avg}}$	7.9%	10.3%
R17	Average Outstanding Loan Size	$R17 = \frac{B4}{P3}$	3,812	3,103
	Adjusted Average Outstanding Loan Size	$R17^{ADJ} = \frac{Adjusted\ B4}{P3 - A5.2}$	3,849	3,239
R18	Average Loan Disbursed	$R18 = \frac{P2}{P1}$	4,965	4,500

THE SEEP 18 RATIOS – FACILITATOR NOTES

R1	Operational Self Sufficiency (OSS)	137,866 / 108,312	127.3%	78,789 / 63,001	125.1%
	Financial self-sufficiency (FSS)	137,866 / 136,826	100.8%		
R2	Return on Assets (ROA)	29,555 / 316,845	9.3%	15,788 / 224,352	7.0%
	Adjusted Return on Assets (AROA)	1,040 / 319,955	0.3%		
R3	Return on Equity (ROE)	29,555 / 176,265	16.8%	15,788 / 3,745,278	0.4%
	Adjusted Return on Equity (AROE)	1,040 / 178,237	0.6%		
R4	Yield on Gross Portfolio	136,896 / 214,345	63.9%	77,975 / 149,783	52.0%
R5	Portfolio to Assets	248,875 / 365,718	68.1%	179,816 / 267,973	67.1%
R6	Cost of Funds Ratio	5,228 / 135,014	3.9%	1,713 / 82,929	2.1%
	Adjusted Cost of Funds	10,265 / 135,014	7.6%		
R7	Debt to Equity	165,384 / 200,334	82.6%	115,776 / 152,197	76.1%
	Adjusted Debt to Equity	165,384 / 202,141	81.8%		
R8	Liquid Ratio	23,894 / 110,579	21.6%	14,908 / 62,096	24.0%
R9	PAR Ratio	12,232 / 248,875	4.9%	1,568,972 / 179,816	872.5%
	Adjusted PAR Ratio		4.9%		

R10	Write-off Ratio	8,083 / 214,345	3.8%	- / 149,783	0.0%
	Adjusted Write-off Ratio	8,542 / 214,116	4.0%		
R11	Risk Coverage Ratio	6,177 / 12,232	50.5%	4,058 / 1,568,972	0.3%
	Adjusted Risk Coverage Ratio	8,248 / 11,773	70.1%		
R12	Operating Expense Ratio	93,553 / 214,345	43.6%	56,151 / 149,783	37.5%
	Adjusted Operating Expense Ratio	103,618 / 214,116	48.4%		
R13	Cost per Active Client	93,553 / 24,819	4	56,151 / 13,828	4
	Adjusted Cost per Active Client	103,618 / 24,819	4		
R14	Borrowers per Loan Officer	29,812 / 114	262	19,139 / 98	195
R15	Active Clients Per Staff Member	32,983 / 174	190	16,655 / 131	127
R16	Client Turnover	5,880 / 24,819	23.7%		
R17	Average Outstanding Loan Size	248,875 / 31,254	7,963	179,816 / 21,053	8,541
	Adjusted Average Outstanding Loan Size	248,416 / 31,134	7,979	179,816 / 20,095	8,948
R18	Average Loan Disbursed	620,532 / 52,146	11,900	361,190 / 28,440	12,700

MODULE 5: CREATING AND ANALYZING PERFORMANCE MONITORING REPORTS

Goal	Understand common approaches to analyzing MFI performance and the types of reports that to include in an MFI monitoring system.
Objectives	By the end of Module 5, participants will: Describe the three common types of analysis including trend analysis, variance analysis, and benchmarking. Know how to analyze trends, variances and benchmarks results against comparable MFIs. Define the priority reports required to monitor financial performance of an MFI. Identify the type and frequency of monitoring reports to be created
Duration	2 hours 30 minutes

MODULE 1 SUMMARY

Time and Technique	Session	Materials
Lecturette *5 minutes*	**Overview Creating and Analyzing Performance Monitoring Reports** Objectives of module Overview of performance monitoring reports	Powerpoint 33
Guided Discussion **Exercise** *25 minutes*	**Trend Analysis** What is trend analysis Why perform trend analysis Method for performing trend analysis Trend analysis and ratios	Powerpoint 34-35 Handout 5.1 Trend Analysis Calculations
Guided Discussion **Exercise** *25 minutes*	**Variance Analysis** What is variance analysis What variance tells you Method for performing variance analysis Variance analysis and ratios	Powerpoint 36-39 Handout 5.2 Variance Analysis Calculations
Lecturette *5 minutes*	**Benchmarking**	Handout 5.3 Peer Groups for Benchmarking

Time and Technique	Session	Materials
Lecturette **Guided Discussion** **Activity** *1 hour 30 minutes*	**Performance Monitoring Reports** What are performance monitoring reports and why are they important Description of different reports Type and Frequency of reports	Handout 5.4 Sample Quarterly Management Report Handout 5.5 Sample Reporting Checklist

STEP 1 *5 minutes* Powerpoint slide 33	**INTRODUCTION TO CREATING AND ANALYZING PERFORMANCE REPORTS** **Describe** Objectives of the module **Emphasize:** Creating **financial** performance monitoring reports is only part of an overall performance monitoring system. This system begins with drafting a business plan, managing for results, monitoring progress, and holding management and staff accountable for results. The reports must include not only data and details, but they must also provide some meaningful analysis of an MFI's performance and condition. Managers of MFI should determine the content of these reports by analyzing the following four issues: timeliness accuracy and integrity relevance, and requirements.
STEP 2 *25 minutes* **Handout:** 5.1 Trend Analysis Calculations Powerpoint slides 34-35	**TREND ANALYSIS** **Ask** What is trend analysis? Why do trend analysis? **Responses should include** Trend analysis is the examination of a company's financial statements and indicators **over time** to determine how actions affect results. **Ask** What is a method for performing trend analysis? **Responses should include** compare the current period to a previous period of the same length, such as the previous quarter and the current quarter, to annualize the indicators for the current period and compare the annualized indicators to the previous year. **Exercise** On a flip chart write out the following number indicating growth in number of loans issued each month and ask a participant to describe the trend: 120 150 190 220 240

Potential Answers

The number of loans has double over the last five months

The number of loans is increasing at varying rates per period.

Show PPT 34 or write on flipchart

the basic formula for determining the change in an account as follows:

$$P^{trend} = \frac{P^1 - P^0}{P^0}$$

Ask participants to use the data from the previous example, and the basic formula, to define the percentage rate of change. Participants should do this individually.

Answer

	P1	P2	P3	P4	P5
Loans Issued	120	150	190	220	240
Increase		30	40	30	20
Rate of change		25%	27%	16%	9%

Ask

Participants to describe the percentage rate of change.

Point out

the number of loans issued per month has double over the last five months and the trend related to the increase is declining. When analyzing the changes in accounts or ratios, determining why the accounts or ratios are increasing or decreasing is important. For example, management should be familiar with seasonal trends, such as strong portfolio growth during a holiday season, to distinguish seasonal fluctuations from general business trends.

Explain

For ratios, examining the absolute change between periods rather than the relative change is customary. The calculation for the absolute change is more common when comparing ratios from two different periods.

The following formula is used:

Show PPT 35 or write:

$$R^{trend} = R^1 - R^0$$

In this case, the following result occurs:

$$FSS^{trend} = 85\% - 73\% = 12\%$$

	Exercise Ask participants to work with their neighbor to complete the information in handout 5.1Trend Analysis Calculations. Give participants 15 minutes to complete the exercise and then ask for a volunteer to present their findings. **An answer guide is included with the handout**
STEP 3 *25 minutes* Handout: 5.2 Variance Analysis Calculations PowerPoint slides 36-39	**VARIANCE ANALYSIS** **Define Variance Analysis** Variance analysis is a powerful tool to measure management's success or failure in meeting its goals Variance analysis is accomplished by comparing actual performance to the MFI's projected or planned performance. **Show PPT slide 36 or write on a flipchart the formula for Variance analysis:** $$P^{var} = \frac{P^{actual}}{P^{plan}}$$ Tell participants that this ratio enables managers to calculate the relative change between periods. **Show PPT slide 37 or write on a flipchart** $$\text{Gross Loan Portfolio}^{var} = \frac{1{,}500{,}000}{1{,}600{,}000} = 93.75\%$$ **Ask a participant to tell you in simple terms what the 93.75% indicates?** **Answer:** The MFI met 93.75% of its goal for growth in its Loan Portfolio. **Demonstrate** that the same formula can be used with ratios **Show PPT 38 or write on a flipchart:** $$OSS^{var} = \frac{109\%}{125\%} = 87.2\%$$ **Ask** What does this tell you? This equation indicates that the MFI reached 87.2% of its OSS goal.

	Similar to trend analysis, comparing planned and actual performance may be compared by looking at the absolute difference between the two ratios: **Show PPT 39 or write on a flipchart:** $R^{var} = R^{actual} - R^{plan}$ $OSS^{var} = 109\% - 125\% \underline{= -16\%}$ **Ask** What does this information tell you? In this case, the MFI is said to have missed its OSS goal by 16%. **Give participants handout 5.2.** **Ask** Participants to review this information to determine whether or not the MFI is meeting its targets. Give participants a few minutes to review the information. **Ask** Participants if the MFI is meeting its target? **Refer** To facilitator notes for answers and highlight the point that sound variance analysis like other types of analysis should not focus on result in one area (one ratio) but rather look at a broader set of ratios.
STEP 4 *5 minutes* **Handout:** 5.3 Peer Groups for Benchmarking	**BENCH MARKING** **Ask** Participants to define benchmarking and its usefulness to an MFI. **Answer:** Benchmarking is the process of comparing a single institution's performance to that of its **peers**. The value of benchmarking depends on the availability and quality of comparative data. Comparisons across institutions or peer groups require caution. Local conditions, institutional characteristics, and the management choices affect institutional performance. Unless the number of institutions in the peer group is sufficient, averages and median calculations may be misleading. **Give** Participants handout 5.3.

	Describe How the MicroBanking Bulletin defines peer groups to use when benchmarking.
STEP 5 *1 hour 30 minutes* **Handout:** 5.4 Sample Quarterly Management Report	**PERFORMANCE MONITORING REPORTS** **Say** Management is responsible for designing reports for performance monitoring. Performance monitoring reports are not *a replacement for financial statements or annual reports*, rather they combine important data—accounts, ratios, and indicators—that are important to the user. They may also include some analysis for the user. **Ask participants** Define the four main users of management reports. **Answer:** Managers themselves Board Directors Investors, Donors **Ask** What is the timing of these reports? **Expected responses:** Monthly Quarterly semi-annually upon request by the board, donors and investors. **Review the different types of reports** **Explain activity** Divide participants into 5 groups. **Explain** that their GM has asked them to complete the information required in the quarterly management report that will be submitted to the board later in the week. She has also asked them to identify the significant issues or areas of concern that might arise from the board's review of the information.

