Field Manual

Supporting Microfinance through Grants in Post-Crisis Settings

By Emre Ersenkal, Jim Wolf Fellow

August 2007

DAI Advancing Human Prosperity

7600 Wisconsin Avenue
Suite 200
Bethesda, Maryland
20814 USA

Tel: 301 771 7600
Fax: 301 771 7777
www.dai.com

Contents

Acknowledgments

This *Field Manual* was compiled by Emre Ersenkal and sponsored by DAI's Jim Wolf Fellowship Program. It is based on a literature review and field research conducted in Timor-Leste in March 2007 and Liberia in June 2007. The content of this *Manual* draws heavily on documents published by the Consultative Group to Assist the Poor (CGAP) and the Small Enterprise Education and Promotion (SEEP) Network. The following individuals contributed to this effort:

Boima Baifaie, Albert Bass, Amanda Brondy, Lief Doerring, David Dyer, Mike Godfrey, Isaac Gorvego, Kate Heuisler, Jonathan Hill, Nick Hobgood, Orlantha Hoes, Mimi Johnson, Brooke Jones, Catherine Johnston, Erika Kirwen, Annakor Lawson, Cynthia Mahoney, Mary Miller, Lauren Mitten, Joao Nornoha, Steven O'Connor, Joan Parker, Peter Riley, Sildonia Sarmento, Kitty Stone, Aimee Teplinsky, and James Whawhen of DAI; Tim Nourse, and Paul Bundick of the Academy for Educational Development; Kate Druschel of the Grameen Foundation; Tillman Bruett of Alternative Credit Technologies; Helen Todd of Moris Rasik; Laurin Banner and Kimberly Tilock of CHF International; Enamul Haque Sarkar and Dawn Dahlke of ARC International/Liberty Finance; Kenyeh Laura Barlay and John Morris of United Nations Development Programme/Liberia; Tom Ewert and Tricia Mathews of Mercy Corps/Liberia; and Marcella Willis.

Special thanks to Colleen Green, Lendell Foan, and Barb Lauer for their feedback and mentorship under The Jim Wolf Fellowship.

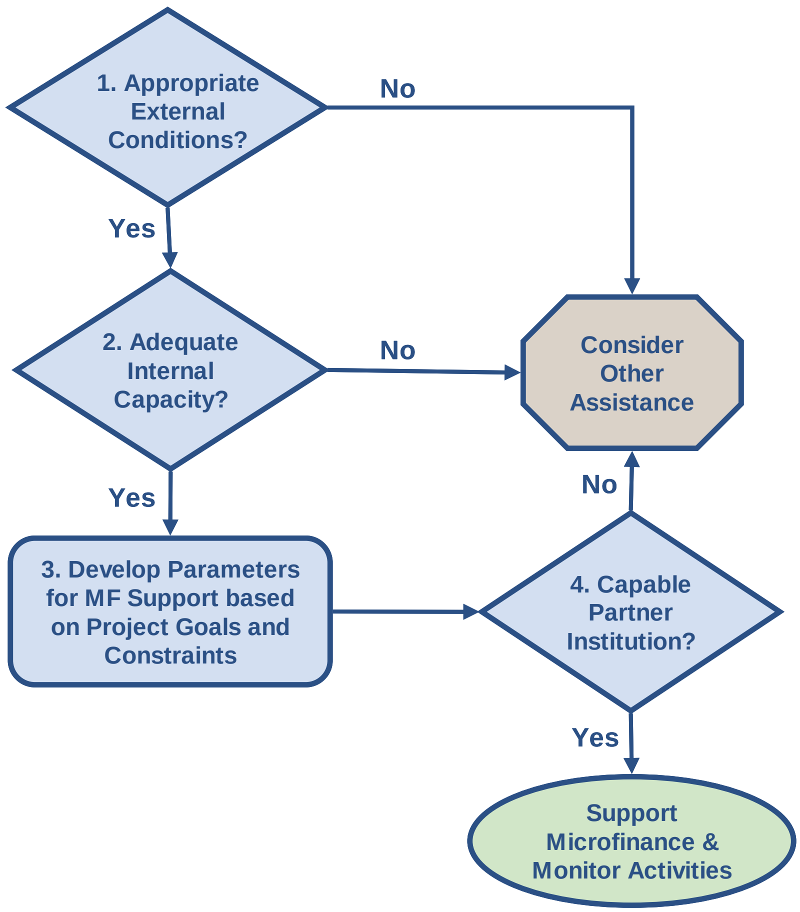
Cover Photo: Oecussi Vegetable Market, Oecussi, Timor-Leste. Photo: Joao Noronha.

Introduction and Background

This field manual offers guidance to small grant program managers on supporting microfinance institutions (MFIs[1]) in countries recovering from conflict or natural disaster through small, short-term grants.[2] These guidelines will help practitioners—particularly those with limited experience in financial services—(i) determine if investment in microfinance is appropriate given a number of environmental and institutional factors, and (ii) outline options for supporting MFIs in post-crisis environments through grants and other forms of technical assistance.

