WWB HOW-TO GUIDE

Women's World Banking

Introducing Individual Lending

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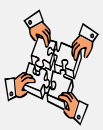
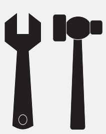
Key to Symbols

Throughout this How-to Guide you will find the following symbols that are designed to highlight each part of the process of introducing individual lending the document is referring to:

SYMBOL	NAME	DESCRIPTION
	Document	This symbol indicates that your institution will need to create a document at this stage. This could mean writing a report, creating a manual or documenting workshop
	External Help Recommended	This symbol suggests that your institution may need to seek external help at this stage. This could mean working with Women's World Banking (WWB) or an external
	Workshop or Meeting	This symbol suggests that at this stage your institution should hold a meeting or conduct a workshop.
	Training session	This symbol recommends that your institution should conduct a training session at this stage.
	Tools	This symbol highlights the tools that your institution should be using at a particular point or in a particular phase of the product introduction process.
	Lessons/ Tips	Text contained in these boxes is designed to provide useful information, based predominantly on the experience of previous clients which will help you complete steps or
	Checklist	This symbol indicates a checklist which you must work through before moving on to the next phase in the introduction of individual lending.

Overview

An Overview of the Individual Lending How-to Guide

The How-to Guide

Women's World Banking (WWB) presents to you its Individual Lending Guide. This how-to guide contains five years of practical experience in introducing individual lending at various institutions and will walk you through the implementation of an individual lending program at your institution.

WWB is pleased that you have decided to use this guide, and we are certain that when you have completed all the recommended steps, you will have a solid understanding of how to introduce individual lending.

Objectives

This document intends to provide microfinance institutions (MFIs) with a detailed understanding of the end-to-end process of introducing individual lending within an institution that currently provides group loans to its clients.

We have aimed to create a guide for MFIs that is easy to understand, focused on end-user needs and is results-oriented. The guide is designed to support MFIs in introducing individual lending and to provide a reference guide that assists you throughout the entire process, helps you keep track of the process and provides you with best practice and case examples.

The guide is not designed to provide all the answers or to be used independently of external help. We have included general guidelines on where to solicit input from external agencies throughout the document, recognizing that the amount of external input required will vary by institution.

Target Audience

The target audience for this guide is the leadership team of the MFI, as well as any additional staff members assigned to the team leading the implementation of an individual lending program. Parts of the guide can also be adapted for wider use throughout your institution.

It is assumed that the institution will be a group lending MFI with interest in adding individual loans to its portfolio.

Content of the Guide

The content of this guide has been developed using WWB's global experience in introducing individual lending to MFIs. Over the years, WWB has developed and successfully implemented systematic processes, simple tools and frameworks for introducing individual lending products. WWB teams have worked closely with network member institutions to guide and advise them through each phase of the process. The benefits of this experience have been synthesized in this guide, along with the knowledge and expertise of best practices among WWB network members and external models of the introduction of individual lending at group lending institutions. The guide includes advice on each of the steps involved and tips on how to address the complex challenges that might arise during the project.

In support of the above objectives, the individual lending guide is divided into six key sections, each describing a separate phase of the process.

These are:

1. **Introduction—**the pre-planning phase is designed to help you decide if your institution has met the top-line requirements to introduce individual lending,

2. **Phase 1 planning—**how to conduct top-line market, competitor and customer research and to plan for the introduction of individual lending,

3. **Phase 2A product and process design—**how to conduct more detailed market and customer research and build that into designing products and processes,

4. **Phase 2B pilot test—**how to carry out and evaluate your pilot,

5. **Phase 3 roll out and implementation—**how to apply lessons learned from the pilot and roll out individual lending across your branches, and

6. **Phase 4 monitoring and evaluation—**how to evaluate the success of individual lending and build a long-term vision around the development of the product.

In order to meet the authors' objective of developing a document that would be easy to read and understand, the guidelines contained here have been kept at a top-line level for decision-makers. In addition to a brief description of the steps required in each phase of the process, the guide contains:

- Examples and templates designed to facilitate your institution developing the ideas offered here into templates, documents and training courses,

- Details of the resources, time and tools required for each phase, and
- Checklists to ensure you have completed all the steps required before you move on to the next phase.

Documents which supplement the information provided here and links to additional sources of information have been included for the user's reference both at the relevant points in the document and in the appendices and bibliography.

More Information

In addition to the sources included throughout the document, please visit the Women's World Banking's web site (www.womensworldbanking.org) or contact the Microlending Services Team for further information:

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Introduction

Definition of Individual Lending

Individual Lending is defined as the process of providing credit to one client, thereby not requiring other group members to serve as guarantors, but rather to base loan eligibility on a client character assessment and cash flow analysis.

Key Differences between Group and Individual Lending

Group and individual loan methodologies represent dramatically different approaches to providing microcredit. MFIs planning to offer both group loan and individual loan products need to be aware of these differences, and to understand the implications of moving from a single to a multi-product institution.

The primary difference between the loan methodologies is that for group loans, loan screening, monitoring and enforcement, is largely managed by group members themselves, whereas for individual lending this responsibility shifts to the institution. The table below illustrates some of the key differences between individual and group lending in more detail.

Figure 1: Key Differences between Individual and Group Lending

LENDING PROCESS ACTION	INDIVIDUAL LENDING	GROUP LENDING
SCREENING		
CHARACTER CHECK	• Reputation, character reference, credit history • Reputation, character reference, credit history	• Self-selection of group members (inside information) • Group formation process
CAPITAL ASSESSMENT	• Evaluation of assets • History of business • Financial statements • Business planning	• Emphasis on human capital • Examination of experience and skills
REPAYMENT CAPACITY	• Rigorous financial analysis • Cash flow of business (+ household) • Loan amount determined individually	• Joint analysis • Rough estimate of cash flow • Standardized loan amounts set per cycle
MONITORING		
LOAN FOLLOW-UP/ ARREARS MONITORING	• Loan officer responsible • Close daily tracking of portfolio basis	• Group members have first responsibility • Loan officer oversees portfolio

LENDING PROCESS ACTION	INDIVIDUAL LENDING	GROUP LENDING
GUARANTEES		
COLLATERAL AND INCENTIVES	• Pledge of assets/collateral • Guarantor/co-signers	• Group guarantee • Compulsory savings

In Appendix A, you will find a more thorough description of the differences between group and individual lending.

Key Benefits of Individual Lending

From the client's perspective, individual loans are often seen as more attractive, because they mean a reduced reliance on other group members. Individual loans also offer the potential to take out larger loans and have faster application and repayment procedures. In addition, because of the reduced risk associated with more rigorous client assessment procedures, individual loans are often less costly for the client than their group loan counterparts.

From the institution's perspective, the introduction of individual lending helps to reduce loan risk through a diversified portfolio. The potential to attract a wider range of clients can help the institution to grow and strengthen its position in the market. Individual lending gives MFIs the ability to capture economic information from clients, thus providing a better sense of the clients' needs. This translates into improvements in the quality of services rendered. Ultimately, it can help your institution meet its mission, vision and strategic objectives.