	Assign each group one reporting area they need to focus on for this activity. Outreach Profitability Portfolio Quality Asset Liability Management, and Efficiency and Productivity Each group is responsible for calculating the trend and variance analysis for their assigned area. Additionally each group must identify significant issues or areas of concern. Give the groups 40 minutes to complete their calculations and prepare their summary analysis of issues. **Process** Activity by having each group present their calculations and the summary analysis of issues.
	To summarize the module review with participants The sample reporting checklist (table 5.5). **NOTE TO FACILITATOR** *Go back to the tool and generate different reports. Review for analysis the reports generated.*

HANDOUT 5.1

TREND ANALYSIS CALCULATIONS

MICRO MFI wants to determine if it has improved its performance over the previous year. To do this, management wants to look at the MFI's performance at the end of the first semester and compare it to the previous year's performance. It chooses to look at three accounts and three ratios.

		A	B	C	D	E =(C – D)/C
	Account	**Current period**	**Annualization factor (12/6 = 2)**	**Annualized Account**	**Previous year**	**Increase/(Decrease) (%)**
II19	Net Operating Income	65,000			120,000	
PP2	Value of Loans Disbursed	5,500,000			8,600,000	
BB4	Gross Loan Portfolio	2,340,000			1,850,000	
		A	**B**	**C=(A x C)**	**D**	**E=(C – D)**
		Quarterly ratio (%)	**Annualization factor (12/3 = 4)**	**Annualized ratio (%)**	**Previous year (%)**	**Increase/(Decrease) (%)**
RR1	Operational Self-Sufficiency	92			91	
RR2	Adjusted Return on Asset	– 1.3			– 4	
RR12	Operating Expense Ratio	19			35	

TREND ANALYSIS CALCULATIONS

FACILITATORS NOTES

MICRO MFI wants to determine if it has improved its performance over the previous year. To do this, management wants to look at the MFI's performance at the end of the first semester and compare it to the previous year's performance. It chooses to look at three accounts and three ratios.

		A	B	C	D	E =(C – D)/C
	Account	**Current period**	**Annualization factor (12/6 = 2)**	**Annualized Account**	**Previous year**	**Increase/(Decrease) (%)**
II19	Net Operating Income	65,000	2	190,000	120,000	8.3
PP2	Value of Loans Disbursed	5,500,000	2	11,000,000	8,600,000	28
BB4	Gross Loan Portfolio	2,340,000	N/A	2,340,000	1,850,000	26
		A	**B**	**C=(A x C)**	**D**	**E=(C – D)**
		Quarterly ratio (%)	**Annualization factor (12/3 = 4)**	**Annualized ratio (%)**	**Previous year (%)**	**Increase/(Decrease) (%)**
RR1	Operational Self-Sufficiency	92	N/A	92	91	1
RR2	Adjusted Return on Asset	– 1.3	2	– 2.6	– 4	1.4
RR12	Operating Expense Ratio	19	2	38	35	– 3

In calculating the trends, the MFI must annualize all flow data, such as (I19) Net Operating Income and (P2) Value of Loans Disbursed, and ratios that contain a mixture of flow data and stock data, such as (R2) Adjusted Return on Assets and (R12) Operating Expense Ratio. **Because the (B4) Gross Loan Portfolio is stock data and (R1) Operational Self-Sufficiency contains only flow data, neither needs to be annualized.**

The analysis reveals that the MFI is performing better overall than the previous year. This improvement is led by the increase in Net Operating Income, up 8.3 percent on an annualized basis. As noted above, Operational Self-Sufficiency is up only slightly (1 percent), but this is with a much larger increase in the Value of Loans Disbursed (28 percent) and Gross Loan Portfolio (26 percent). MICRO MFI management should investigate why strong growth has led to only modest increases in profitability.

HANDOUT 5.2

VARIANCE ANALYSIS CALCULATIONS

MICRO MFI wants to determine how well it is meeting its annual revenue targets. To do this, management wants to look at the MFI's performance at the end of the third quarter to determine its progress. They choose to look at two accounts and two indicators.

		A	B	C = A/C	D	E =C/D
	Account	**Current Period**	**Annualization Factor (12/9 = 1.33)**	**Annualized Account**	**Annual Target**	**Achieved (annualized) (%)**
I1	Financial Revenue	900,000	1.33	1,197,000	950,000	126
I19	Net Operating Income	120,000	1.33	159,600	175,000	91
		A	**B**	**C=(A x C)**	**D**	**E=(C – D)**
		Quarterly Ratio	**Annualization Factor (12/9 = 1.33)**	**Annualized Ratio**	**Target Ratio**	**Over/ (Under) Target (%)**
R4	Yield on Gross Portfolio	51%	1.33	67.8%	55%	12.8
R1	Operational Self-Sufficiency	87%	N/A	87%	100%	– 13

VARIANCE ANALYSIS CALCULATIONS

FACILITATOR NOTE

MICRO MFI wants to determine how well it is meeting its annual revenue targets. To do this, management wants to look at the MFI's performance at the end of the third quarter to determine its progress. They choose to look at two accounts and two indicators.

		A	B	C = A/C	D	E =C/D
	Account	**Current Period**	**Annualization Factor (12/9 = 1.33)**	**Annualized Account**	**Annual Target**	**Achieved (annualized) (%)**
I1	Financial Revenue	900,000	1.33	1,197,000	950,000	126
I19	Net Operating Income	120,000	1.33	159,600	175,000	91
		A	**B**	**C=(A x C)**	**D**	**E=(C – D)**
		Quarterly Ratio	**Annualization Factor (12/9 = 1.33)**	**Annualized Ratio**	**Target Ratio**	**Over/ (Under) Target (%)**
R4	Yield on Gross Portfolio	51%	1.33	67.8%	55%	12.8
R1	Operational Self-Sufficiency	87%	N/A	87%	100%	– 13

In calculating the variance, the MFI must annualize all flow data, such as (I1) Financial Revenue and (I19) Net Operating Income, and ratios that contain a mixture of flow data and stock data, such as (R4) Yield on Gross Portfolio. Because (R1) Operational Self-Sufficiency contains only flow data, it does not need to be annualized.

Variance analysis reveals that MICRO MFI has already achieved its year-end target for Financial Revenue (126 percent) and is well on its way to achieving its Net Operating Income target by the end of the year, having already reached 91 percent of that target. This might be explained by the next two ratios, which show that MICRO MFI's yield is 12 percent higher than projected, leading to higher than expected Financial Revenue. At the same time, its Operational Self-Sufficiency is 13 percent below the target. This analysis suggests that although MICRO MFI is exceeding its revenue targets and is also exceeding its budgeted expenses. Expanding this analysis to other accounts and ratios will help management pinpoint the cause and magnitude of the higher costs.

HANDOUT 5.3

PEER GROUPS FOR BENCHMARKING

Peer groups are sets of programs that have similar characteristics—similar enough that their managers find it useful to compare their results with those of other organizations in their peer groups. The MicroBanking Bulletin forms peer groups based on three main indicators: region, scale of operations, and target market. Although the criteria are occasionally modified to reflect changes in the global industry, peer groups are created using the following guidelines.

Region	Scale of Operations	Target Market
	Gross Loan Portfolio (in US$)	**Average Outstanding Loan Size** **GNP per capita**
Africa Asia Eastern Europe/Central Asia (ECA) Middle East/North Africa (MENA)	Large—8 million or more Medium—2–8 million Small—2 million or less	High—150–249% Broad—20–149% Low— < 20% or Average Outstanding Loan Size ≤ $150]
Latin America	Large—15 million or more Medium—4–15 million Small—4 million or less	

HANDOUT 5.4

SAMPLE QUARTERLY MANAGEMENT REPORT

Ref.	Account Name	As of 12/31/2003	As of 9/30/2004	Trend as of 9/30/2004 (%)	Plan Target for 9/30/2004	Variance (%)	Benchmark
Outreach and Activity							
N1	Number of Active Clients	11,458	13,960		15,000		
N3	Number of Active Borrowers	10,857	13,058		13,500		22,627
N5	Number of Deposit Accounts	254	489		750		N/A
P1	Number of Loans Disbursed	26,990	23,147		30,000		N/A
P2	Value of Loans Disbursed	121,456,864	122,664,850		150,000,000		N/A
N7	Number of Personnel	89	102		110		118
N8	Number of Loan Officers	48	70		75		N/A
Profitability							
I1	Financial Revenue	10,564,338	12,926,563		18,000,000		N/A
I21	Net Operating Income	2,915,093	332,681		2,500,000		N/A
R1	Operational Self-Sufficiency (OSS)	138%	103%		130%		128%
	Financial Self-Sufficiency (FSS)	73%	80%		100%		123%
R2[a]	Return on Assets (ROA)	3.4%	1.1%		5%		N/A
	Adjusted Return on Assets(AROA)	-18%	-3.0%		-5%		4%
R3[a]	Return on Equity (ROE)	5.4%	1.8%		15%		N/A
	Adjusted Return on Equity(AROE)	-28.4%	-9.7%		-10%		9%

Ref.	Account Name	As of 12/31/2003	As of 9/30/2004	Trend as of 9/30/2004 (%)	Plan Target for 9/30/2004	Variance (%)	Benchmark
			Portfolio Quality				
I13	Impairment Losses on Loans	162,862	815,644		1,500,000		N/A
R9	PAR Ratio	4.5%	5.1%		5.0%		N/A
	Adjusted PAR Ratio	6.8%	5.1%		5.0%		3.4%
R10	Write-off Ratio	0.3%	1.8%		0.5%		N/A
	Adjusted Write-off Ratio	3.5%	2.1%		0.5%		N/A
R11	Risk Coverage Ratio	78%	82%		75.0%		N/A
	Adjusted Risk Coverage Ratio	26%	74%		75.0%		120%
			Asset/Liability Management				
B4	Gross Loan Portfolio	34,701,961	49,228,881		50,000,000		323,371,248
R5	Portfolio to Assets	50%	67%		75%		78%
B13 + B14 + B18	Total Deposits	4,030,868	5,054,327		5,000,000		12,047,040
R4a	Yield on Gross Portfolio	30%	38%		32%		38%
R6a	Cost of Funds Ratio	4.4%	4.2%		5%		N/A
	Adjusted Cost of Funds	8.6%	7.2%		8%		7%
R7	Debt to Equity	64%	61%		65%		1.7
	Adjusted Debt to Equity	64%	61%		65%		N/A
B1	Cash and Due from Banks	1,146,142	4,168,880		4,600,000		N/A
C13, C37	Cash Flows from Operating Activities	(8,985,325)	(1,070,260)		(1,000,000)		N/A
R8	Liquid Ratio	9.1	4.06		2.0		N/A
			Efficiency and Productivity				
I16	Operating Expense	6,633,187	11,107,910		12,000,000		N/A

Ref.	Account Name	As of 12/31/2003	As of 9/30/2004	Trend as of 9/30/2004 (%)	Plan Target for 9/30/2004	Variance (%)	Benchmark
R12[a]	Operating Expense Ratio	22%	35%		27%		N/A
	Adjusted Operating Expense Ratio	34%	40%		32%		19.8%
R13[a]	Cost per Active Client	650	874		650		N/A
	Adjusted Cost per Active Client	951	978		950		N/A
R14	Borrowers per Loan Officer	226	187		22		552
R15	Active Clients per Staff Member	129	137		150		190
R16[a]	Client Turnover	10%	8%		10%		N/A
R17	Average Outstanding Loan Size	3,103	3,770		4,000		18,480
	Adjusted Average Outstanding Loan Size	3,239	3,526		4,000		N/A
R18	Average Loan Disbursed	4,500	4,835		5,000		N/A

[a] Indicates annualized indicator.