MFIs operating in post-crisis settings have a unique set of needs and characteristics that differ from those found in more stable environments. They typically have higher operational costs and require more time to reach larger numbers of clients, break even, and become sustainable. The loss of life, destruction of property, diminished social capital, and market disruptions caused by conflict and natural disaster make MFIs especially vulnerable. Reconstruction can be expensive, the outstanding loans of clients who have either fled or died may have to be written off, and the clients who are still active must rebuild their businesses before markets can thrive once again. The financial burden resulting from such crises can cause even the strongest of MFIs to struggle and many weaker institutions to fail outright without external support.

FIGURE 1: DECISION TREE FOR SUPPORTING MICROFINANCE



Grant programs can play a critical support role for MFIs operating in post-crisis environments, but grants to MFIs require special consideration and must undergo a different evaluation process than more traditional grants for humanitarian relief and reconstruction. Microfinance allows poor households "to progress from hand-to-mouth survival to planning for the future, acquiring physical and financial assets, and investing in better nutrition, improved living conditions, and children's health and education. Because financial services can be delivered sustainably, these

[1] For the purposes of this paper, MFIs are defined as any organization or institution, either for- or non-profit, whose primary function is the provision of financial services (e.g., credit, savings, transfers, insurance, etc.) to low-income clients.

[2] The term "post-crisis" is used extensively in this paper and refers to both post-conflict and post-disaster settings.

benefits can be enjoyed well beyond the duration of donor or government programs."[3] For microfinance to be successful and sustainable, MFIs must apply best practices and plan for full cost recovery by maintaining high portfolio quality, applying market interest rates, and expanding outreach to reach scale.[4] Poorly targeted grants to MFIs that are not rigorous about loan collection, offer loans with subsidized interest rates, or narrowly focus on a specific target population (e.g., demobilized soldiers or refugees) can seriously undermine and impede efforts to build a sustainable microfinance sector.

It must be stressed that *microfinance is not a conflict resolution tool*. Some degree of social capital and trust must already exist in order for microfinance to work, given the group lending approach employed by most MFIs. Microfinance can not create the social bonds required for its own success; however, the optimism resulting from economic opportunities that arise from microfinance can help prevent a resurgence in violence in a post-conflict setting. This optimism should only be regarded as a positive by-product of microfinance, not the end goal.

The practical guidelines in this manual are based on the steps outlined in the decision tree shown in Figure 1.[5] They are designed to help grant programs (i) assess the environmental preconditions required for successful microfinance in crisis-affected environments; (ii) determine if grant program staff has the capacity to manage grants to MFIs; (iii) provide options for short-term grant support to MFIs; and (iv) assess the institutional strength and potential of MFIs to provide long-term financial services to the community.

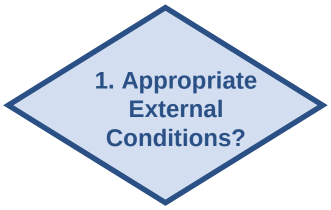
Microfinance client of Moris Rasik. Aileu, Timor-Leste. Photo: Emre Ersenkal.

[3] CGAP, *Good Practice Guidelines for Funders of Microfinance: Microfinance Consensus Guidelines, 2nd Edition*, October 2006.

[4] CGAP's *Good Practice Guidelines for Funders of Microfinance* provides an excellent overview of microfinance best practices.

[5] Adapted from Tillman Bruett, Dave Larson, Timothy Nourse, and John Tucker, "Supporting Microfinance in Conflict Affected Areas," CGAP Donor Brief No. 21, December 2004.

Four Steps toward Supporting Microfinance through Grants



STEP 1: ASSESS OPERATING ENVIRONMENT

The first step in determining if microfinance is appropriate in a post-crisis setting is to assess whether the essential environmental preconditions are in place. These are:[6]

(1) Minimum political stability;

(2) Sufficient cash-based economic activity; and

(3) Population stability.

Providing grant support to MFIs should not be considered if all three of these preconditions have not been met. The following guidelines should be used to determine if these preconditions are in place.

Minimum Political Stability

A minimum level of political stability must exist in communities where microfinance is provided to ensure that citizens feel a basic level of personal security. Absent a basic level of peace and security, loan officers can not disburse loans or collect repayments from clients and normal market activity cannot take place, making it difficult for clients to earn an income and pay back their loans. MFIs working in volatile countries should only operate in communities or regions where peace and security is already established and is likely to be maintained. In most post-conflict settings, relatively accurate and regular security updates are available, especially if there is a large international presence such as a UN Administration or peace-keeping mission. Programs should reach out to security officers from such organizations to receive regular security updates. Other sources of information are media outlets, government press releases, and foreign embassies. If public information is not readily available, programs must seek security information from individuals intimately familiar with the region where MFIs are proposing to operate.