Identifying Suitable Institutions to Introduce Individual Lending

Institutions which should consider introducing individual lending include:

- Mature institutions with proven group lending technology and good performance that want to diversify their product and client base,
- Institutions interested in expanding their offerings to different client segments through a better understanding of their economic profile,
- Institutions interested in responding to client demands for larger loans and independence from group credit arrangements,
- Institutions in markets where the supply for the individual loan product does not meet client demand, and

- Institutions experiencing increases in delinquency due to difficulties of maintaining re-payment discipline, particularly with advanced loan cycles.

If your organization meets any of the conditions above, then you may want to look further into introducing individual lending. This does not mean you are automatically suited. You must understand a great deal more about the market in which you operate, your competitors and your own institution's capabilities before you will be able to determine your suitability to introduce individual lending. This may require time, money and resources. Your institution must be prepared to undertake due diligence and follow specific steps, while being aware that at any stage, it may become apparent that you are not in the ideal position to introduce individual lending.

Institutional Pre-Requisites for Introducing Individual Lending

In addition to establishing that there is strong demand for individual loans among current and potential clients, it is also important to ensure that your institution has the necessary capabilities and infrastructure to introduce individual lending effectively.

The following critical characteristics include proven performance in group lending technology and strong internal capacity (both time and capabilities) throughout the organization, including:

Senior Management—Your senior management should be open to restructuring the organization and aligning its staff in order to implement individual lending effectively,

Credit Department—The credit department should be capable of monitoring and enforcing a standardized lending process across branches. The organization should be open to retraining or replacing branch managers that have inadequate skills for managing individual lending and group lending simultaneously,

Finance Department—Your finance department should be capable of implementing the detailed financial reporting that is necessary for effective screening and monitoring of clients,

MIS—The MIS department should be capable of making the necessary adjustments to monitor individual lending such as creating daily and monthly reports and,

Human Resources—Your human resources department should be open to introducing and managing a staff specialization process by type of lending product with supporting performance-based incentive systems.

As mentioned previously, it is crucial that the introduction of individual lending be consistent with and contribute to your organization's mission, vision and strategic objectives.

The Process – Introducing Individual Lending

Figure 2: Individual Lending Process Overview

Phase	Description	Key Steps
1. Plan	• *Determine whether the institution is ready to implement individual lending* • *If answer is "yes," create detailed plan to ensure success of future phases*	• Assess industry and competitive environment • Estimate market demand for individual lending • Determine organizational readiness • Create action plan, including team required • Begin to create shared internal vision
2A. Product & Process Design	• *Design and test the new product* • *Design and establish necessary processes*	• Conduct and analyze market research • Design product • Design processes • Build institutional capacity to conduct pilot
2B. Pilot Test	• *Test product(s) and service(s) in selected branch(es) and monitor results*	• Prepare for pilot and train relevant staff • Deploy pilot • Analyze pilot performance • Adjust pilot based on results
3. Implement	• *Based on lessons from pilot, begin to roll out the product across the organization*	• Develop rollout and implementation plan • Build institutional capacity for rollout • Begin rollout
4. Monitor and Evaluate	• *Monitor success, and adjust product design and implementation strategy accordingly* • *This stage should be ongoing*	• Monitor success against objectives • Monitor internal progress against action plan • Monitor impact (both internally and externally) • Identify changes required and develop plan to implement these changes

The figure above illustrates the key phases and steps in the process of introducing individual lending. It is important to note that these are included only as a guideline, as the exact steps will vary from institution to institution. For example, the results of market research or an institutional assessment may determine gaps which require actions beyond those included in the outlined structure.

Phase 1—is the planning phase, in which your institution will make the go/no go decision about whether you are ready to introduce individual lending. If the answer is yes, you will then need to take all of the initial steps required to prepare for the introduction – in particular establishing the team required and creating an action plan.

Phase 2A—is the product and process design phase, in which market research is conducted, products and processes are designed and the pilot is planned.

Phase 2B—is the pilot test phase in which the pilot is launched, monitored and evaluated.

Phase 3—is the implementation phase during which lessons learned from the pilot are applied and, if the pilot has been successful, individual lending is gradually rolled out to a number of your branches.

Phase 4—is the monitoring and evaluation stage when individual lending has been introduced in a number of branches and you are ready to monitor and evaluate your progress and make any required changes.

How Long Does the Whole Process Take?

As a collaboratively structured undertaking, this engagement requires a significant commitment from the institution over a one to two year period. This may include access to board members for several two to three week periods, staff time from the core team of senior managers, branch managers and loan officers as well as an allocation of time of varying duration from other regular staff.

Who Should Lead the Process?

During the early planning stages, it is important for your executive director, senior management team and other key stakeholders to be involved in the decision whether or not individual lending is feasible or desirable for your institution.

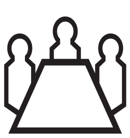
Once the decision is made, a cross-functional individual lending leadership team should be created to design the action plan, manage the research process, design and pilot test the product and processes, and roll out the product across the organization. A senior staff member should be appointed to serve as the individual lending project manager, with the responsibility of driving the process and being accountable for the implementation of the project throughout each of the phases.

You should try to identify the individual lending project manager early in the process, as this person should have input in and an in-depth understanding of how and why all key decisions have been made.

It will also be important to recruit external assistance to support you in some of the key steps of the process.

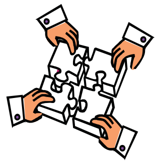
Guidelines on where to solicit input from external agencies are included throughout this guide, recognizing that the amount of external input required will vary by institution.

Phase 1 provides guidelines on how to choose your individual lending leadership team and project manager.



Resource Requirements and Timing

Before beginning Phase 1, you should hold a workshop with your board and senior managers to discuss your rationale for considering the introduction of individual lending. During this workshop, you should discuss knowledge that you already have about the level of market demand for the new product, your institutional environment, and institutional skills and capabilities. This process should take no more than one day providing that sufficient background information is available.



You may, at this stage, want to bring in Women's World Banking or another consultant who will facilitate the process, provide an external viewpoint and share their experience introducing individual lending with other institutions. It is recommended that any external support is given a minimum of three to five days before your workshop to get to know your market, your institution and your staff.

Tools

The following tools are used at this stage of the process:

TOOL(S)	DESCRIPTION
Workshop	Used in this initial stage to make the strategic decision of whether to begin the planning process (Phase 1)

Checklist

By now, your organization's management team and board should have talked through the challenges and opportunities of introducing individual lending. Using your own top-line knowledge of the market and your institution, you will have decided whether or not you are ready to begin to look more closely at introducing individual lending. Now is the appropriate time to think about how ready your institution is, what will be your particular challenges, who you want to lead the process and how you will set up a pilot.

The following checklist will help you to highlight whether you are ready to proceed with planning for the introduction of individual lending:

STEP	KEY QUESTIONS	YES/NO
1	Can you explain why introducing individual lending would be important for your institution?	
2	Have you understood the key differences between group and individual lending, and thought about how these would apply to your institution?	
3	Do you understand the process which your institution must follow to introduce individual lending?	
4	Have you evaluated the time and resources required for introducing individual lending?	
5	Have you read through the institutional pre-requisites section and determined which ones apply to your institution?	
6	Have you identified a potential candidate to be the individual lending project manager?	
7	Have you evaluated the extent to which you will require external support to implement individual lending and taken the required steps to recruit that support?	