N/A = not applicable.

SAMPLE QUARTERLY MANAGEMENT REPORT

FACILITATOR NOTES

Ref.	Account Name	As of 12/31/2003	As of 9/30/2004	Trend as of 9/30/2004 (%)	Plan Target for 9/30/2004	Variance (%)	Benchmark
			Outreach and Activity				
N1	Number of Active Clients	11,458	13,960	22	15,000	93	
N3	Number of Active Borrowers	10,857	13,058	20	13,500	97	22,627
N5	Number of Deposit Accounts	254	489	93	750	65	N/A
P1	Number of Loans Disbursed	26,990	23,147	– 14	30,000	77	N/A
P2	Value of Loans Disbursed	121,456,864	122,664,850	1	150,000,000	82	N/A
N7	Number of Personnel	89	102	15	110	93	118
N8	Number of Loan Officers	48	70	46	75	93	N/A
			Profitability				
I1	Financial Revenue	10,564,338	12,926,563	22	18,000,000	72	N/A
I21	Net Operating Income	2,915,093	332,681	– 89	2,500,000	13	N/A
R1	Operational Self-Sufficiency(OSS)	138%	103%	– 35	130%	– 27	128%
	Financial Self-Sufficiency(FSS)	73%	80%	6	100%	– 20	123%
R2[a]	Return on Assets (ROA)	3.4%	1.1%	-2.3%	5%	-4%	N/A
	Adjusted Return on Assets(AROA)	-18%	-3.0%	14.6%	-5%	2%	4%
R3[a]	Return on Equity (ROE)	5.4%	1.8%	-3.6%	15%	-13%	N/A

Ref.	Account Name	As of 12/31/2003	As of 9/30/2004	Trend as of 9/30/2004 (%)	Plan Target for 9/30/2004	Variance (%)	Benchmark
	Adjusted Return on Equity(AROE)	-28.4%	-9.7%	18.7%	-10%	0%	9%
	Portfolio Quality						
I13	Impairment Losses on Loans	162,862	815,644	401%	1,500,000	54%	N/A
R9	PAR Ratio	4.5%	5.1%	0.6%	5.0%	0%	N/A
	Adjusted PAR Ratio	6.8%	5.1%	– 1.7%	5.0%	0%	3.4%
R10	Write-off Ratio	0.3%	1.8%	1.5%	0.5%	1%	N/A
	Adjusted Write-off Ratio	3.5%	2.1%	– 1.4%	0.5%	2%	N/A
R11	Risk Coverage Ratio	78%	82%	3.6%	75.0%	7%	N/A
	Adjusted Risk Coverage Ratio	26%	74%	48.1%	75.0%	– 1%	120%
	Asset/Liability Management						
B4	Gross Loan Portfolio	34,701,961	49,228,881	42%	50,000,000	98%	323,371,248
R5	Portfolio to Assets	50%	67%	17%	75%	– 8%	78%
B13 + B14 + B18	Total Deposits	4,030,868	5,054,327	25%	5,000,000	101%	12,047,040
R4[a]	Yield on Gross Portfolio	30%	38%	8%	32%	6%	38%
R6[a]	Cost of Funds Ratio	4.4%	4.2%	– 0.2%	5%	– 1%	N/A
	Adjusted Cost of Funds	8.6%	7.2%	– 1.4%	8%	– 1%	7%
R7	Debt to Equity	64%	61%	– 3%	65%	– 4%	1.7
	Adjusted Debt to Equity	64%	61%	– 4%	65%	– 4%	N/A
	Liquidity						
B1	Cash and Due from Banks	1,146,142	4,168,880	264%	4,600,000	91%	N/A
C13, C37	Cash Flows from Operating Activities	(8,985,325)	(1,070,260)	– 88%	(1,000,000)	– 7%	N/A
R8	Liquid Ratio	9.1	4.06	– 56%	2.0	203%	N/A

Ref.	Account Name	As of 12/31/2003	As of 9/30/2004	Trend as of 9/30/2004 (%)	Plan Target for 9/30/2004	Variance (%)	Benchmark
Efficiency and Productivity							
I16	Operating Expense	6,633,187	11,107,910	67%	12,000,000	93%	N/A
R12[a]	Operating Expense Ratio	22%	35%	13%	27%	8%	N/A
	Adjusted Operating Expense Ratio	34%	40%	6%	32%	8%	19.8%
R13[a]	Cost per Active Client	650	874	34%	650	134%	N/A
	Adjusted Cost per Active Client	951	978	3%	950	103%	N/A
R14	Borrowers per Loan Officer	226	187	– 18%	22	83%	552
R15	Active Clients per Staff Member	129	137	6%	150	91%	190
R16[a]	Client Turnover	10%	8%	– 3%	10%	– 3%	N/A
R17	Average Outstanding Loan Size	3,103	3,770	21%	4,000	94%	18,480
	Adjusted Average Outstanding Loan Size	3,239	3,526	9%	4,000	88%	N/A
R18	Average Loan Disbursed	4,500	4,835	7%	5,000	97%	N/A

[a] Indicates annualized indicator.

N/A = not applicable.

HANDOUT 5.5

SAMPLE REPORTING CHECKLIST

Report	Frequency	Due date: No. of days after the end of period	Recipients	Date Completed
Income Statement	Monthly	7 days	Senior management, branch managers	
Adjusted Income Statement	Quarterly	15 days	Board, senior management, branch managers	
Balance Sheet	Quarterly	10 days	Board, senior management	
Adjusted Balance Sheet	Quarterly	7 days	Board, senior management	
Cash Flow Statement	Monthly	7 days	Senior management, branch managers	
Audited Financial Statements	Annual	90 days	Investors, donors, board, senior management	
Portfolio report	Monthly	7 days	Board, senior management, branch managers, credit staff	
Non-Financial Data Report	Monthly	7 days	Senior management, branch managers	
SEEP 18 Ratio Report	Quarterly	15 days	Board, senior management, branch managers	
Monthly Management Report	Monthly	7 days	Senior management, branch managers	

Report	Frequency	Due date: No. of days after the end of period	Recipients	Date Completed
Quarterly Management Report	Quarterly	15 days	Senior management, branch managers	
Quarterly Board Report	Quarterly	15 days	Board	
Semiannual Donor Report	Semiannual	15 days	Donors	
Semiannual Investor Report	Semiannual	15 days	Investors	

TRAINING OF TRAINERS 2 DAY COURSE—TRAINER'S GUIDE

OVERVIEW

The two-day Training of Trainers (TOT) course is designed to introduce participants to the training course Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring and to impart knowledge about, and skills to deliver, a participatory training model. This training course provides a foundation of adult learning theory and integrates these ideas with learning how to deliver the Measuring Performance of Microfinance Institutions training. As the participants will be trainers themselves, all activities and discussions are intended to provide examples of how active participation and learning by experience are used as effective learning tools. The way the course is delivered is in itself an example of effective learning methodology, especially in combination with the various activities and discussions.

OBJECTIVES

- Demonstrate skills associated with good training to enhance the learning environment for the training course Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring
- Interact effectively with participants to maximize the learning experience
- Use a variety of training techniques to enhance instructional material and in-class learning
- Know how to use the trainer's guide for the training course Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring and be familiar with the flow of topics and session.

GENERAL OUTLINE

DAY 1	
1.1 Course Introduction	
1.2 Icebreaker – Join the Dots Game	(5 minutes)
1.3 Participant Introductions and Course Overview	(20 minutes)
1.4 How Adults Learn -Activity – Dream Visualization -Child Learner vs. Adult Learner -Training vs. Education	Total: 45 minutes (15 minutes) (15 minutes) (15 minutes)
1.5 Experiential Learning Cycle -Activity – The Numbers Game -Description of the experiential learning cycle	Total: 40 minutes (10 minutes) (30 minutes)
1.6 Process Training	(20 minutes)

2.1 Introduction to Training Course Measuring Performance of Microfinance Institutions -Instruction of Module 1: The SEEP Framework -Instruction of Module 2: Financial Statements (only income statement) -Introduction of Tool	Total 2 hours 35 minutes (20 minutes) (1 hour 20 min) (45 minutes)
2.2 Process Training	(20 minutes)
3.0 Role of the Trainer	(30 minutes)
3.1 Using the Trainers Guide	(30 minutes)
3.2 Practice Training	(30 minutes)

DAY 2	
3.2 Practice Training Continued	(3 to 4 hours)
3.3 Process Practice Training	(30 minutes)
4.0 Using the Case Study	(1 hour)
5.0 Wrap-up	

DAY 1

1.1 COURSE INTRODUCTION

Welcome participants and introduce the trainers. Explain that before you jump into the training you will first do a warm up activity.

1.2 ICEBREAKER – JOIN THE DOTS GAME

This game is intended to relax the participants and begin the course by encouraging innovative ideas and thoughts. It also encourages active participation right from the start.

a.) Hand out copies of the game so that each participant has one copy of the dots. (Handout 1). Solutions to this exercise are included at the end with the handout material.

b.) Explain the rules of the game – each person will have two minutes to try and connect all the dots using 4 straight lines and that they are not allowed to lift their pencil from the paper.

c.) After time has expired, inquire as to how many people came up with solutions. Have someone demonstrate his/her solution on the flipchart or just by displaying his/her copy.

d.) Briefly discuss what the purpose of this activity is. Solicit answers from the participants as much as possible. The main teaching points that should arise from this activity are

- solutions can be found outside the boundaries and normal ways of thinking
- one needs to consider all possibilities when solving a problem and not be closed in

e.) Hand out one copy to each participant of the 12-dot problem (Handout 2). Explain to participants they must join the 12 dots with 5 consecutive straight lines. They are not allowed to lift their pen off the paper or repeat a line.

f.) For participants who have not arrived at the correct solution, show them the answer and again reinforce the idea of thinking outside the self-imposed boundaries.

g.) In a brief guided discussion, have participants explain how these ideas can be used in the training context.