The following questions should be answered to assess the security level:

1. Is the population returning to the community?
2. Are there active armed groups (e.g., militia or security forces) in the region that would prevent people, commodities, or cash from being transported into or out of the region?

[6] Karen Doyle, "Microfinance in the Wake of Conflict: Challenges and Opportunities," DAI/SEEP Network, Microfinance Best Practices, 1998. This document also provides a list of preferred preconditions that should be referenced when conducting an environmental assessment.

3. Is the community/region stable enough for individuals to carry cash?
4. Do traders feel safe enough to travel to and sell goods in the nearest public market?

Sufficient Cash-Based Economic Activity

For microfinance to be successful, people must have access to productive resources, markets, and cash. In a post-crisis environment, it can be challenging to determine if market activity has re-emerged to a level sufficient to warrant the provision of financial services. In most cases, reliable up-to-date market data is not publicly available; this information must be gathered through interviews, visits to public markets, and anecdotal accounts. Ideally, basic market assessments should be conducted by visiting the community and interviewing community members firsthand. However, if this is not possible, representatives from other organizations operating in the target region can often serve as reliable sources of information on market activity.

The minimum requirements for this market assessment are (i) the existence of an active marketplace selling basic goods; and (ii) cash transactions. The following questions should be asked to assess the level of market activity:

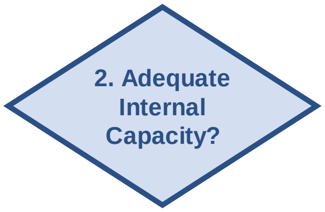
1. Is there a local market place? If so, is it growing?
2. What goods are sold in the local market?
    a) Foodstuffs
    b) Basic household goods
    c) Clothing
    d) Higher priced commodities (e.g., bicycles, motorcycles, construction materials, etc.)
3. How are most transactions made?
    a) Barter only
    b) Mostly barter or credit with some cash
    c) Cash in multiple currencies
    d) Only cash in a single currency

Loan officers on collection day at Moris Rasik's Aileu Branch. Aileu, Timor-Leste. Photo: Emre Ersenkal.

If sales in local markets are declining or minimal, the risks of lending to businesses in that area would be too high to warrant the provision of financial services there. Additionally, markets where cash is not used, or where goods are bartered or sold on credit, would not be suitable for the cash-based services offered by MFIs. Cash-based marketplaces that are growing and that offer an increasingly diverse set of goods provide adequate if not ideal conditions for a successful microfinance program.

POPULATION STABILITY

As Bruett et al point out, "Maintaining timely loan recovery is difficult with mobile populations. Most programs focus on residents, internally displaced people, and returnees, rather than refugees—unless refugee communities are de facto semi-permanent."[7] If the target population is in-fact a refugee community, grant programs and MFIs should determine if it is reasonable to expect the population to be stable for at least 18 months. This is commonly recognized as the minimum period of time required for MFIs to make and recover their loans.



STEP 2: ASSESS INTERNAL CAPACITY OF GRANT PROGRAM

SUFFICIENT QUALIFIED STAFF/ACCESS TO MICROFINANCE EXPERTISE

Assessing, monitoring, and evaluating an MFI requires a specific skill set and should not be conducted by those who do not have the requisite expertise. Grant programs must have microfinance experts involved in some capacity during each step of the program from institutional assessments and program design to monitoring and evaluation of grantees. Before issuing grants for microfinance activities, first determine the following:

1. Does your grant program have a qualified microfinance expert or knowledgeable financial services person on staff?
2. Does your grant program have access to microfinance experts in-country (e.g., through other organizations) who can serve in an advisory role to your program?
3. Does your grant program have funds for short-term technical assistance (STTA) that can be provided by microfinance experts who can inform decisions related to grants to MFIs? If so, are these experts available locally or only internationally?

If microfinance expertise is not available in-house, it must be found elsewhere. Experts can be in-country and available for intermittent guidance or international consultants available to advise remotely or conduct short-term assignments when needed.

DONOR COORDINATION FOR LONG-TERM FUNDING

If a grant program is not able on its own to provide long-term support to an MFI, it should seek to coordinate with other donors to ensure that long-term access to funding is in place before making any grant awards. In a post-crisis environment, MFIs take longer to become sustainable (relative to more stable settings); it is therefore recommended that donors commit to at least three years of funding to ensure that MFIs can become sustainable and a potentially permanent part of the financial sector.[8] Unfortunately, many grant programs in post-crisis environments

---

7 Bruett et al., 2004.

8 Ibid.

operate under short funding cycles designed for short-term, quick impact interventions. These funding constraints can lead to restrictive or rapid disbursement conditions that are inappropriate for the long-term needs of most MFIs.[9] Thus coordination with other donors is imperative to ensure that the impact of any short-term support provided is maximized by institutions that have secured long-term funding and have greater potential for sustainability.