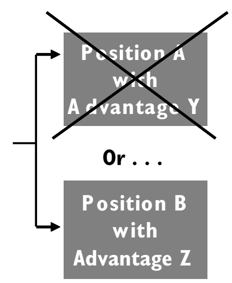
If the answers in your checklist are all **YES**, *you are ready to start planning for the introduction of individual lending!*

Phase 1—Planning

Overview of Phase 1

The goal of this phase is to gather the top-line, executive level information you need to make the appropriate strategic choices regarding the introduction of individual lending, as well as develop a detailed action plan to guide the process as you move forward.

Figure 3: Using Research and Analysis to Answer Key Strategic Questions

Industry Analysis	**Customer Analysis**	**Competitor Analysis**	**Capabilities Analysis**	**Strategic Choice**
• Who participates in our industry? • What does the industry look like now? How attractive is it? • How is the industry changing? • How big is our potential market, and how saturated is it?	• Who are our primary competitors? • What do our customers value? • How well are we serving them now? • What else do they need?	• Who are our primary competitors? • Which customers are they serving? • How are they serving customers, and how well?	• What capabilities do we need to reach and serve our chosen customers? • How do our capabilities stack up against those of other MFI's? • How do our costs stack up against those of other MFI's?	

During Phase 1, your goal is to ensure that your institution:

- Undertakes sufficient research and analysis to define the scope and requirements of the individual lending introduction project,
- Develops a good understanding of the key success factors for the introduction of individual lending,
- Assesses the impact of the proposed change on your institution's structure,
- Creates a detailed action plan for introducing individual lending, and
- Begins to build internal commitment and buy-in.

Assessing the Industry and Competitive Environment

In this step, you should strive to develop an in-depth understanding of the environment in which your institution works. This means assessing the factors which are external to your institution but which will influence your present and future success.

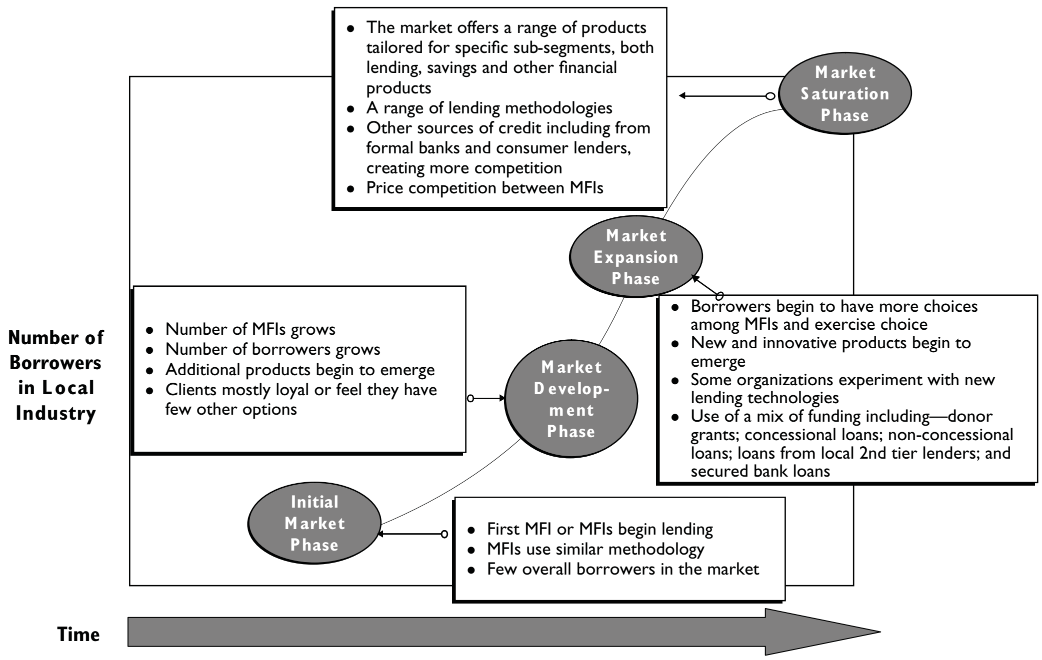
Focus on the knowledge that your institution has – both within and outside of the individual lending core team. In Phase 2A, you will conduct research to supplement this knowledge, but at this stage your goal is to develop a top-line understanding, and identify gaps in your knowledge.

Begin by answering the following questions:

1. Who are the main players in the industry (other microfinance institutions, banks, non-bank financial institutions)?
2. How attractive is the industry to new entrants?
3. How big is your potential market, and how saturated is it?
4. How is the industry changing?
5. What client segments does each institution serve?
6. What products and services does each institution offer?
7. What are the key industry trends locally?
8. Is the regulatory environment conducive to introducing individual lending?

An analysis of the industry should provide information about the institution's stage of development and its potential for growth. The key elements to consider are outlined in the figure below:

Figure 4: Typical Phases in the Growth of a Microfinance Market



Begin to develop a report to compile all of the analyses that you develop—including the answers to the key questions listed above. This will form the first section of an institutional diagnostic on the potential for individual lending at your institution. This report will then help you when it comes to making the go/not go decision, and will also be a useful tool for sharing the rationale for strategic decisions with other key stakeholders who are not in the core team. A template for the institutional diagnostic can be found in Appendix B.

Consider soliciting external assistance to produce a tailored format for your report and to understand the level of detail required.

Estimate Client Demand for Individual Lending

Once you have determined that the industry environment is conducive to introducing individual lending, you should begin to estimate the market demand. In Phase 2, you will conduct in-depth demand research to develop a more complete understanding of the need for the individual loan product among your current and potential clients. At this stage, however, you should focus on using the knowledge you already have within your institution to assess the potential demand and to make some key strategic decisions.

CHOICE OF TARGET CLIENT

As a first step, you should ask the following questions:

- Who will be the target client for individual lending at your institution?
- Will you focus mostly on transitioning existing clients, or will you seek new clients elsewhere?
- If your organization does choose to seek new potential clients for the individual loan product, what will this mean for your client mix, and
- What eligibility criteria will you use? Example of criteria: include a net business income, repayment history, number of employees, growth prospects and sector.

Remember that your choice of a target client(s) should be consistent with your organization's mission, vision and strategy. Also, consider your institution's current image in the market. Although you may be able to shift people's perceptions through the introduction of the individual loan product, you are unlikely to reach a completely different target audience without significant re-branding efforts.

The introduction of individual lending often means integrating a new profile of target clients, one with a higher socioeconomic standing than group loan clients, and with larger, more complex businesses. At this stage, the original mission of the institution should be re-examined. Therefore, it is important to consider this issue early in the process.