1.3 INTRODUCTIONS AND COURSE OVERVIEW

The trainers and the participants should all introduce themselves and tell a little about themselves. The trainer can start the introductions by saying that everyone needs to say their name, where they work, what their job is, and something unique about him/herself.

The trainer should explain the objectives. Write the objectives on a flipchart.

Discuss the trainer expectations for the TOT. Describe that the TOT is for participants to become familiar with adult learning theory and to integrate that knowledge and skill with the delivery of the training course Measuring Performance of Microfinance Institutions. Further the training will impart in detail how to deliver the course Measuring Performance through demonstration and actual delivery by participants.

The trainer should then have participants describe what their expectations for the course are.

1.4 HOW ADULTS LEARN

The objective of this section is to have participants analyze and understand the differences between the way a child learns and the way an adult learns.

Activity – Dream Visualization

This activity is intended to provide the participants with the opportunity to compare the differences between the way they learned as children compared to the way they learn as adults.

a.) The trainer should dim the lights and ask the participants to relax and close their eyes.

b.) Tell participants to visualize their childhood and what it was like to attend school. Example questions are:

- Remember getting ready for school. What did you wear to school?
- You are going to school now. How did you get to school?
- You walk into your classroom. How was the classroom arranged?
- You sit down. What was this like?
- The teacher comes into the class. What was the teacher like? How did they talk? What did they look like?
- You look around the room. You see all the students. How many students were in your class?
- The teacher starts the lesson. How does your teacher talk to the students?

c.) After these or similar questions, the trainer asks the participants to open their eyes and begins a general discussion by letting the participants share what they visualized during the exercise. This should lead into a guided discussion about how people learn as children compared to adults.

The main teaching points of the ensuing guided discussion are broken down into 2 main subject areas: Child Learner vs. Adult Learner and Training vs. Education.

Child Learner vs. Adult Learner:

- Adult learners have practical learning needs
- Directive vs. Participative. Adults bring knowledge and experience into the classroom and they learn best by being able to participate and not by being just lectured to.
- Teacher Centered vs. Learner Centered. Adult learning should focus on the participants and their experience.
- Adults are motivated by "what's in it for me" and expect to use what they learn immediately
- Theoretical vs Practical

Training vs. Education

- Training provides a tangible skill that will have an immediate use for the participant. Education aims for broader, more generalized teaching of subjects and ideas.
- The goal of training is to change behavior. Behavior can be changed by changing attitudes, acquiring skills, and increasing knowledge. The goal of education is to provide knowledge, but not necessarily for any immediate purpose.

Give Handout 3 From Pedagogy to Andragogy

1.5 THE EXPERIENTIAL LEARNING CYCLE

Activity – The Numbers Game

The handouts are Handout 4.

a.) Give each participant 3 copies of the game all face down on the table.

b.) Explain that when you say go, the participants are to flip over the first sheet of paper. On the paper is an array of numbers. The participants are to connect the numbers sequentially by drawing lines from number to number. Number 1 has been circled for them to get them started.

c.) They will have one minute to complete the exercise. Have the participants write "1" on the back on the first sheet and then have them begin.

d.) After the minute is completed, tell the participants to put the sheet aside. Then, have them write "2" on the back of the next sheet and do the process again as they did for the first sheet. Repeat the same process for the third sheet.

e.) After the exercise has been done three times, ask two to three of the participants to tell what number they reached on each attempt. It should be higher on every attempt.

f.) Ask participants what this means to them in the context of being a trainer and working with adults in a training situation?

- The point of this exercise is to have people experience that one gets better and better the more they practice. This relates to their own training as well as to the participants that will be in the courses.

Guided Discussion – Learning Something New as an Adult

After the Numbers Game, the trainer should lead a guided discussion about a skill the participants have learned as an adult. Examples are “using a computer”, “baking a cake”, “driving a car”, or any other subject which is relevant to the particular group. What the trainer wants to do is have the participants examine carefully the processes of learning and how they learn. The trainer should ask questions that lead the participants step by step through the learning cycle. For instance, the steps of learning how to use a computer could be as follows:

Using a Computer

- Played around on a friend’s computer or one at work or school
- Someone showed me how to do the basics of certain applications
- Practiced what I learned and experimented around some more
- Read some books or instructional guides
- Thought about how I could use applications to help my business
- Started using word processing for business correspondence and spreadsheets in my financial management

Once the trainer has led the group to realize that there are different steps in learning, he/she presents the “Learning by Experience Model” which is one theory about the way adults learn. Because this can be somewhat complicated, it might be presented in a short lecture instead of a guided discussion, but at every step, the trainer can relate back to the previous discussion about the steps of learning a skill, like the computer

The Experiential Learning Cycle

The experiential learning model is based on the theory that people learn best by actually doing. It is learner centered meaning that the focus is on the participant and not on the teacher. The model has four stages as shown below.

- **Experiencing**: Participating in some activity which is designed to produce information or understanding — to identify, explore, examine, or study a problem, topic, or issue and generate a common base of knowledge or skill. This is the “doing” part. Experiences can be individual, small group, or large group.
- **Processing**: Sharing and reporting reactions/observations that were experienced and examining and analyzing the experience to look for themes, patterns, etc. The facilitator or trainer helps to structure the reporting stage; members discuss "What happened?” and "How did it go?" When your structured activities are small group rather than individual learning based, different groups may experience the activity in different ways. Each group may be given a slightly different assignment so its members have a somewhat different experience. Reporting enables the entire group to share these varied experiences. Systematically examining and analyzing the experience, looking for patterns, themes, relationships, and group interactions. Members are most likely to learn from the experience if they consider "What kinds of things happened and why?”
- **Generalizing:** Linking the experience to the real world, by identifying useful concepts or approaches. Generalizing about "So what?" or "How can this be used in your work?”
- **Applying:** Using the new information and skills in real-life situations. This can be done through planning and discussing how to apply what was learned, role-playing its use, or actually putting it

to use through planning group activities. Giving members the opportunity not only to use the learning but also to share with and teach others further enhances learning retention.

With this model, it's important to understand that the defined goals of the training session need to drive the process. Also, theory needs to come into the process either before the experience or after when it can be considered during the generalization phase.

Give participants a copy of the handout The Experiential Learning Cycle Handout 5.

1.6 PROCESS

Ask participants to describe what they saw you do as a trainer that was effective?

Ask participants to describe what they saw you do as a trainer that was ineffective?

Write responses on a flipchart. Starting with the responses that they considered were ineffective go down the list to determine what a more effective training technique/method would have been or what you could have done differently as a trainer.

Go through the list of what the trainer did that was effective. Emphasize the skills that a good trainer needs.

2.1 INTRODUCTION TO TRAINING COURSE MEASURING PERFORMANCE OF MICROFINANCE INSTITUTIONS

Note: It is assumed that all participants have read the trainer's guide, the technical guide and are familiar with the tool.

Trainer to begin by teaching Module 1: The SEEP Framework. Go through the material as if you were conducting a training.

Continue training the first part of Module 2: Financial statements and reports and teach through the income statement.

After the income statement introduce participants to the tool. Go through the introduction of the tool and the demonstration of the tool.

2.2 PROCESS THE TRAINING

Ask participants to describe the different training methods that were used during the "demonstration" of the training.

Responses should include:

- Lecture/lecturette
- Guided discussion
- Small group work
- Question and answer

Ask participants

- how they felt as learners during the session.

- Their reactions to the different training methods used
- How the use of the different methods impacted their learning.

Ask participants what visuals techniques/aides were used?

Responses should include:

- Powerpoint
- Overhead projector
- Written instructions on case study

Ask participants:

- How was using different visual aides helpful to you as the learner?
- Can too many visual aides be used?
- What happens if you don't use visual aides?

Ask participants how are they going to use this information and insight about how adults learn, effective and non-effective techniques, and using visual aides during their trainings?

3.1 ROLE OF THE TRAINER

Say to participants that a lot is going on in this training environment. We are learning about the SEEP training course and we are also brushing up on our skills as trainers. Let's reflect on what we have learned about how adults learn, why adults learn and think about what our role is as a trainer.

Ask the participants to talk to their neighbor about what the role of a trainer is. They should write this information down. Give participants a few minutes to do this.

Ask one group to describe one trainer role and write this on the flipchart. Go around the room to generate other ideas. Do not comment on the list.

Go down the list and discuss each issue. When discussing each issue come up with a separate list of skills/qualities that a trainer needs to have. Write this on a separate flipchart.

Go through each skill/quality and discuss. Ask questions such as what does this mean/how does a trainer do this, etc.

Give participants handout 6,7,8,9

3.2 USING THE TRAINER'S GUIDE

Ask participants, "what is a trainer's guide?" Comment on responses and add that a trainer's guide is a format that has been developed for trainers to use. The learning has been sequenced into steps/stages that allow the learner to build on knowledge and skill that has previously been learned. The learning step/stages are broken into manageable parts so that the trainer can introduce a topic/develop a skill etc, and then build on that knowledge. In the trainer's guide for Measuring Performance the topics have been sequenced so that the information is presented in an order that will make sense to a learner, time has been allocated based on factors such as importance of the topic, previous knowledge of learners, time required to teach topic, etc. Activities and exercises have been developed to support/enhance and reinforce the theory that participants are learning.

Ask participants to open the trainers guide to the introduction and the timeline page. Discuss that the times allocated are approximations. Time allocation could change depending on the audience's knowledge and skill level as well as the trainer's discretion.

Ask participants to turn to Module 2: Financial Statements and Reports, Module summary. Ask participants to describe what they see on this page and what information is presented to them. Show participants how this is organized and talk about what they do with this information.

Ask participants to review briefly the facilitator's notes for the balance sheet.

Tell participants these are notes/a guide. What does that mean/say to you? Responses include that this is an outline to follow, not a lecture to recite word for word. This is a plan.

Summarize with the trainer's guide is a resource to use. The training method presented in this guide is based on an experiential, participatory training method. This is an effective way to develop skill and knowledge in adult learners. A trainer has discretion to present information differently but remember the training method is based on best practices for adult learners.

3.3 PRACTICE TRAINING

Tell participants that they will get to practice their training skills and become more familiar with the SEEP training by actually delivering a part of the training.

Assign each participant a manageable piece from the trainer's guide. Depending on the size of the class assign pieces of the training so that on day 2 of your training the morning will be devoted to practice training. If the class is small give participants approximately 30 minutes for their presentations.

Tell participants that they will need to prepare the material they need for the class. Give participants time to review the section of the trainer's guide that they are to deliver. Be available to answer questions about how to deliver the training. Suggest to participants that they give serious consideration as to how they will deliver their piece and to practice their session.

Inform the participants of the order they will be presenting on the following morning. The order of the presentations should be in accordance with the training timeline.

Note to Trainer: Keep in mind that this training is two-fold; introduce trainers in training to the SEEP training course and introduce them to how to use the material effectively in the classroom.