3. Develop Parameters for MF Support based on Project Goals and Constraints

STEP 3: DESIGN PROGRAM FOR SUPPORTING MICROFINANCE THROUGH GRANTS

If it is determined that appropriate external conditions are in place and the internal capacity exists to support microfinance, grant programs must define the parameters for supporting MFIs. These parameters must clearly articulate the type of assistance that can and cannot be provided by the grant program. The constraints under which the project operates—including staff capacity, funding levels, limitations on grant sizes, and timing of activities—will determine the level and type of support provided.

The matrix in Figure 2 outlines the needs of MFIs in post-crisis settings. It explains the advantages and disadvantages of providing such support from the perspective of a short-term grant program. The types of assistance are listed in increasing order of complexity, with internal staff capacity requirements becoming greater for more complex types of assistance.

Procurement of capital inputs such as buildings, leaseholder improvements, equipment or vehicles and funding STTA are the most common types of assistance provided by many grant programs because they do not require a high level of technical expertise to manage and can be implemented quickly. However, awarding such grants can be risky because it is difficult to measure the long-term impact and monitor performance after the grant closes. Such short-term grants can demonstrate an immediate result without necessarily contributing to the long-term sustainability of an MFI. Again, it is important to emphasize that grant programs must coordinate with other donors to ensure long-term funding is in place.

The capitalization (or recapitalization) of an MFI's loan portfolio can be critical for expanding services to new regions or rebuilding after significant losses due to conflict or natural disaster. Funding operational costs may also respond to the very real needs of many MFIs, especially if they are small. However, the value of such grants tend to be larger and the implementation period longer. Therefore, a much higher level of technical expertise is required for evaluating an MFI prior to grant award and effectively monitoring grant implementation. Moreover, some donors do not allow profit-making institutions to keep and reinvest any interest earned by grant

[9] It should be noted that in some post-disaster settings, short-term funding may be appropriate. For example, following Hurricane Mitch, an Emergency Liquidity Fund (ELF) and Technical Services Facility (TSF) was established to help MFIs in Latin America and the Caribbean prepare for and respond to liquidity crises caused by external emergencies. The ELF and TSF were established to prequalify institutions, help them to prepare for and respond to external shocks, and have a financing instrument established, funded, and ready to quickly and prudently disburse funds to MFIs in the region facing external disasters that result in emergency liquidity crisis.

funds.[10] This may further complicate the process of granting loan capital to an MFI. While there may be a real need for such support, in most cases grant sizes are too large and grant periods too long for small grant programs to effectively and responsibly provide such assistance. Again, donors that are not restricted by rapid disbursement schedules are much better suited to support such long-term initiatives.

FIGURE 2: TYPES OF ASSISTANCE PROVIDED BY GRANT PROGRAMS TO MFIS IN POST-CRISIS ENVIRONMENTS

Increasing Complexity

Assistance	Advantages	Disadvantages
1. Procurement of Equipment, Materials, or Vehicles	▪ Finite task responding to MFIs' infrastructure needs ▪ Is critical for reconstruction following conflict or disaster ▪ Compatible with short-term small grant funding cycles	▪ Does not allow for long-term maintenance or follow-up ▪ Can show short-term impact without demonstrating long-term results
2. Funding Short-Term Technical Assistance	▪ Finite task responding to MFIs' capacity development needs ▪ Provides objective perspective on strengths and weaknesses of MFI ▪ Compatible with short-term small grant funding cycles	▪ Does not allow for ongoing support or follow-up ▪ Likelihood that recommendations will be implemented is highly dependent on capacity and will of MFI management ▪ International consultants can be expensive
3. Capitalization or Recapitalization of Loan Portfolio	▪ Provides critical liquidity for MFIs struggling due to market disruptions caused by conflict or disaster ▪ Requires less procurement and logistical support than in-kind grants	▪ Requires greater technical expertise for more intensive institutional assessments prior to award and monitoring of implementation ▪ Usually not compatible with short-term funding cycles except in cases of natural disaster where only short-term financing may be required ▪ Ongoing capital subsidy can impede longer-term efforts toward obtaining commercial funding ▪ Does not show immediate impact ▪ Some donors have restrictions on program income that can prevent grants from ending cleanly
4. Funding Operational Costs (Including Long-Term Technical Assistance)	▪ Responds to ongoing needs of MFIs	▪ Requires greater technical expertise for more intensive institutional assessments prior to award and monitoring of implementation ▪ Usually not compatible with short-term funding cycles of the donor

[10] USAID is one donor that has such restrictions on program income. Grant programs must be aware of all applicable rules and regulations and work closely with donors to determine what types of activities are allowable.

The types of assistance provided may differ from one MFI to another depending on their needs and capacity to absorb financial or technical assistance. A grant program must determine what types of assistance can be provided based on project goals and funding constraints. Once these are determined, grant programs should establish the parameters under which assistance will be provided to MFIs and document clear guidelines on how this support will be delivered.