Implications of Choice of Target Client on Institution's Mission

Consider the example of Kenya Women Finance Trust (KWFT). To ensure that the organization maintained its focus on very poor women, KWFT revised its mission statement to incorporate a provision that 75% of its portfolio value be allocated to clients whose income is below per capita GDP. Individual lending, in this context, is viewed as a product to provide continuing service to the organization's growing client base better but also as a generator of internal funds for re-investment in the lower income target market. In some markets, such as in Pakistan, introducing individual lending has meant that some institutions have had to start lending to men. This is because women are underrepresented in the market segment that can qualify for individual loans.

It is also helpful to consider how many of your existing clients will be eligible for individual loans. In Phase 2, you will conduct an in-depth segmentation of clients to answer this question. However, try to make a rough estimate at this stage. WWB experience suggests that, on average, between 10 percent to 30 percent of an institution's current clients would be eligible.

Estimating market demand based on the target client you have identified. Try to use existing research and institutional knowledge to estimate how much demand you think will be generated for the individual loan product. You may want to talk with your front-line staff to get anecdotal evidence of interest levels in an individual loan product. This analysis will then be supplemented in Phase 2, which involves conducting research with target clients to estimate demand and solicit suggestions on what would make an individual loan product attractive.

KEY QUESTIONS:

Q: Out of your existing clients who would be eligible? How interested would they be in the individual loan product?

- WWB's experience has shown that there is a significant segment of clients who would prefer individual loans and of those there is a percentage that would qualify for individual loans. It is important to determine whether this is the case for your specific institution.

Q: What is the market-scope for an individual loan product outside of our existing client mix?

- Here, consider the results from your industry assessment. How likely would you be to be able to attract new clients for individual loans? Who are your primary competitors, and what are their competitive advantages? List your competitive advantages, either current or potential.
- Remember, to think beyond the existing competition, are there any potential new entrants that might present a threat?

Please see Women's World Banking's market research tool for more detail on this step at **www.swwb.org**.

The results of the above assessment should be included in the Institutional Diagnostic which can be found in Appendix B.

Determine Institutional Readiness

Introducing a new product such as individual lending in a group lending environment is a transformational step for your institution and should only be taken when management determines that the institution is fully prepared.

This section provides a framework and accompanying questions to help you assess whether your institution is ready to move forward. It may be helpful to enlist external assistance at this stage, as it can be difficult to critically assess the organization from within.

Figure 5: Key Dimensions in Assessing Institutional Readiness and Capacity

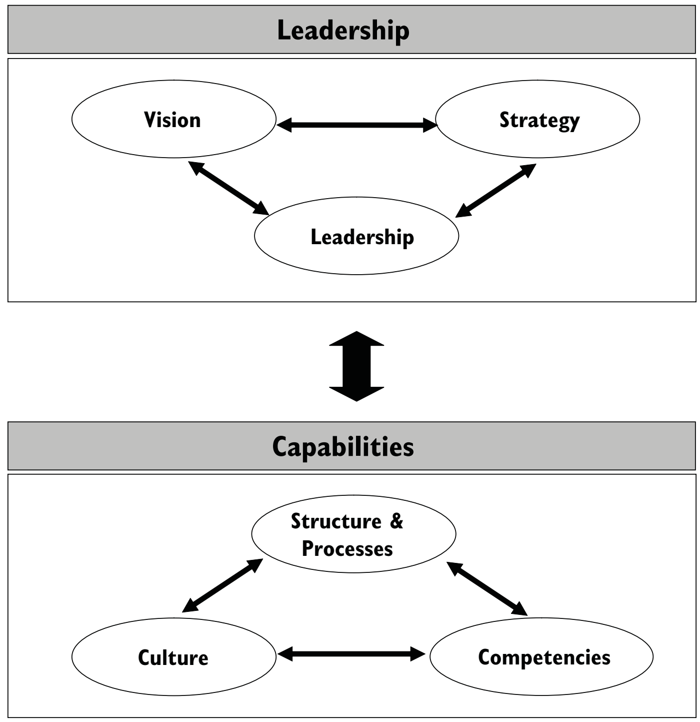
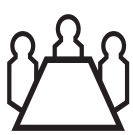


Figure 5 refers to the key dimensions along which you should analyze your institution's readiness to introduce individual lending. The framework was adapted from the work of Alliance Consulting Group. For more information, please see related readings.

Consider holding a meeting with the individual lending core team to discuss the key dimensions for assessing institutional readiness and capacity.

LEADERSHIP CONSIDERATIONS



- **Vision:** What is the vision for the new product in three years? Why is it important for the institution?
- **Strategy:** How does the new product fit into your institution's overall strategy? What are the target markets for the new product? What institutional upgrades are required? Are there sufficient funds to upgrade and support a new product?
- **Leadership:** Are your leaders supportive of the change? Is there clear ownership? Are leaders willing and able to allocate the necessary amount of time?

ORGANIZATIONAL AND TECHNICAL COMPETENCIES

- **Structures and Processes:** Can the new product be effectively provided through your existing credit delivery structure? What changes would need to be made in delivery processes, infrastructure and internal controls?
- **Competencies:** What technical and organizational competencies would be required for the introduction of individual lending? Do you have the necessary competencies in-house? What additional competencies would need to be built in order for the staff to effectively support this initiative? If external support is necessary, is this an option that is possible for the institution?
- **Culture:** How would the introduction of individual lending affect the existing behavior at the branch level? At the head office level? How would the institution address resistance or fear of change in the transition from being a single-product to multi-product MFI? Can this be done effectively? Will the institution be able to manage different product cultures simultaneously?

The results of the above assessment should be included in the Institutional Diagnostic form that can be found in Appendix B. By this stage, you should have begun to consolidate the information gathered during the assessment of the industry/competitors, top-line, market demand assessment and institutional readiness. In Stage 2, you will be able to add to this information with the additional research and analysis and conducted.

After completing this exercise, leave time to discuss the implications: what does the analysis suggest as next steps for the institution? This should be done with the individual lending leadership team, the executive director and any other members of the institutional leadership.

Decide Whether or Not to Proceed

It is important to note that some institutions may determine, at this stage, that they are not well-placed to introduce individual lending. If research reveals a tight market with stiff competition and little room for new entrants, you may want to continue to serve your target market segments with greater efficiency and improved service rather than diversify your product offerings. Or, if your institutional assessment reveals capability gaps or suggests that the financial or administrative burden would be too great, it may also be wise to wait.

Deciding not to proceed should not be viewed as a failure as the introduction of any new product is a major investment for the institution. It is critical for the external and internal conditions to be conducive to an effective introduction.

Prepare the Individual Lending Leadership Team

If your conclusion leads you to go ahead with introducing individual lending, you will need to focus your attention on appointing a project manager and a cross-functional leadership team to manage the initiative.

Project Manager: A staff member should be appointed to serve as the individual lending project manager. This person should drive the change process and be accountable for the implementation of the project throughout each of the phases. In addition, this person should serve as the primary point-of-contact with any external agencies or consultants.

The individual lending project manager should ideally be knowledgeable about microfinance and have strong analytical, planning and communication skills. Selecting this person from among existing staff is beneficial since the person should have solid knowledge of the institution, its organizational culture and clients. The principle responsibilities of the individual lending project manager are:

1. To drive the development of all aspects of the individual loan product, policies and procedures, systems and quality control, and
2. To support operations staff with backstopping and guidance during implementation, especially during the pilot phase.