3.4 PRACTICE TRAINING CONTINUED

Tell participants that this practice training has two objectives; one for all participants to become more familiar with the SEEP training, and two for participants to practice their training skills. At the end of each participant practice time, the class will give constructive feedback to the "trainer".

Ask participants to describe what constructive feedback is so that everyone understands it is an opportunity to learn from the training experience.

Have the first participant present their training piece. Again the size of the class will dictate how long each participant has for their presentation.

Note to facilitator: Be a timekeeper for the "trainer".

At the end of the training time, start off the constructive feedback session with giving a few comments to the "trainer". Example I liked the way you controlled the person who was talking a lot and got other people to participate. I did notice that when you asked a question, you answered the question as well. What is a technique to get participants to answer a question?

Write the comment on a flipchart to keep a list of effective techniques used. If there is some negative feedback ask participants to describe a different way that the trainer should think about presenting the material/different method, etc. Encourage other participants to add their comments. This list should become “Good practices to use in the training room”.

3.5 PROCESS THE PRACTICE TRAINING

Go back to the flipchart on effective techniques developed during the practice training. Go through the techniques/skills demonstrated and ask participants to describe in more detail the technique or skill.

Ask participants to think about the three most important lessons they learned during this practice training.

Go around the room and ask people to share one of their lessons. If there is time solicit additional lessons.

4.0 USING THE CASE STUDY

Have participants get their copy of the case study for all topics. This session is to discuss how to use the case study to reinforce the theory learned in the class and then use the data to learn about the tool.

Point out to participants that at the end of each topic the case study is introduced. Talk about why the case study is introduced.

Point out that after the case study the class uses the tool. Discuss with participants ideas for using the tool with the continued addition of new data.

Final discussion on how to integrate the information generated from the tool to reinforce the topics. Specifically discuss what do you do with the information generated from the data that is inputted into the tool. How do the trainers talk about analysis of the information.

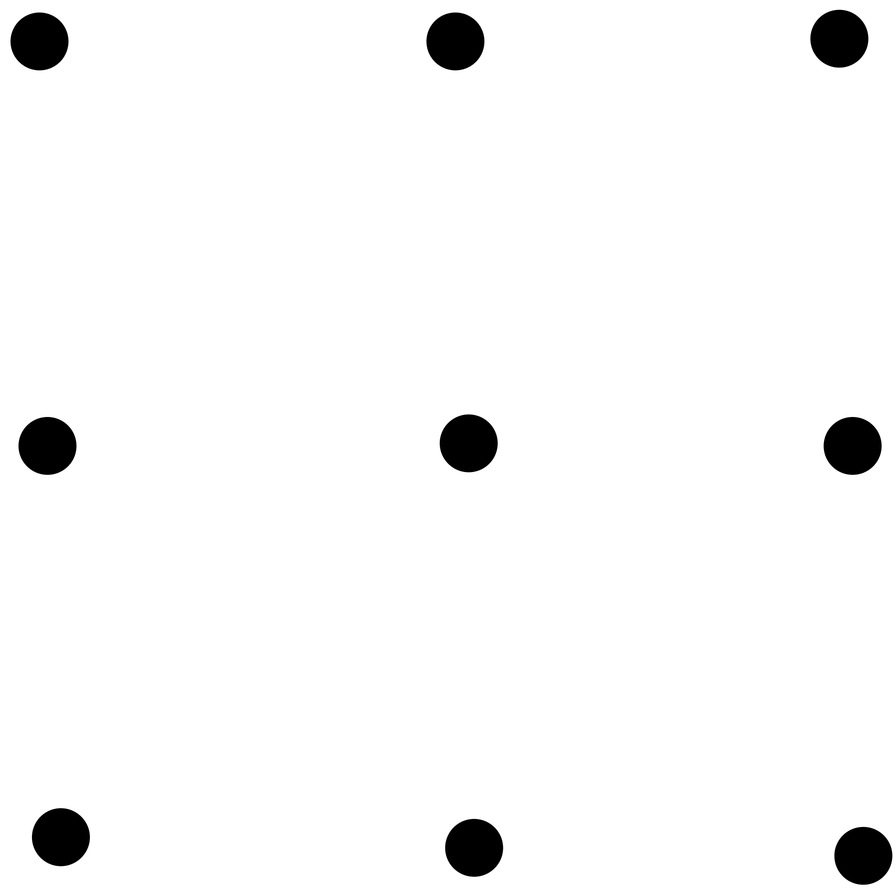
Go through each module Financial Statements and Reports, Analytical Adjustments, Ratios and Indicators, and Creating and Analyzing Performance Monitoring Reports and discuss how to integrate the analysis of the information into the training.

5.0 WRAP-UP

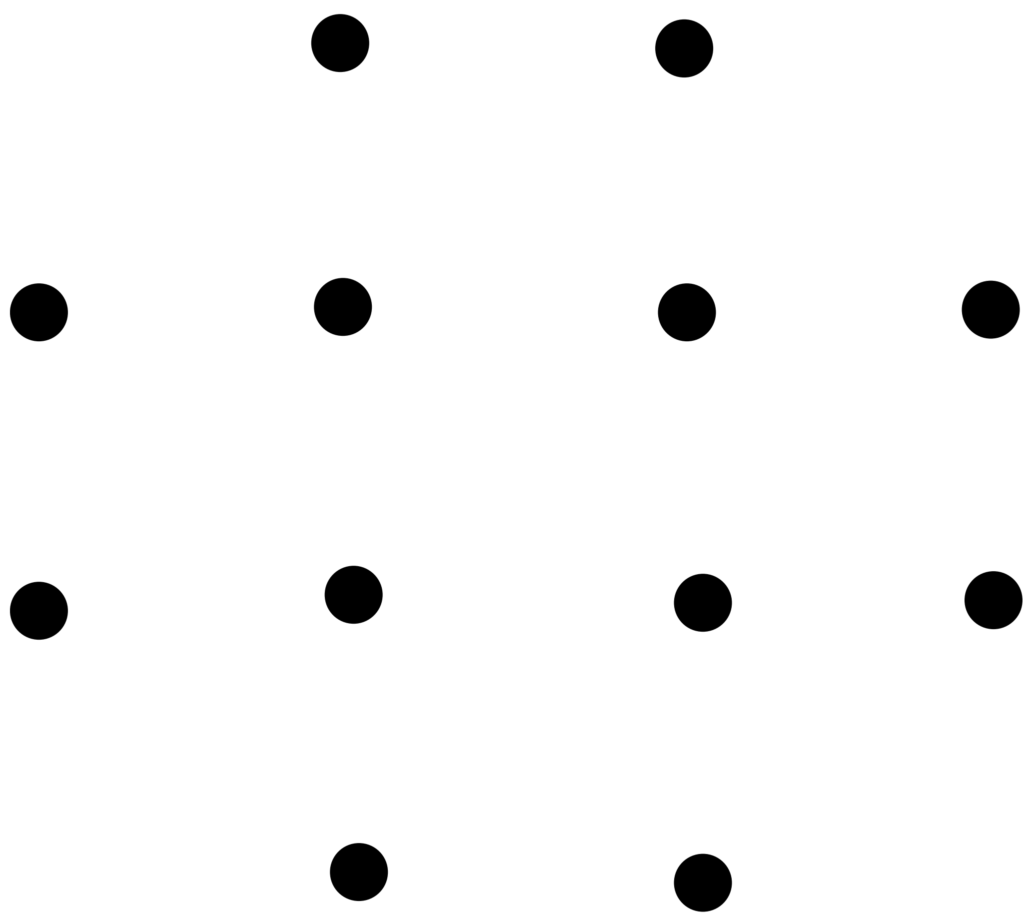
Prior to lunch on the second day tell participants to think about any concerns or questions they have related to technical areas of the training, the training, use of the tool, etc. If possible have participants tell you these so that you can prepare for the wrap-up session beforehand.

Explore with participants any parts of the Performance Monitoring training they have questions or concerns about. This could be technical or training related.

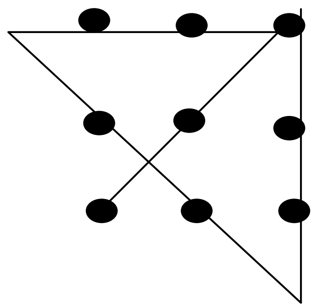
HANDOUT 1

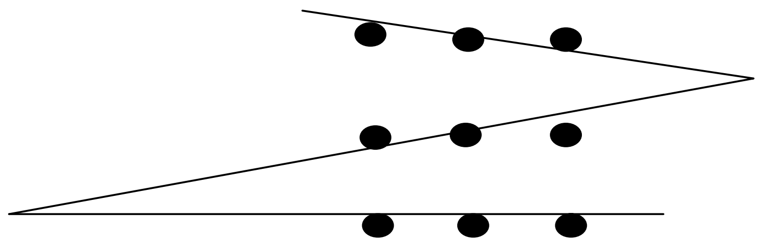


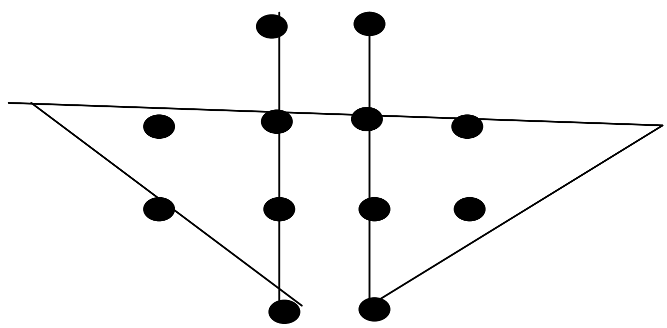
HANDOUT 2



Solutions:







HANDOUT 3

ADULT LEARNING

FROM PEDAGOGY TO ANDRAGOGY

Andragogy	Pedagogy
Adult Learning – Training	Child Learning - Traditional Teaching
Self Concept	
Autonomous – makes own decisions	Dependent – guided by adults
Mutual exchange in teaching /learning transactions	Dominant teacher – dependent learning
A helping relationship	A directing relationship
Experience	
Able to use/link to life	Limited life experience
Multi - communication shared by all	1 way communication given by teacher to learner
Experience of all valued as resources for learning	Experience of teacher valued as the primary resource
Readiness to Learn	
Know what they want to learn	Curriculum is set
Learners group themselves according to interests	Learners are grouped by grade and class
Facilitator helps learners diagnose learning needs	Teacher makes curriculum decisions
Time Perspective/Orientation to Learning	
Need to apply learning to life/work	Learn for the future/banking
Problem centered	Subject centered
Work on today's problem today	Subjects studied now for use some