Annexes I and II provide example templates of guidelines for managing a grant fund to support microfinance and grant application guidelines.

Small business owner in Monrovia, Liberia. Photo: Jonathan Hill.

4. Capable Partner Institution?

STEP 4: CONDUCT INSTITUTIONAL ASSESSMENT OF MFI(S)

Depending on funding levels and the level of expertise available to support and build microfinance in a community or country, an institutional assessment of an MFI can be highly involved or relatively simple. In either case, a microfinance expert should be called upon to conduct such an assessment. Numerous MFI appraisal tools exist that can guide such an assessment and a microfinance expert should have the requisite knowledge, skills, and experience to determine the level at which the assessment is conducted.[11] The goal of such an assessment should be to determine if the recipient institution has the capacity to manage the grant effectively and if the proposed support will effectively respond to the real needs of the institution.

Institutions receiving support for microfinance activities should be able to demonstrate competency or strong potential in the following areas:[12]

Institutional Strength	▪ Sound institutional culture with a mission and vision able to expand microfinance services to low-income clients ▪ Management and information systems that provide accurate and transparent financial reports according to internationally recognized standards, and efficient operating systems ▪ Strong leadership among management and human resource capacity of staff
Service & Outreach	▪ Focus on serving low-income clients and on expanding client reach and market penetration; financial services that meet the needs of the clients ▪ Capacity to adapt services to meet the distinct needs of entrepreneurs in post-conflict situations (less trust, greater mobility, decapitalized businesses, more conservative coping strategies)
Financial Performance	▪ Interest rates on loans sufficient to cover the full costs of efficient lending on a sustainable basis ▪ Low portfolio in arrears and low default rates ▪ A plan for a diversified funding base for microfinance operations to minimize dependency on donor subsidies
Reporting	▪ Recipient institutions must have a system for reporting regularly on the quality of their services, outreach, and financial performance, including annually audited financial statements

[11] CGAP's *Appraisal Guide for Microfinance Institutions* (2007) provides the most up-to-date, detailed, and comprehensive framework for conducting an institutional assessment.

[12] John Tucker, Tim Nourse, Rob Gailey, Dave Park, and Stephan Bauman, "Recapitalising Liberia: Principles for Providing Grants and Loans for Microenterprise Development," *Forced Migration Review* 20 (May 2004): 13–15.

Monitoring and Reporting of Microfinance Support

Once a grant is awarded to an MFI, the activities must be regularly and closely monitored. MFIs that qualify for significantly larger funding amounts should either be (i) issued a series of smaller grants, each of which is awarded based on the successful completion of the previous activity, or (ii) issued a larger grant and held to a highly rigorous and enforced set of performance benchmarks for implementation, which if not met should result in the suspension or cancellation of grant activities.

Reporting requirements will depend on the size and complexity of the grant activity and the capacity of the grant program staff to review reports. For simple activities, reporting requirements should be kept to a minimum, while more complex activities will require a greater level of detail and more rigorous review. Unnecessary reporting requirements should always be avoided, particularly if program staff does not have the time to carefully review reports. It is generally accepted that financial data should be disclosed on a quarterly basis.

The microfinance expert who conducts an institutional assessment of an MFI should also develop a monitoring and evaluation plan for any grants awarded and collect baseline data for institutional performance. Appropriate indicators and targets should be selected based on the scope of the grant and grant managers should be trained on how to interpret indicator data and monitor implementation based on set targets.[13] Grant managers should have a basic understanding of the industry-standard performance indicators for MFIs that measure:

- Profitability and sustainability;
- Client outreach;
- Asset/liability management;
- Portfolio quality; and
- Efficiency and productivity.

The reporting burden on MFIs should be kept to a minimum by using standardized indicators and minimizing the use of project-specific indicators that specifically track the use of donor funds. If an MFI is supported by multiple funding sources, donors should coordinate to ensure that reporting requirements are the same.

[13] Annex III provides a menu of 18 common performance indicators recommended by the SEEP Network in *Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring*. CGAP has also developed a set of consensus guidelines for industry reporting standards, including *Disclosure Guidelines for Financial Reporting by Microfinance Institutions* and *Definitions of Selected Financial Terms, Ratios and Adjustments for Microfinance.*

Conclusion

If all of the environmental preconditions have been met, and both the grant program and MFIs have adequate management capacity, support provided through grants can successfully support the short- and long-term goals of MFIs. Grant program staff should coordinate closely with their donor technical representatives to ensure that there is a mutual understanding of the need to conduct a review process similar to the one outlined in this field manual prior to awarding such grants.

In a post-crisis setting, the support provided by grant programs in building the foundation for a healthy financial services sector can be critical. However, poorly targeted grants to institutions that have limited capacity to manage and implement such programs can seriously harm the sector's development. In the years following a crisis, economic development programs and practitioners have found themselves struggling to counteract the legacy of poorly conceived or mismanaged microfinance projects initiated immediately after the crisis. The large funding levels and autonomy with which many post-crisis grant programs operate allows for the unique opportunity to expand the provision of financial services to the poor. This field manual serves as a guide for ensuring that such grant programs do so responsibly and effectively.