Depending on your organization's management structure, this person may also manage individual lending staff.

A typical job description for an individual lending project manager during planning and implementation of individual lending is as follows:

- *Design selection criteria for credit staff and support recruitment,*
- *Prepare training program for loan officers and all staff and deliver components,*
- *Define and continually refine individual loan product terms, policies and procedures and delivery,*
- *Develop business assessment tools and gather market information to support loan officers,*
- *Prepare operations manual, forms and reports,*
- *Participate in and support credit committee meetings,*
- *Define individual loan monitoring procedures,*
- *Design strategies to determine risk level for individual lending,*
- *Define MIS requirements for individual lending,*
- *Identify legal issues regarding contracts and enforcement,*
- *Assist in creation and management of a bonus system, and*
- *Determine growth and expansion strategies – adapting individual lending for each region as required.*

In the case of larger institutions, it may be appropriate to create an individual loan product unit in which the individual lending coordinator is supported by a small team.

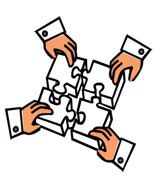
Forming a Leadership Team for Planning and Rollout: In addition to the project manager, it is important to create a core group of people within the institution to oversee and manage the process of designing, developing and implementing individual lending. The group should be composed of board members, senior managers and key operations staff to ensure an integrated treatment of the challenges posed by the implementation of this product.

This team should have the skills, capacity and commitment necessary, and should represent the interests of the staff directly affected by the changes.

The leadership team should be cross-functional, typically including the heads, or representatives, from each of the following departments:

- Operations and Credit Department (especially senior-level branch managers),
- Finance,
- Administration,
- Marketing,
- Human resources,
- MIS, and
- Internal audit.

Substantial time and effort should be invested in the selection and training of this core team. The importance of developing a strong level of in-house capacity cannot be overly emphasized. This is essential not only to ensure well-designed loan products and policies, but also to ensure that the core team will be capable of training other staff as the new product is rolled out. Because these individuals will also be responsible for guiding changes across the institution that are required for delivery of both products, they will need to be strategically selected and supported by managers.



Consider soliciting assistance from Women's World Banking or another external agency in training the core leadership team.

Figure 6: The Role of the Individual Lending Coordinator

During the implementation phase, the individual lending project manager will play an important function in driving the process and coordinating with the leadership team to oversee adjustments required in the different departments across the organization. Since each of these departments will be required to revise their systems and activities with the introduction of individual lending, their support and active involvement in the decision-making process in the early stages is crucial.

Create the Action Plan

The first task of the individual lending leadership team should be the creation of an action plan. The action planning exercise should:

- Be led by your new project manager or product champion,
- Involve all the members of the cross-functional team you have identified to introduce individual lending,

- Adopt a collaborative approach to include managers of key departments, and
- Include your senior management.

Using the results of the process to date, the action plan document should follow the basic phases outlined in the introduction to this guide, but include more detailed steps. At a minimum, it should provide the following:

- Institutional goals for the individual loan product,
- Institutional changes required to meet goals,
- Anticipated changes to other products and services,
- Proposed stages and detailed time line to ensure the success of the product introduction process, including responsibilities, deadlines and whether external support will be solicited, and
- Preliminary budget and financial projections.

The plan can be created in Microsoft Word or Excel and is an important tool for monitoring adherence to target dates.

Consider the timing of how changes are introduced; the sequencing of structural changes is important. You may be able to make some changes gradually, whereas others may require immediate attention in order to ensure the success of the process.

The following tool can help you structure plans and communicate a new vision. It can also be adapted to develop a separate table for each department of your institution.

Figure 7: Template for Assistance with Creating the Action Plan

DIMENSION	CURRENT?	FUTURE?	DIFFERENCES?	POTENTIAL ISSUES?
TARGET CLIENT				
COMPETITORS				
PRODUCTS				
CREDIT ASSESSMENT, ADMINISTRATION, MONITORING AND ENFORCEMENT				
CREDIT DELIVERY				

DIMENSION	CURRENT?	FUTURE?	DIFFERENCES?	POTENTIAL ISSUES?
CREDIT MANAGEMENT				
HUMAN RESOURCES				
MIS				
FINANCE				
AUDIT				
ORGANIZATIONAL STRUCTURE				

Building Internal Commitment

WHY BUILD COMMITMENT?

One of the first steps in the action plan should involve building consensus among staff and key institutional stakeholders, such as board members and partners. Introducing individual lending is probably a major step for your institution, so it is important to build commitment from very early in the process with key teams and staff. Where consensus is not possible, leadership must be able to constructively manage dissent.

At this stage, ask yourselves:

- Is there consensus among senior management, staff and your board about introducing this new product and committing the necessary human and financial resources?
- Is there commitment from key staff members?
- What else needs to be done to build consensus and commitment?

Remember that everyone in the institution will either be directly or indirectly affected by the introduction of individual lending, so its success will depend on their commitment and enthusiasm. The more input people can have in defining the changes made, the more they will feel as though they can own the final result. Not all suggestions or recommendations can be implemented, but be sure to follow up with the relevant staff members, so that they feel that their voices have been heard.

WHAT SHOULD YOU DO TO BUILD COMMITMENT?

Issues to discuss with the staff and other key stakeholders include:

- Why is the introduction of individual lending necessary?
- How will it help the organization to be more competitive?
- What changes will occur?

Remember to address specific individual concerns, including:

- What is specifically needed from you for the introduction of individual lending to be successful?
- How will your role and function be affected?
- Will the working culture of the institution change?
- How does your job fit into the new vision?
- Will your career prospects and compensation be affected?
- How will you benefit from the change?

Also, remember to involve the board of directors, as they should be made aware of the implications of introducing individual lending. They will likely be particularly concerned with the following key questions:

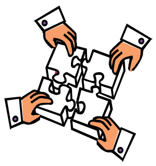
- What plans are in place to avoid 'mission drift,' or a shift away from the organization's primary target market?
- What will be the implications for the institution's financial sustainability?
- What plans are in place to ensure human resources are effectively managed?
- How will the institution's brand and public image be managed?

Note: For more information see Stuart and Dell's *Change Management Process and Organizational Behavior*.

Resource Requirements and Timing

During Phase 1, your executive or managing director and key management staff need to spend time to review the top-line market and institution findings, undertake an impact assessment and discuss in detail how individual lending will be introduced. This process is likely to take one to three days, depending upon how knowledgeable and unified your management team is.

During this phase, you will also have identified an individual lending project manager and a cross-sectional leadership team, who will be involved in the creation of the action plan and in managing the process from this point forward.



EXTERNAL HELP RECOMMENDED

As highlighted throughout this phase, it is recommended at several key points in Phase 1 that you consider bringing in external help to supplement your institution's capabilities and provide training.