HANDOUT 4

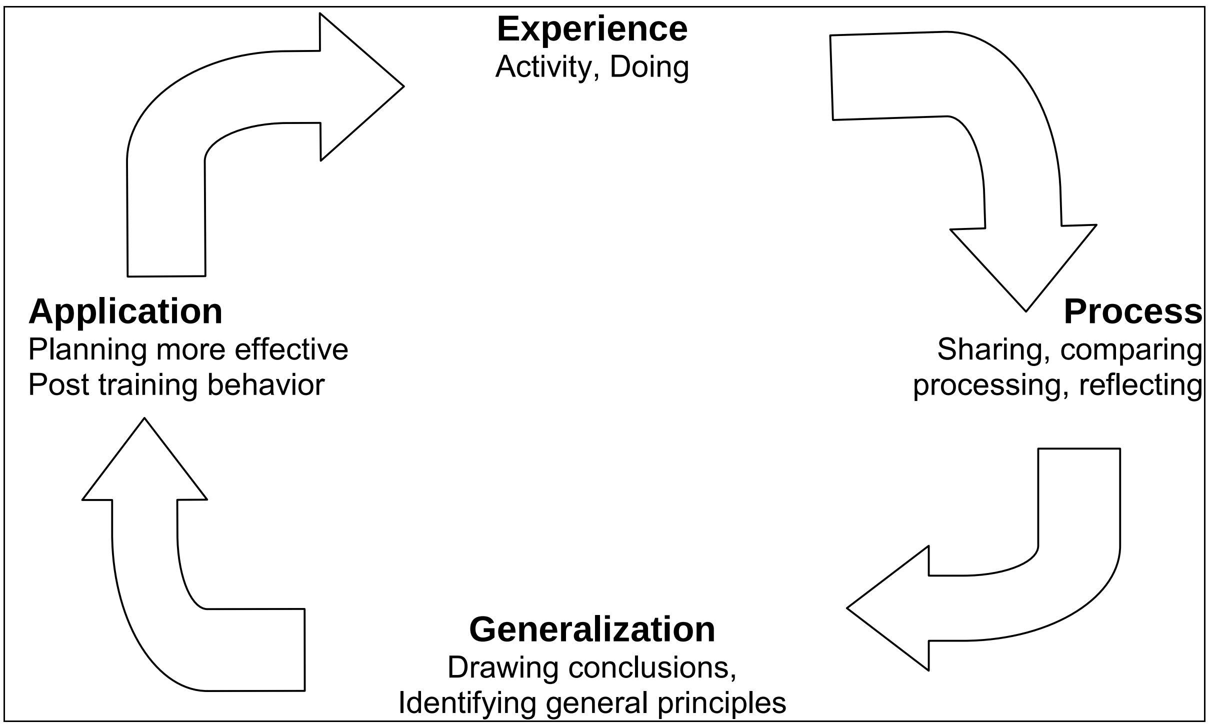
THE NUMBERS GAME

HANDOUT 5

EXPERIENTIAL LEARNING

Experiential approach is learner-centered and allows the individual participants to manage and share responsibility for their learning with their teachers. Effective training strategies which incorporate experiential learning approaches provide opportunities for a person to engage in an activity, review this activity critically, draw some useful insight from the analysis, and apply the result in a practical situation.

A graphic representation of the experiential model is presented below and may be applied to training in the following ways:



The **experience** phase is the initial activity and data-producing part of the experiential learning cycle. This phase is structured to enable participants to become actively involved in "doing" something. Doing, in this instance, has a rather broad definition, and includes a range of activities like the following:

• case studies • lecturettes • completing an instrument	• role plays • films and slide shows	• simulations • skill practice • games

This sample list indicates that the range of training techniques varies from the more passive and artificial (lecturettes) to the more active and real (skill practice). Which technique one chooses as an educational activity will depend largely on the goals of the training session.

Once the experience stage is completed, the trainer or instructor guides the group into the **process** part of the cycle. During this phase, participants reflect on the activity undertaken during the experience phase, and share their reactions in a structured way with other members of the group. They may speak individually, in small groups, or as a full training group. They discuss both their intellectual and attitudinal (cognitive and affective) reactions to the activities in which they have engaged. In addition, with the trainer' s assistance, they try to link these thoughts and feelings together in order to derive some meaning from the experience.

The trainer's role as facilitator is very important during each phase of the cycle. During the process phase, he/she should be prepared to help the participants think critically about the experience and to help them verbalize their feelings and perceptions, as well as draw attention to any recurrent themes or patterns which appear in the participants' reactions to the experience. The trainer's role involves helping the participants to conceptualize their reflections on the experience so that they can move towards drawing conclusions.

The **generalization** stage is that part of the experiential learning cycle in which the participants form conclusions and generalizations which might be derived from, or stimulated by the first two phases of the cycle. During this phase, participants are helped to "take a step back" from the immediate experience and discussion, and to think critically in order to draw conclusions that might generally or theoretically apply to "real life." This stage is perhaps best symbolized by the following questions:

- What did you learn from all this?
- What more general meaning does this have for you?

The trainer or instructor structures this part of the experiential learning model so that the participants work alone first, and then are guided into sharing conclusions with each other, In this way, participants exchange thoughts and ideas so that they may act as catalysts to one another. The trainer helps to facilitate this step by:

- Asking and helping individual to summarize what they have learned into concise statements or generalizations
- Pushing back at people to help make their thinking more rigorous
- Relating the conclusions reached and integrating them into a theoretical model
- Making sure, within reasonable time boundaries, that everyone who wishes to share a significant insight is given a chance to contribute
- Helping the group compare and contrast different conclusions, identifying patterns where they exist, and identifying legitimate areas of disagreement

After participants have formed some generalizations, they are guided into the **application** stage of the cycle. Drawing upon insights and conclusions reached during the previous phase (and other phases), they can begin to incorporate what they have learned into their lives by developing plans for more effective behavior in the future. In an ideal educational or training event, participants would be able to apply what they have learned immediately after the workshop ends. The applications that they plan may relate to their profession or personal life, depending on the background and needs of the specific groups.

Techniques used to facilitate the application stage can include:

- individual work to develop a thoughtful action plan which puts "thought into action"
- Participants review each other's plans and assist in formulating ideas for action
- Parts of individual action plans are shared with the whole group in order to create a sense of joint effort
- additional learning needs are identified by participants

One of the ways the trainer assists during this process is by helping participants be as specific as possible in developing their action plans.

It is important to stress two other points about the experiential learning model. First, the exact nature of each phase of the model is determined by the goals of the training session or program. Once the goals are defined, then the session can be designed using the model as the framework. Second, theory can come in two different places - either before the experience, in which case the experience becomes a way to test the theory or try out the skills implied by it, or after, when it is interwoven into the generalization phase as participants develop their own "theory".

In order for this model to be effective, it must be rigorously applied, both in the design and delivery stages. "Experiential training or learning" is a phrase often heard in the educational world. However, it is frequently misused in practice where it seems to mean letting people participate in a presentation, having a question and answer session after a lecture, or a role play or case study by itself without the subsequent steps in the model. Most frequently, the generalizing and application stages are simply left out of the design or the program. As a result, the power of experiential learning is significantly diminished or is negated altogether.

Although the model, when correctly explained, looks very clear, its practical application is not always as clear. There are transitions between phases, and occasionally (especially if the trainer is going too fast), the group will return to a phase until it is ‘finished’. Also, individuals within the group may not approach the learning process in such a linear fashion, and that is perfectly legitimate. The model is meant to serve as a guide for the trainer or instructor who is trying to design and carry out an educational experience for the group.

The model is especially useful for skill training because most of its techniques are active and are designed to involve the participants in skill practice. The experiential model helps people assume responsibility for their own learning because it asks them to reflect on their experience, draw conclusions and identify applications. The effective instructor or trainer does not do this for the participants. Thus, they are not spoon-fed, nor are they led to be dependent on experts. Of course, this model requires a special trainer or instructor style for it to be implemented effectively, and it is to that subject which we will now turn.

DESIGN COMPONENTS OF AN EXPERIENTIAL TRAINING SESSION

Before we begin to design a training session we should recall the basic principles of the experiential learning model. First, the application of each phase of the model is driven by the goals of the training session. Once the goals are defined, the session can be designed using the model as the framework. Second, theory can be inserted in two different places—either before the experience, in which case the experience becomes a way to test the theory or try out the skills implied by it—or after, when it is interwoven Into the generalization phase as; participants develop their own “theory”.

Often times the model is misused in practice where certain components are left out of the design or the program. As a result, the power of experiential learning is significantly diminished or is negated altogether. However, when the 7 components are applied rigorously in sequence, the potential for effective experiential learning can be dramatic.

In order to ensure a clear understanding of the experiential learning model, it is important to define the design components individually,

1. CLIMATE SETTING

- Stimulates interest, curiosity, and enables the participants to begin thinking about the subject at hand.
- Provides rationale for why the subject is important to the participants and how it will be useful to them.
- Links this training session to previous ones and places it into the overall framework of the workshop.

2. GOAL CLARIFICATION

- Presents statements to the participants which describe the intent, aim or purpose of the training activity.
- Provides an opportunity for participants to get a clear understanding of the goals of the session, and allows them to explore additional issues or raise concerns.

3. EXPERIENCE

- An activity in which the group engages that will provide an opportunity for them to "experience" a situation relevant to the goals of the training session.
- This "experience" becomes the data producing event from which participants can extract and analyze as they complete the 'learning cycle.
- Common "experiences" are role plays, case studies, self diagnostic instruments, games, simulations, etc.

4. PROCESSING

- Participants share individual experiences and their reactions to the experience.
- The group analyzes and thoughtfully reflects on the experience.
- The trainer guides and manages the processing of information.

5. GENERALIZING

- Participants determine how the patterns that evolved during the experience phase of the learning cycle relate to the experiences of everyday life.
- Participants seek to identify key generalizations that could be derived from the experience.

6. APPLYING

- Using the insights and conclusions gained from the previous steps, the participants identify and share how they plan to use thew new insights in their everyday life.
- Participants answer the questions, "Now what?" and "How can I use what I learned?"

7. CLOSURE

- The events of the training session are briefly summarized.
- Provides a link to the original goals of the session and seeks to determine if the goals have been met.
- Wraps up the training session and gives a sense of completion.
- Provides an opportunity to link the session to the rest of the program, especially the next training activity.

10 TIPS WHEN FACILITATING DISCUSSIONS

Your role during a group discussion is to facilitate the flow of comments from participants. Although it is not necessary to interject your comments after each participant speaks, periodically assisting the group with their contributions can be helpful. Here is a ten-point facilitation menu to use as you lead group discussions.

1. **Paraphrase** what a participant has said so that he or she feels understood and so that the other participants can hear a concise summary of what has been said.

   So, what you're saying is that you have to be very careful about asking applicants where they live during an interview because it might suggest some type of racial or ethnic affiliation. You also told us that it's okay to ask for an interviewee's address on a company application form.

2. **Check** your understanding of a participant's statement or ask the participant to clarify what he or she is saying.