Microentrepreneurs in Oecussi, Timor-Leste. Photo: Joao Noronha.

Annex I
Example Guidelines for Managing Grants to MFIs

[INSERT PROJECT TITLE]

GUIDELINES FOR MANAGING GRANTS TO MFIS

The purpose of these guidelines is to specify the key operating principles and procedures for the review, approval, and management of awards to MFIs.

PURPOSE OF AWARD

The MFI Support Fund will be used to support activities that have the potential to contribute to the achievement of the ***[INSERT PROJECT TITLE]*** Project contract objective of ***[INSERT RELAVENT OBJECTIVE]***. The Award will be used to fund:

1. Commodities and nonexpendable equipment expenditures for qualified MFIs that will enable specific institution-building activities;
2. Payment of services that contribute in a specified manner to developing a qualified institution's capacity or the capabilities of its senior and mid-level staff;
3. Loan capital; and,
4. ***[INSERT OTHER TYPES OF SUPPORT]***

ELIGIBILITY

Eligible institutions are limited to those MFIs that are identified as ***[INSERT REQUIREMENTS FOR ELIGIBILITY]***.

ALLOWABLE ACTIVITIES

Activities to be funded under the MFI Support Fund may include but are not limited to:

[DELETE OR ADD ACTIVITIES AS NECESSARY]

- Procurement of information and telecommunications equipment (hardware and software);
- Exchange visits and study tours;
- Activities related to new product development;
- Market research and impact assessments;
- External institutional assessment or audits;
- International conferences and seminars;
- Intensive training courses; and
- Specialized technical assistance.

Application Process & Format

The applicant must submit a written request, of ***[INSERT PAGE LIMIT]*** pages, that includes a description of the proposed activity and an explanation of how the activity will strengthen the institution's operations.

Alternatively, ***[INSERT PROJECT NAME]*** can recommend that a certain activity be funded under the MFI Support Fund; for example, activities that would benefit several institutions such as conferences or training events.

Written requests for funding from applicants should contain the following information:

Organization Information

- Organization name, type of organization;
- Address, phone, fax, email; and
- Contact person and title.

Activity Information

- Description of the request to be funded, the objective of the activity, and how the activity will contribute to building the capacity of the institution.
- Timing of the activity and if applicable, how the activity is to be accomplished.
- Amount of funding requested, including the applicant's contribution if any.

[INSERT OTHER REQUIRED INFORMATION]

Evaluation Criteria

Applications will be reviewed according to the following criteria:

[DELETE OR ADD CRITERIA AS NECESSARY]

- *Contribution to advancing an institution's capacity building*. Does the activity fit in with the institution's business strategy and current activities? Does the activity contribute to the improvement of the institution's operations, its infrastructure, or its personnel?
- *Cost effectiveness*. Are the budgeted costs reasonable? How do the future benefits of this activity compare to the initial investment cost?
- *Complementarity with **[INSERT PROJECT NAME]** program goals*. Does the proposed activity complement other ***[INSERT PROJECT NAME]*** activities? What key results to be achieved under ***[INSERT PROJECT NAME]*** will the activity support?

Administration and Monitoring

[INSERT PROJECT NAME] will utilize ***[INSERT GRANT TRACKING SYSTEM NAME]*** to track and monitor all activities funded under the MFI Support Fund. In addition, a master file will be kept, organized by institution, to keep track of all expenditures and disbursements. Each award will have a number. File documents will include the application, ***[INSERT PROJECT***

NAME]'s rationale for funding memorandum, an approval memorandum between ***[INSERT PROJECT NAME]*** and the beneficiary, a memorandum of understanding on ownership of ***[INSERT DONOR NAME]***-funded commodities and equipment if applicable, and copies of receipts or other documents supporting the expenditure.

Monitoring of the proper use of the funds and the impact on the institution's development will be carried out as stipulated in the grant agreements.

RESTRICTIONS

- Maximum size of any one financing is USD ***[ENTER MAXIMUM GRANT SIZE]***.
- Maximum amount of expenditures for one institution over the ***[ENTER CONTRACT LENGTH]*** contract is USD ***[ENTER AMOUNT]***.
- Exceptions to policy will have to be approved by ***[ENTER APPROPRIATE APPROVER]***.
- ***[STATE OTHER RESTRICTIONS]***

Annex II
Example MFI Grant Application Guidelines

[INSERT PROJECT NAME]

Background

The MFI Support Fund was established to provide financial support for:

1. Commodities and nonexpendable equipment expenditures for qualified MFIs that will enable specific institution-building activities
2. Payment of services that contribute in a specified manner to developing a qualified institution's capacity or the capabilities of its senior and mid-level staff, and
3. ***[INSERT OTHER TYPES OF SUPPORT]***

Application Procedures

The applicant must submit a written request, of one to two pages, that includes a description of the proposed activity and an explanation of how the activity will strengthen the institution's operations. The application should contain the following information :

Organization Information

- Organization name, type of organization;
- Address, phone, fax, email; and
- Contact person and title.