It is prudent, at this stage, to continue to work with the external support you brought in during the pre-planning phase to develop your action plan. Not only can external advisors save you time by pointing out key lessons learned in previous engagements, but they can also help with practical aspects such as defining roles and responsibilities. They can act as an external voice and counterweight to any management-level discord.

TOOLS

The following tools are used at this stage:

TOOL(S)	DESCRIPTION
Industry and Competitor Analysis	This tool will help you to identify existing competition in the market—organizations offering similar services, the terms and conditions of products currently available, locations of operation, and client profiles served.
Top-line Market Demand Analysis	This tool will help you to estimate effective demand for individual lending by current clients and potential new clients. Results will only be preliminary at this stage, but then research conducted in Phase 2 will augment initial analyses.
Institutional Stocktaking	This tool aims to provide your MFI with realistic information about your current internal capabilities and available resources, including the organization's readiness for introducing individual lending.
Workshop	You may want to solicit external assistance in facilitating a workshop to help synthesize the information gathered on the industry, market demand and organizational readiness. This workshop should conclude with a discussion of the implications of the results.
Institutional Diagnostic	An abbreviated version of this tool is included in the appendix. It is designed to help you synthesize the information gathered from analyzing your competitive situation, assessing market demand and assessing the readiness of your institution. External assistance may be helpful in using this tool.
Action Plan	This tool, which should be developed using all of the analysis conducted to date, should outline the objectives, detailed steps, responsibilities and deadlines for the process going forward.

CHECKLIST

During this phase, your institution's management should be working hard to use the data you already have to understand your market, competition and customers. You should also have identified a core individual lending project manager and leadership team and developed a detailed action plan that you will start to implement in preparation for Phase 2A. This is also the stage at which your institution's senior management needs to spend considerable time providing clear direction and vision inside the organization on how individual lending will be introduced.

The following checklist will help you to determine whether you are ready to proceed with Phase 2A of introducing individual lending:

STEP	KEY QUESTION	YES/NO
1	Have you undertaken a top-line, executive level analysis of the environment in which you operate?	
2	Have you collected basic information on your competitors and analyzed their potential current and future threat to your organization?	
3	Have you conducted demand research to understand what will be your target markets?	
4	Have you assessed your institutional readiness for introducing individual lending?	
5	Have you clearly established that there is an opportunity in your market and with your competitors and clients to introduce individual lending. Have you sought external advice on this point?	
6	Have you identified a full-time competent and knowledgeable senior manager to lead the individual lending initiative through its introduction and then on an ongoing basis?	
7	Have you established a cross-cutting team to provide leadership throughout each of the phases of the process?	
8	Have you put together your action plan to follow through each phase of the process, detailing how and with whose support each phase will be conducted? Start with Phase 1 in detail before moving on.	
9	Have you used all the suggested tools to work through the process and reach your conclusions?	
10	Have you begun to build understanding and commitment to the process of individual lending among your staff and key stakeholders?	

Designing and Testing

Phase 2A—Designing and Testing the New Product

Overview of Phase 2A

Once the planning process has been completed and key strategic decisions are in place, the product design and implementation phase can be initiated. This includes defining the terms, conditions and delivery procedures for the new individual loan product, as well as identifying the processes that need to be put in place and building the necessary institutional capabilities and competencies.

There are four key steps to this phase:

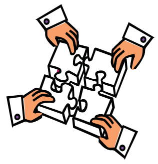
1. Conduct Market Research—conduct and analyze research to supplement the in-depth understanding of the industry, your competitors and the target clients that you gained in Phase 1,
2. Design Product—develop the individual lending product prototype,
3. Design Processes—define the internal processes associated with individual lending, and
4. Build Institutional Capacity—identify what needs to happen at an institutional level to implement individual lending.

Conduct and Analyze Market Research

As the first step in Phase 2A, you should conduct the following three key sets of research:

- Competitor and Industry Analysis,
- Market Segmentation Analysis, and
- Customer Research.

By now, you will have preliminary information on each of these research groups from the work you did in Phase 1. It is time to conduct research to build a more in-depth understanding about your industry and customers.



EXTERNAL HELP RECOMMENDED

As most MFIs do not have internal expertise in industry and customer research, you may want to bring in external help to assist with the design, collection and analysis of data.

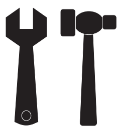
COMPETITOR / INDUSTRY ANALYSIS

The objective of this analysis is to determine how to develop an individual lending product that is both differentiated and at the forefront of the industry.

Figure 8: Competitor/Industry Analysis: Sources of Research

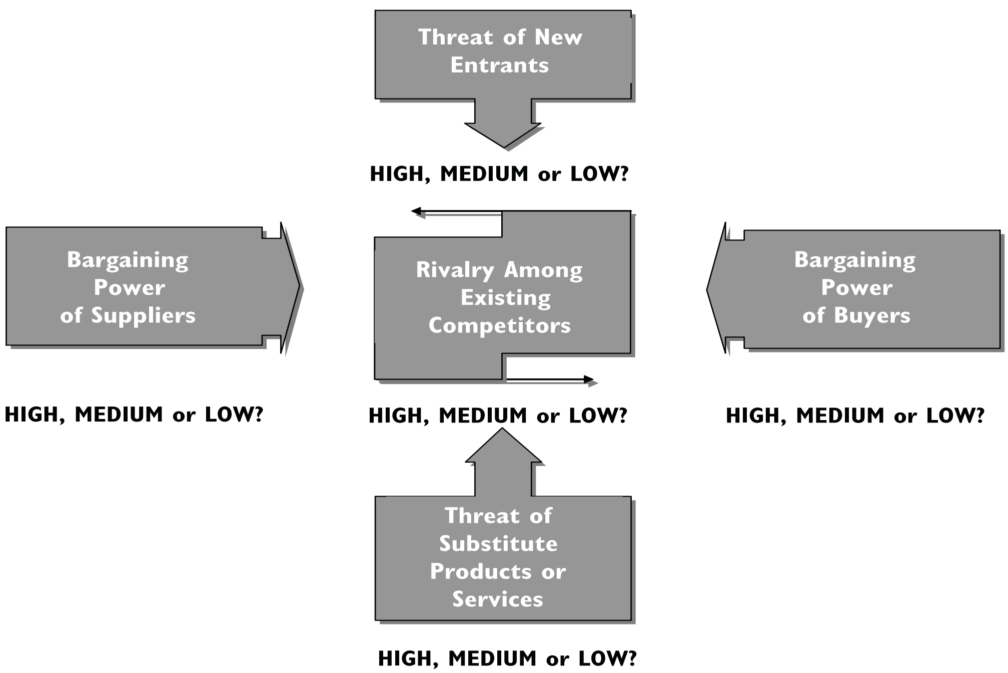
SOURCE	DESCRIPTION/ TARGET AUDIENCE	SAMPLE TOPICS FOR ANALYSIS
Secondary research	The review and understanding of already published information	• Country regulations and legal documents • Competitor marketing materials to assess media used, primary message, secondary messages, tone, target audience, tagline, overall company position • Media coverage – radio coverage and articles on microfinance in your region. TV coverage when applicable • Electronic media – online coverage of your competitors' messages and activities
Industry interviews	Meetings with industry experts and other key organizations and individuals such as bankers, regulators, funding agencies and other international agencies	• General: History of microfinance industry, past and predicted changes, significant market players, legal and regulatory environment • Market: market growth potential, key areas of innovation • Finances and Funding: Where does most funding come from? Focus of donors? Role of formal banks?
Competitor interviews	Meetings with management and staff of the competitor institutions selected for the analysis	• General: History, legal structure, organizational structure, recruitment policies and challenges faced • Market: Perceptions of the microfinance market—its size and growth potential • Clients: Competitor's target market, client mix, targeting strategy, eligibility criteria • Products and Services: Products and services offered, average loan size, interest rates • Operations: Size of active loan portfolio, lending methodology(ies) used, application and approval process, • Finance: Sources of funding, performance, standards, cost breakdown • Human Resources: Training procedures and incentives • Marketing: Marketing strategy, target customers, marketing tactics and projected budget