   Are you saying that this plan is not realistic? I'm not sure that I understand exactly what you meant. Could you please run it by us again?

3. **Compliment** an interesting or insightful comment.

   That's a good point. I'm glad that you brought that to our attention.

4. **Elaborate** on a participant's contribution to the discussion with examples, or suggest a new way to view the problem.

   Your comments provide an interesting point from the employee's perspective. It could also be useful to consider how a manager would view the same situation.

5. **Energize** a discussion by quickening the pace, using humor, or, if necessary, prodding the group for more contributions.

   Oh my, we have lots of humble people in this group! Here's a challenge for you. For the next two minutes, let's see how many ways you can think of to increase cooperation within your department.

6. **Disagree** (gently) with a participant's comments to stimulate further discussion.

   I can see where you are coming from, but I'm not sure that what you are describing is always the case. Has anyone else had an experience that is different from Jim's?

7. **Mediate** differences of opinion between participants and relieve any tensions that may be brewing.

   I think that Susan and Mary are not really disagreeing with each other but are just bringing out two different sides of this issue.

8. **Pull** together ideas, showing their relationship to each other.

   As you can see from Dan's and Jean's comments, personal goal setting is very much a part of time management. You need to be able to establish goals for your- self on a daily basis in order to more effectively manage your time.

9. **Change** the group process by altering the method for obtaining participation or by having the group evaluate ideas that have been presented.

   Let's break into smaller groups and see if you can come up with some typical customer objections to the products that were covered in the presentation this morning.

10. **Summarize** (and record, if desired) the major views of the group.

    I have noted four major reasons that have come from our discussion as to why managers do not delegate: (1) lack of confidence, (2) fear of failure, (3) comfort in doing the task themselves, and (4) fear of being replaced.

Reproduced from *101 Ways To Make Training Active* by M. Silberman

10 STEPS TO USE WHEN FACILITATING EXPERIENTIAL ACTIVITIES

Experiential activities really help to make training active. It is often far better for participants to experience something rather than to hear it talked about. Such activities typically involve role playing, games, simulations, visualization, and problem-solving tasks. The following ten steps will help to make your experiential activities a success.

1. **Explain your objectives.** Participants like to know what is going to happen and why.
2. **Sell the benefits.** Explain why you are doing the activity and how the activity connects with any preceding activities.
3. **Speak slowly when giving directions.** You might also provide visual backup. Make sure the instructions are understood.
4. **Demonstrate the activity if the directions are complicated.** Let the participants see the activity in action before they do it.
5. **Divide participants into the subgroups before giving further directions.** If you do not, participants may forget the instructions while the sub- groups are being formed.
6. **Inform participants how much time they have.** State the time you have allotted for the entire activity and then periodically announce how much time remains.
7. **Keep the activity moving.** Don't slow things down by endlessly recording participant contributions on flip charts or blackboards and don't let a discussion drag on for too long.
8. **Challenge the participants.** More energy is created when activities generate a moderate level of tension. If tasks are a snap, participants will get lethargic.
9. **Always discuss the activity.** When an activity has concluded, invite participants to process their feelings and to share their insights and learnings.
10. **Structure the first processing experiences.** Guide the discussion carefully and ask questions that will lead to participant involvement and input. If participants are in subgroups, ask each person to take a brief turn sharing his or her responses.

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HANDOUT 8

EFFECTIVE USE OF QUESTIONS

Questions can be used as effective instructional tools without embarrassing participants who don't have the 'right' answer, without students guessing what you want them to say, without the awkward pauses that occasionally set in when you say "Are there any questions?"

TRY THESE:

- Ask for more information by requiring the responder to be more explicit and perhaps more sure of his answer; "Can you give me an example?" Or "When you say xyz, what do you mean?"
- Restate what you have heard: "So, are you saying that people should … or did I misunderstand you?" By stating what your understanding is to this point (rather than "Would you say that again?")' you provide the other with a point from which to proceed. She may respond, "No that's not what I meant. What I am trying to say is that...."
- Make critical observations to make learners look at their answer in a more probing and critical way: "Why do you think this is so?" Or: "How would you explain your answer to someone who feels quite the opposite?"
- Try to intensify the learner's statement if the response is important, requires no instructor comment, and could be added to by others. You could say: "Very good, Colin. What implications would your statement have for...?" (turning to the whole group). Or: "How can we use Colin's solution to solve our dilemma?"

MORE TRICKS TO STIMULATE PARTICIPATION:

- Ask a question, pause for five seconds and then ask for a response. Often students give non-verbal hints that they are ready to respond.
- React to "false" answers with acceptance, even if you do not agree with them. Use probing questions to refocus on the discussion topic. ·
- Encourage silent members to comment if you think they might have the answer but are reluctant to speak up: "This is probably something you know quite a bit about, David..." ·
- Ask the same question of several students. Don't stop after the first response, which often comes from the same core group of participants. ·
- Formulate questions that cause people to give long answers. Do this by (a) referring to areas of knowledge, rather than simple facts, and (b) making it difficult to answer with a simple YES or NO.
- Piggy-back your new questions on top of the responses you got for your previous question: "OK, let's take that approach and take it one step further..."
- Pick out certain aspects of the response and refocus the group's attention on them.
- Try not to answer your own questions. After a while you will be performing a one-person show.

- Avoid questions to which the answer is obvious: "Don't you agree that...?" Make a statement instead ("I believe that...") and invite reactions.
- Taking that last suggestion one step further, if you ask a question, be prepared to hear the answer even if it does not coincide with your own. Be flexible.

WHEN DID YOU LAST ASK, "ARE THERE ANY QUESTIONS?"

You can probably remember the silence that often follows this question. Some instructors use this line one minute before the class time is up (and after they have spoken for one solid hour). Would you bring up a point that you missed half way through the lecture if you were a student? Would you expect full consideration of your questions when you knew that any minute the group would get up and leave? If the instructor really wants to hear "any questions," then he must allow for time and create an atmosphere which makes it OK for people to ask. Here are some openers that can yield responses:

- “Before I go on, does this make any sense to you?”
- “How are we doing?”
- “Where did I lose you?”
- “Do my examples make sense to you?”
- “What additional information do you want from me?”

You have probably seen the following technique used by someone experienced in political meetings:

“Are there any questions you want me to answer?” Five second pause, and then, addressing a person who either has, or ought to have, a question: “Perhaps you could start, Eileen?”

Also-watch for **non-verbal signals**, “You seem puzzled, Ron. Can I help?” Having the instructor accept responsibility for “helping you to understand me” makes it easier for participants to ask for clarification and additional information.

Buzz groups, Response Cards and Speedy Memo are additional ways to get around the “are there any questions? Silence”.

HANDOUT 9

LISTENING METHODS

PARAPHRASING

Paraphrasing is simply restating what another person has said in your own words.

The best way to paraphrase is to listen carefully to what the other person is saying. If while the other person is talking we worry about what we are going to say next or are making mental evaluations and critical comments, we are not likely to hear enough of the message being sent to paraphrase it accurately.

It is helpful to paraphrase often so that you develop a habit of doing so. You can throw back the other person's ideas by using such beginning phrases as

> *…So what you are saying is….*
>
> *…In other words….*
>
> *…I gather that….*
>
> *…If I understand what you are saying….*

You can at times even interrupt to paraphrase since people don't generally mind interruptions that communicate understanding.

> *…Pardon my interruption, but let me see if I understand what you are saying….*

SUMMARIZING

The purpose of summarizing is to

- pull important ideas, facts or data together
- establish a basis for further discussion
- review progress

Summarizing can encourage people to be more reflective about their statements as they listen for accuracy and emphasis. It is a skill which requires that the one who intends to summarize listen carefully in order to organize the information systematically.

Summarizing is very useful for emphasizing key points; it is a deliberate effort to pull together the main points made by the person who is talking.

> *…These seem to be the key ideas you have expressed…*
>
> *…If I understand you, you feel this way about the situation….*

QUESTIONING

Questioning is a critical facilitation skill. There are two basic types closed and open-ended.

Closed questions generally result in short yes/no or other one-word answers. They should be used only when you want precise quick answers. Otherwise, they inhibit communication.

> *"Was the last activity useful?"*

Open-ended questions ask for more detailed information. HOW? WHAT? and WHY? are examples of words that begin an open-ended question.

> *"How was the last activity useful?"*

POWERPOINT PRESENTATION

MEASURING PERFORMANCE OF MICROFINANCE INSTITUTIONS: A FRAMEWORK FOR REPORTING, ANALYSIS, AND MONITORING

A TRAINING COURSE PRESENTED BY THE SEEP NETWORK

COURSE GOAL

- Microfinance practitioners will create and use financial performance monitoring reports that have been developed using International Financial Reporting Standards to be able to assess with accuracy the performance of their institution, make decisions in regard to future directions, inform boards of directors, and report to donors, investors and other interested parties.

COURSE OBJECTIVES

- Describe the importance of a consistent financial reporting framework and how a framework can be used to make decisions, provide important internal information, and be used for external reporting and comparisons.
- Produce accurate financial statements and reports in accordance with International Financial Reporting Standards (IFRS) to be used to measure performance of a microfinance institution.
- Create an adjusted income statement and balance sheet, using commonly accepted adjustments and standard calculations, to analyze and measure the "true performance" of a microfinance institution, analyze long-term viability, and make meaningful comparisons across the industry.

COURSE OBJECTIVES

- Calculate and analyze up to 18 financial ratios and indicators to be able to evaluate the performance of a microfinance institutions' activities.
- Create financial performance monitoring reports for a microfinance institution and analyze, using recommended tools, the performance and condition of the microfinance institution.
- Use the SEEP Framework tool to monitor financial performance of a microfinance institution.

TRAINING AGENDA

DAY ONE

- Introduction
- Module 1: The Performance Monitoring Framework
- Module 2: Financial Statements and Reports
- Introduction to the Spreadsheet Tool

DAY TWO

- Module 2: Financial Statements and Reports continued
- The Tool and Financial Statements
- Module 3: Analytical Adjustments
- The Tool and Analytical Adjustments
- Module 4: Financial Ratios and Indicators
- The Tool and Financial Ratios

DAY THREE

- Module 5: Creating and Analyzing Financial Reports
- Using the Tool and Creating Reports

MODULE 1 OBJECTIVES:

By the end of Module 1, participants will:

- Describe what a performance monitoring framework is and why a framework is critical to monitoring their institutions performance.
- Discuss how the framework provides standards for the microfinance industry and how individual institutions can benefit from those standards.
- Be familiar with the framework's referencing system to identify terms used in the framework and help interpret formulas.