Activity Information

- Description of the request to be funded, the objective of the activity, and how the activity will contribute to building the capacity of the institution.
- Timing of the activity and if applicable, how the activity is to be accomplished.
- Amount of funding requested, including the applicant's contribution if any.

Size of Award. The amount of the request should not exceed USD ***[INSERT DOLLAR AMOUNT].***

Evaluation Criteria. The evaluation criteria for applications will include an assessment of the contribution to advancing an institution's capacity building, cost effectiveness, and complementary aspects to ***[INSERT PROJECT NAME]*'s** program goals. Once approved, an agreement will be sent to the awardee detailing the activity funded, the amount granted, the disbursement procedure, and the type of documentation and reporting required.

Contact Information and Submission. All applications should be sent to:

[INSERT ADDRESS]

Any questions concerning this Grant Fund should be directed to ***[INSERT NAME]***, ***[INSERT TITLE]***, at ***[INSERT TELEPHONE NUMBER]***, or by email at ***[INSERT EMAIL ADDRESS]***.

Annex III
Financial Ratios and Indicators

Adapted from *Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring*, The SEEP Network and Alternative Credit Technologies, LLC; http://www.themix.org/standards/SEEP_2005_Standards_Measuring_Performance_of_MFIs.pdf

There are many financial ratios and indicators that provide useful information to an MFI manager. Ratios and indicators help managers evaluate the performance of their organization in several different aspects of its activity. The 18 indicators presented in this section were selected by the SEEP Network and are known as the "SEEP 18." The indicators reflect the areas of measurement that are priorities for most MFIs and are divided into the following four groups:

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

Each ratio can be derived directly from the financial statements and reports compiled by most MFIs. Taken as a whole, these ratios 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.

The table below summarizes the SEEP 18 and includes their calculations, which use data from financial statements. Ratios are customarily expressed as an annualized number or percentage. They can be calculated for any period, however, from monthly to annually, and managers are encouraged to calculate ratios monthly or quarterly.

SUMMARY OF THE SEEP 18

Ref.	Term	Formula	Explanation
Sustainability and Profitability			
R1	Operational Self-Sufficiency	$\frac{\text{Financial Revenue}}{\text{(Financial Expense + Impairment Losses on Loans + Operating Expense)}}$	Measures how well an MFI can cover its costs through operating revenues.
	Financial Self-Sufficiency	$\frac{\text{Adjusted Financial Revenue}}{\text{(Adjusted Financial Expense + Adjusted Impairment Losses on Loans + Adjusted Operating Expense)}}$	Measures how well an MFI can cover its costs taking into account adjustments to operating revenues and expenses.

Ref.	Term	Formula	Explanation
R2	Return on Assets (ROA) Adjusted Return on Assets (AROA)	$\frac{\text{Net Operating Income – Taxes}}{\text{Average Assets}}$ $\frac{\text{Adjusted Net Operating Income – Taxes}}{\text{Average Adjusted Assets}}$	Measures how well the MFI uses its assets to generate returns. This ratio is net of taxes and excludes non-operating items and donations.
R3	Return on Equity (ROE) Adjusted Return on Equity (AROE)	$\frac{\text{Net Operating Income – Taxes}}{\text{Average Equity}}$ $\frac{\text{Adjusted Net Operating Income — Taxes}}{\text{Average Adjusted Equity}}$	Calculates the rate of return on the Average Equity for the period. Because the numerator does not include non-operating items or donations and is net of taxes, the ratio is frequently used as a proxy for commercial viability.
Asset/Liability Management			
R4	Yield on Gross Portfolio	$\frac{\text{Cash Received from Interest, Fees, and Commissions on Loan Portfolio}}{\text{Average Gross Loan Portfolio}}$	Indicates the MFI's ability to generate cash from interest, fees, and commissions on the Gross Loan Portfolio. No revenues that have been accrued but not paid in cash are included.
R5	Portfolio to Assets	$\frac{\text{Gross Loan Portfolio}}{\text{Assets}}$	Measures the MFI's allocation of assets to its lending activity. Indicates management's ability to allocate resources to the MFI's primary and most profitable activity—making microloans.
R6	Cost of Funds Ratio Adjusted Cost of Funds Ratio	$\frac{\text{Financial Expenses on Funding Liabilities}}{\text{(Average Deposits + Average Borrowings)}}$ $\frac{\text{Adjusted Financial Expenses on Funding Liabilities}}{\text{(Average Deposits + Average Borrowings)}}$	Calculates a blended interest rate for all the MFI's funding liabilities. The adjusted ratio will usually be higher due to affect of the Subsidized Cost of Funds adjustment.
R7	Debt to Equity Adjusted Debt to Equity	$\frac{\text{Liabilities}}{\text{Equity}}$ $\frac{\text{Liabilities}}{\text{Adjusted Equity}}$	Measures the overall leverage of an institution and how much cushion it has to absorb losses after all liabilities are paid. The adjusted ratio considers reductions to equity due to adjustments.
R8	Liquid Ratio	$\frac{\text{Cash + Trade Investments}}{\text{(Demand Deposits + Short-term Time Deposits + Short-term Borrowings + Interest Payable on Funding Liabilities + Accounts Payable and Other Short-term Liabilities)}}$	Indicates level of cash and cash equivalents the MFI maintains to cover short-term liabilities. Short-term means assets or liabilities or any portion thereof that have a due date, maturity date, or may be readily converted to cash within 12 months.