Remember also to look at the results of any research that your institution may have already conducted on these topics. The information that you require, may not need to come only from secondary research or interviews with industry experts or competitors. For example, feedback might also come from research with clients where you have asked for their perceptions of the industry and the your competitors. The existing research should have informed the top-line analysis conducted in Phase 1, but it is also helpful to review at this stage.



In terms of the analysis of research, there are a number of effective tools you can use. One such tool is Porter's "Five Forces Framework" from *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, which tells us how attractive our industry is to be in, what the present conditions are like, and what may change in the near and medium-term:

Figure 9: Michael Porter's The Five Forces Framework



Source: WWB Industry Interviews. five forces from Michael Porter, "Competitive Strategy: Techniques for Analyzing Industries and Competitors"

New entrants—refers to the organizations that are well-positioned to enter your market and become competitors

Substitute products or services—refers to the organizations that provide products similar enough to yours to be considered competitors, for example, credit unions providing consumer loans

Rivalry among existing competitors—refers to how intense rivalry is between competitors in the market

Suppliers—refers to how much power suppliers have relative to you (do they need you to buy their goods?)

Buyers—refers to how much power they have relative to you. Do buyers have other places to buy similar products or not?

> *It may also be helpful to refer to Appendix C, Market Analysis Module, for additional guidelines on this step of the process.*

MARKET SEGMENTATION ANALYSIS

The second part of the market research stage involves collecting data which will allow you to segment your existing clients and determine the percentage of them that are eligible for individual loans.

Research Population

Random sample of existing clients

Research Objectives

The objective of this research is two-fold:

- Determine what percentage of existing clients will be eligible for individual loans, how much you will have to look outside of your existing client base to sell the individual loan product and what this means for your organizational mission and strategy,
- Begin to train loan officers in collecting the kind of information that will later be used for client assessment, and
- Determine maximum loan sizes for group lending and minimum loan sizes for individual lending.

Research Methodology and Topics

Market segmentation research involves conducting an in-depth financial assessment of a random sample of your institution's solidarity lending clients. Usually this sample is picked from the branches where you choose to pilot the individual loan. Clients should be selected based on two or three criteria. In Al-Amana's (Morocco) case which is listed below the criteria selected were: 1. gender 2. type of business (trade, production, service) and 3. loan cycle (1,2 or 3).

Although you may decide to solicit external assistance with this research, if you are planning to transfer existing group loan officers over to individual lending, it is advisable to train them at this stage and use the research to help them build their skills. The formal training should last approximately three days in order to explain to loan officers how to collect the necessary information and how to fill in and record data from assessment forms.

The data to be gathered from clients will be the same as data used in the assessment process that will be incorporated later in the individual lending introduction process. The assessment will include the preparation of a balance sheet, an income statement and a cash flow analysis.

Research Analysis

Once you have gathered the relevant data to segment your market, it should be put into Microsoft Excel or another similar package and analyzed using quantitative statistical analysis techniques.

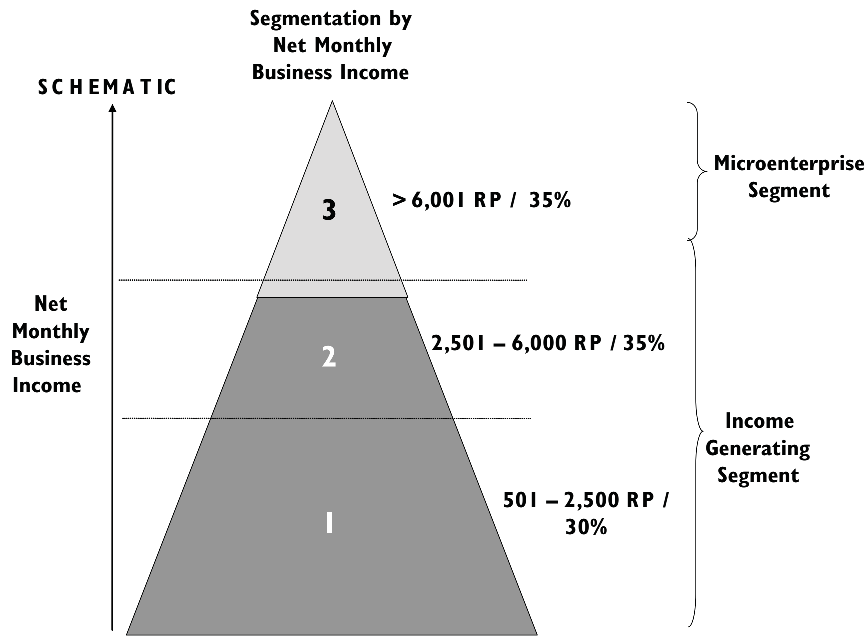
The following is an example from Kashf Foundation in Pakistan of an analysis that you might conduct based on the net business-income of clients.

Figure 10: Kashf Segmentation A

NET BUSINESS INCOME (RP)	SEGMENT 1 < 2,500	SEGMENT 2 2,500- 6,000	SEGMENT 3 > 6,000
AVERAGE BUSINESS NET INCOME	1,145	4,096	15,142
% OF CASES	30.5%	35.2%	35.3%
AVERAGE TOTAL ASSETS	30,347	60,802	69,667
AVERAGE "OTHER FAMILY" INCOME	6,651	5,230	6,425
% NET BUSINESS INCOME / TOTAL FAMILY INCOME	19%	53%	71%
AVERAGE FAMILY EXPENSES	5,794	5,971	9,963
AVERAGE FAMILY SURPLUS	2,002	3,355	11,604
AVERAGE LOAN AMOUNT DISBURSED	11,574	12,306	13,432
AVERAGE MONTHLY LOAN INSTALLMENT	800	1,231	1,343
% INSTALLMENT / FAMILY SURPLUS	107%	43%	17%

You can use this data to develop a reliable estimate of what percentage of your existing clients will be eligible for future loans, based on the criteria you have defined in Phase 1. It may be helpful to show this graphically. For example, you could use net business income as the key criterion:

Figure 11: Kashf Segmentation B



You may decide to do a more in-depth analysis of the individual segments (for example, profiling the segment that is eligible for individual loans, or perhaps creating a more complex segmentation using other key variables). For now, it is best to keep the segmentation fairly simple. The level of net business income is generally a good proxy for clients' eligibility, so it is probably easiest to use this variable only at this stage.