SEEP PERFORMANCE MONITORING FRAMEWORK

Managers need to know how to:

- Categorize data into statements and reports
- Analyze the statements and reports
- Use the information for monitoring purposes

THE FRAMEWORK

- Financial Statements and Reports
- Analytical Adjustments
- Financial Ratios and Indicators
- Performance Monitoring Reports

FRAMEWORK REFERENCE SYSTEM

- **I** Income Statement
- **B** Balance Sheet
- **C** Cash Flow Statement
- **P** Portfolio Report and Activity Report
- **R** Ratios
- **A** Adjustments
- **N** Non-Financial Data Report

MULTIPLE PERIODS

^{1} = end of current period
0 = end of previous period

During the calendar year 2004:

P^1 = December 31, 2004
P^0 = December 31, 2003

AVERAGING

Averages are indicated by the use of the superscript letters “avg”

P^{AVG}

CALCULATING AVERAGES

$$P^{avg} = [(P^0 + P^1)/2]$$

or

$$P^{avg} = \frac{(P^0 + P^1 + P^2 + P^3 + P^4)}{5}$$

MODULE 2 OBJECTIVES

By the end of Module 2, participants will:

- Describe the income statement, balance sheet, cash flow statement, portfolio report and non-financial data report, and explain their significance and how they are related.
- Construct financial statements and reports based on the SEEP Framework.
- Discuss how the financial statements and report are interrelated.
- Use the SEEP Framework tool to input data for financial statements and reports.

BEFORE YOU USE THE FRAMEWORK

- Mapping Accounts
- Adding Accounts
- Segregating Financial and Non-Financial Services
- Cash or Accrual

THE FRAMEWORK TOOL

What is the Tool?

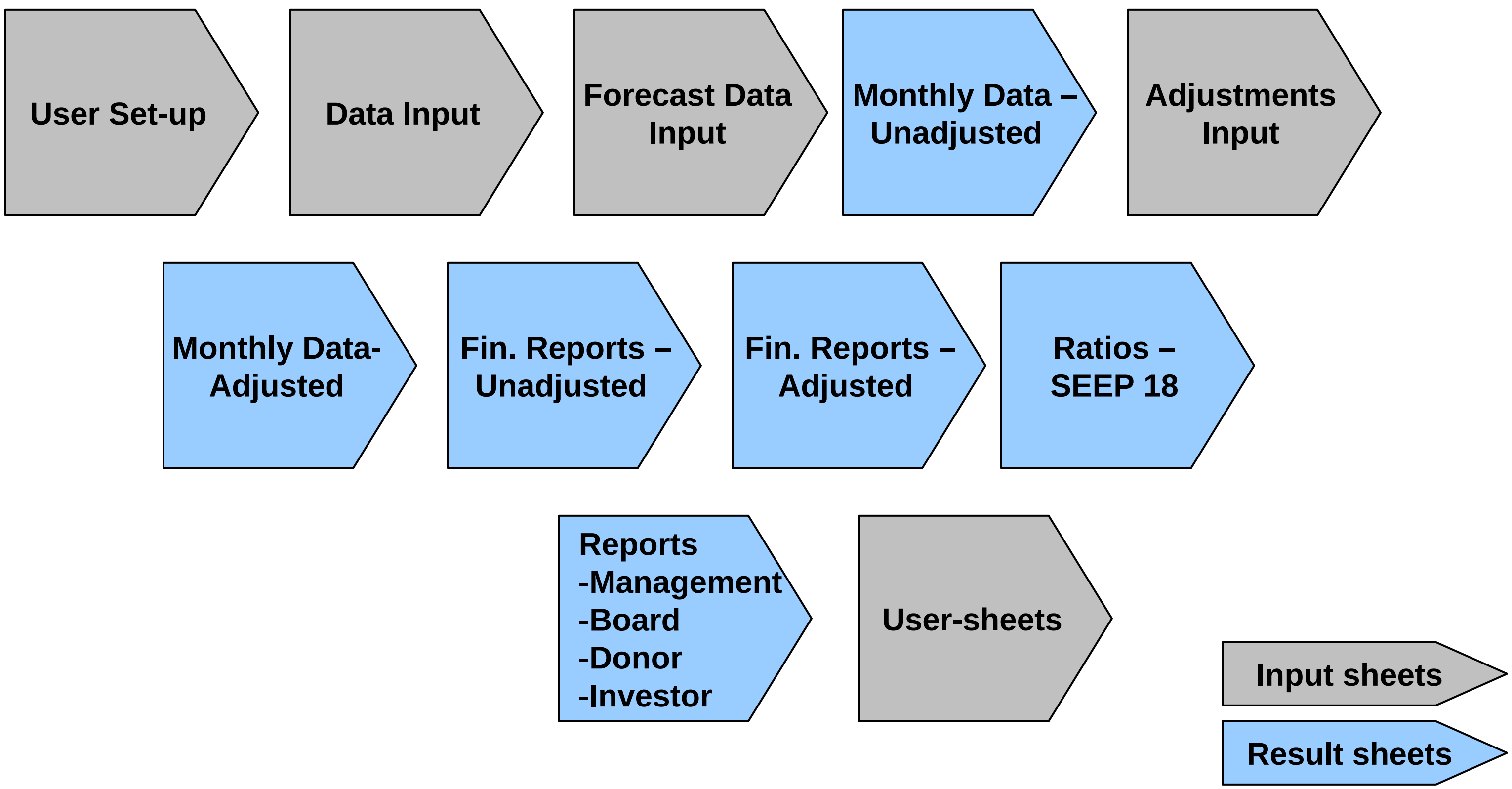
- A spreadsheet that follows the format of the SEEP Framework document

How is the Tool designed?

- It is a simple financial performance monitoring tool that will satisfy an MFI Manager's basic financial performance monitoring needs
- To be a user-friendly tool that can maintain and export data.

FRAME TOOL STRUCTURE

EXCEL Workbook Sheets:



FRAME TOOL STRUCTURE

User Set-up

- Enter general information (e.g. name of the institution)
- Make the following choices
  - Monthly/Quarterly/Annual/No input for each of three years of data
  - Enable direct or indirect cash flow?
  - Enable Adjustments?
  - Enable CRS gender ratios?
  - Enable Forecast sheet and Variance analysis?
  - Enable user-defined sub-accounts?
  - Enable BASIC set of ratios or ALL ratios?

FRAME TOOL STRUCTURE

Data Input

- Enter the information required for each of the Financial Statements and Reports:
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement
    - Direct or Indirect depending on user-choice
  - Portfolio Report
  - Non-Financial Data Report
- Must:
  - Input data for the periods selected in the “Set-up” sheet
  - Input “Initial Balances” for certain line items so that the tool is able to calculate averages needed for ratios
  - Input YTD data

MODULE 3: ANALYTICAL ADJUSTMENTS

- Describe the importance of financial statement adjustments that reflect results based on non subsidized operations, inflation and portfolio at risk to be able to understand the true performance of an institution and compare financial results to other MFIs.
- Use specific techniques to make adjustments for subsidized funds and in-kind subsidies obtained by an MFI as well as adjustments based on current levels of inflation in a country and on impairment Loss Allowance and Write-offs to the loan portfolio to understand common adjustment methods.
- Discuss the effects of properly calculated adjustments on the financial statements of the MFIs to understand their effects on the bottom line

ANALYTICAL ADJUSTMENTS

Purpose of Adjustments

- True Performance
- Benchmarking

ANALYTICAL ADJUSTMENTS

Types of Adjustments

- Subsidizes
- Inflation
- Portfolio at Risk

ANALYTICAL ADJUSTMENTS

Key points:

- If an adjustment calculation produces a negative number, the adjustment is not applied. Managers should explain the adjustment calculation and which variables they chose.
- Adjustments can be applied for any period of time. The method used to calculate averages makes a difference.

SUBSIDIZED FUNDS ADJUSTMENTS

Formula for adjusting for the cost of funds =

The extra expense that the MFI would incur if it were paying market rates for funds from commercial (market) sources.

STANDARD FOR BENCHMARKING

$$A1 = [(B15\ avg + B19\ avg) \times N10] - I10$$

STANDARD FOR BENCHMARKING

A1 = [(Average Short-term Borrowings + Average Long-term Borrowings) x Market Rate for Borrowing] – Interest and Fee Expense on Borrowings

IN-KIND SUBSIDY ADJUSTMENT

A2 = Period Estimated Market Cost of [Accounts] – Period Actual Cost of [Accounts]

STANDARD FOR BENCHMARKING

A2.1 = Estimated Market Cost of I17 – Actual I17

A2.2 = Estimate Market Cost of I20 – Actual I20

STANDARD FOR BENCHMARKING

A2 = A2.1 + A2.2 where:

A2.1 = Estimated Market Cost of Personnel – Actual Cost of Personnel

A2.2 = Estimated Cost of Other Administrative Expenses – Actual Cost of Other Administrative Expenses

STANDARD FOR BENCHMARKING

A3 = A3.1 – A3.2 where:

A3.1 = (Equity, Beginning of Period x Inflation Rate)

A3.2 = (Net Fixed Assets, Beginning of Period x inflation rate)

A3.1 = (B320 x N9)

A3.2 = (B90 x N9)

STANDARDS FOR BENCHMARKING ALLOWANCE RATES

• Current Portfolio	→	0%
• PAR 1–30 days	→	10%
• PAR 31–90 days	→	30%
• PAR 91–180 days	→	60%
• PAR > 180 days	→	100%
• Renegotiated Portfolio	→	100%

MODULE 4: RATIOS AND INDICATORS

By the end of Module 4, participants will:

- Calculate and understand "The SEEP 18" recommended ratios
- Describe why each ratio is important in measuring performance of a MFI
- Use adjusted data in calculating the SEEP 18 ratios and understand how using adjusted data affects information.

FINANCIAL RATIOS AND INDICATORS

The “SEEP 18” are divided into the following four groups:

- Profitability and sustainability,
- Asset/liability management,
- Portfolio quality, and
- Efficiency and productivity.

MODULE 5: PERFORMANCE MONITORING REPORTS

- Describe the three common types of analysis including trend analysis, variance analysis, and benchmarking.
- Know how to analyze trends, variances and benchmarks results against comparable MFIs.
- Define the priority reports required to monitor financial performance of an MFI.
- Identify the type and frequency of monitoring reports to be created.

PERCENTAGE RATE OF CHANGE

$$P^{trend} = \frac{P^1 - P^0}{P^0}$$

ABSOLUTE CHANGE

$$R^{trend} = R^{1} - R^{0}$$

FORMULA FOR COMPARATIVE ANALYSIS

$$P_{var} = \frac{P_{actual}}{P_{plan}}$$

CALCULATING THE RELATIVE CHANGE BETWEEN PERIODS

$$\text{Gross Loan Portfolio}^{var} = \frac{1{,}500{,}000}{1{,}600{,}000} = 93.75\%$$

USING THE FORMULA FOR RATIOS

$$OSS^{var} = \frac{109\%}{125\%} = 87.2\%$$

$$R^{var} = R^{actual} - R^{plan}$$

$$OSS^{var} = 109\% - 125\% \underline{= -16\%}$$