Ref.	Term	Formula	Explanation
Portfolio Quality			
R9	Portfolio at Risk (PAR) Ratio	$\frac{\text{PAR > 30 Days + Value of Renegotiated Loans}}{\text{Gross Loan Portfolio}}$	The most accepted measure of portfolio quality. The most common international measurements of PAR are > 30 days and > 90 days.
	Adjusted PAR Ratio	$\frac{\text{Adjusted PAR > 30 Days + Value of Renegotiated Loans}}{\text{Adjusted Gross Loan Portfolio}}$	The adjusted PAR reduces the Gross Loan Portfolio by the Write-off Adjustment.
R10	Write-off Ratio	$\frac{\text{Value of Loans Written Off}}{\text{Average Gross Loan Portfolio}}$	Represents the percentage of the MFI's loans that has been removed from the balance of the gross loan portfolio because they are unlikely to be repaid. MFIs' write-off policies vary; managers are recommended to calculate this ratio on an adjusted basis.
	Adjusted Write-off Ratio	$\frac{\text{Value of Loans Written Off + Write-off Adjustment}}{\text{Average Adjusted Gross Loan Portfolio}}$	
R11	Risk Coverage Ratio	$\frac{\text{Impairment Loss Allowance}}{\text{Portfolio at Risk > 30 Days}}$	Shows how much of the portfolio at risk is covered by the MFI's Impairment Loss Allowance.
	Adjusted Risk Coverage Ratio	$\frac{\text{Adjusted Impairment Loss Allowance}}{\text{Adjusted Portfolio at Risk > 30 Days – Write-off Adjustment}}$	The adjusted ratio incorporates the Impairment Loss Allowance Adjustment and the Write-off Adjustment.
Efficiency and Productivity			
R12	Operating Expense Ratio	$\frac{\text{Operating Expense}}{\text{Average Gross Loan Portfolio}}$	Highlights personnel and administrative expenses relative to the loan portfolio the most commonly used efficiency indicator.
	Adjusted Operating Expense Ratio	$\frac{\text{Adjusted Operating Expense}}{\text{Average Adjusted Gross Loan Portfolio}}$	The adjusted ratio usually increases this ratio when the affect of subsidies are included.
R13	Cost per Active Client	$\frac{\text{Operating Expense}}{\text{Average Number of Active Clients}}$	Provides a meaningful measure of efficiency for an MFI, allowing it to determine the average cost of maintaining an active client.
	Adjusted Cost per Client	$\frac{\text{Adjusted Operating Expense}}{\text{Average Number of Active Clients}}$	The adjusted ratio usually increase this ratio when the affect of subsides are included.
R14	Borrowers per Loan Officer	$\frac{\text{Number of Active Borrowers}}{\text{Number of Loan Officers}}$	Measures the average caseload of (average number of borrowers managed by) each loan officer.
R15	Active Clients per Staff Member	$\frac{\text{Number of Active Clients}}{\text{Total Number of Personnel}}$	The overall productivity of the MFI's personnel in terms of managing clients, including borrowers, voluntary savers, and other clients.

Ref.	Term	Formula	Explanation
R16	Client Turnover	Number of Active Clients, End of Period + Number of New Clients During Period – Number of Active Clients, Beginning of Period / Average Number of Active Clients	Measures the net number of clients continuing to access services during the period; used as one measurement of client satisfaction.
R17	Average Outstanding Loan Size	Gross Loan Portfolio / Number of Loans Outstanding	Measures the average outstanding loan balance per borrower. This ratio is a profitability driver and a measure of how much of each loan is available to clients.
	Adjusted Average Outstanding Loan Size	Adjusted Gross Loan Portfolio / Adjusted Number of Loans Outstanding	The adjusted ratio incorporates the Write-off Adjustment.
R18	Average Loan Disbursed	Value of Loans Disbursed / Number of Loans Disbursed	Measures the average value of each loan disbursed. This ratio is frequently used to project disbursements. This ratio or R17 can be compared to (N12) GNI per capital.