Considering Implications for Mission and Strategy Results of Client Segmentation at Al-Amana, Morocco

As mentioned in Phase 1, it is important to think about the implications of your choice of target clients and how this choice will affect your institution's mission. This can be done by analyzing the key characteristics of the market segment(s) that you have defined as your target areas, including income-level, gender and rural vs. urban. Client segmentation work may reveal which modifications need to be made to the individual loan product to better suit the needs of that target market.

For example, the segmentation at Al-Amana in Morocco, based on net profit and growth potential, revealed a shift in the gender balance of different segments. The client businesses with lower net monthly income (segment 2) were supplemental to household income and seasonal in nature. They were mainly located at clients' homes with sales based on credit and were predominantly female owned (70%). Compared to businesses with the highest net monthly business income (segment 5) whose traits were: the primary income source for the household; non-seasonal in nature; located outside the home; registered; with sales cash-based, and predominantly male owned (84%). The research implied changes in the gender profile of Al Amana's clientele with the introduction of individual lending. Al Amana determined that the organization would need to examine how to balance the growth of its individual loan product with its commitment to serving both low-income women and men.

See **Appendix D:** Sample Terms of Reference (TOR) for Segmentation Analysis for an example of the methodology used at Kashf in Pakistan. This TOR was created to illustrate Women's World Banking's role in the process. External assistance is advisable at this stage.

CUSTOMER RESEARCH

The third part of the market research involves building an in-depth understanding of your target clients' needs, as defined in Phase 1.

Research Population:

You should include current and potential clients, who would likely qualify for an individual loan. Identify who these clients might be by using the knowledge gained from the 'segmentation analysis', such as business size, location and type of business. If they are current borrowers, you may already have the information about repayment capacity and can select interviewees on that basis. If they are potential clients, it is a good idea to prepare a "screener" or short questionnaire that you can administer to see if business owners are likely to qualify for an individual loan.

Try to reach a representative mix of these target clients. Conduct focus groups with different client segments consisting of both current and potential clients and both male and female clients. There often exist differences in needs by gender. For example, men and women often have access to, or preference for different loan guarantees.

Research Objectives

The objective of the customer research is to design the loan product:

Just as group lending across the world follows core principles, such as joint liabilities, so does individual lending. For example, the individual lending that WWB promotes, is a product that requires an integrated financial analysis of the borrower's household and business to assess repayment capacity. When testing the market's opinion of a product prototype, we can only test those attributes that the buyer has discretion over. For this reason, we divide attributes into those that are negotiable and those that are non-negotiable by the buyer. For example:

NON-NEGOTIABLE	NEGOTIABLE (EXAMPLES)
Guarantees	Type of Guarantees: • Fellow business person as a co-guarantor • Salaried employee • Land title (for loans above certain amount) • Household assets
Integral HH and business cash-flow assessment	
First loan term is always under 12 months	Maximum loan term for 2nd loan is (for example, 16, 18 or 20 months)

NON-NEGOTIABLE	NEGOTIABLE (EXAMPLES)
• Costs • Interest rates • Fees	• Can test for price sensitivity • Attitudes towards fees
Number of days between application and disbursement	Optimal number of days?
Lending steps • Application • Documentation • HH and business visit • Co-guarantors visits • Loan disbursement • Installment payment	Kind of documentation required • Repayment frequency • Payment made to MFI branch or to bank branch
Requirements	Type of requirements • ID card • Signature of spouse • Been in business two years • Business has fixed address • Own a house (or guarantor to owns a house) or not • Either have a bank account or willing to open one

The objective is never to research whether the potential individual borrower wants to give the institutions guarantees or not, but which types of guarantees he/she prefers to offer and why.

The research seeks to understand the target clients' perceptions of all negotiable product attributes listed above as well as the following:

- Service delivery mechanisms; time between application and disbursement of the loan; time between loans; branch opening hours; interaction with staff and customer service,
- The use of and satisfaction with competitor and substitute products from both formal and informal sources such as banks, supplier credit, money lenders, interest free loans (family, friends and neighbors) and committees. This will complement your industry and competitor analysis, and
- How to market the new individual lending product to existing and new segments.

The analysis of this research will guide the institution on how to design the product and process to most effectively meet the target clients' needs. The research will also give you some indication of the target clients' interest and demand for the loan prototype.

RESEARCH METHODOLOGY

Qualitative Research Using Focus Groups

We would recommend conducting at least eight client focus groups of six to eight persons. The number of focus groups will depend on the number of criteria you have and the number of interview guides you have. For example, in the table below we have two criteria—current vs. potential clients and male vs. female and two focus group guides. Looking at the mix of client types, you would have at least eight focus groups.

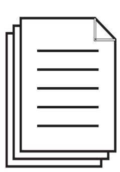
TYPE OF BORROWER	GENDER		TOTAL
	WOMEN	MEN	
Current	2	2	4
Potential	2	2	4
Total	4	4	8

To prepare for your focus groups, you will need to develop a discussion guide to ensure that the groups generate the data to reach the above objectives. The discussion guides for this research must be precisely designed to guarantee that data is collected on clients' product needs and preferences, reactions to loan prototype, use of and satisfaction with competitor products and communication channels and marketing strategies. The research should be designed to uncover differences between men's and women's product needs, so that the product design does not exclude women.

Focus groups should be conducted by a qualified facilitator experienced in focus group moderation techniques. WWB usually combines MicroSave's Participatory Rural Appraisal (PRA) tools such as the Financial Sector Trend Analysis, Product Attribute Ranking, Relative Preference Ranking, and Pairwise Ranking which were designed especially for product development for microfinance institutions with our own interview guides. These tools were developed using commercial market research techniques.

It is especially important to figure out if there are differences between what women say and want and what men say and want. This is important information so that you avoid unnecessary migration away from women clients.

Contact WWB's Strategy and Customer Insight Team at MicroMarketing@swwb.org or see MicroSave's Market Research for Microfinance Guide for more information on how to conduct this research.



Before moving on to the product design phase, revisit the institutional diagnostic you created in Phase 1 to add in the additional data and analysis from this phase. This step, along with detailed research findings and analysis, will be very helpful both to you and to any external agencies you engage during the remainder of the process.

Design Product

Once you have completed and analyzed the research, it is time to move on to designing the prototype for the individual loan product. This should be done in a series of workshops with your individual lending leadership team.

The loan features should be designed based on the research findings, in order to create a product that meets your target clients' needs and recommendations. At the same time, it also important to consider the institution's cost structure and legal and regulatory context.

You should consider each of the following key product features:

LOAN AMOUNT	Determine the loan amounts you want to offer. Consider having this differ depending on criteria such as existing vs. new client; loan cycle; and assessment criteria such as net business income and business turnover.
LOAN TERM	Start with short loan terms so that you can monitor them and make the necessary changes.
COLLATERAL AND GUARANTEES	Determine the collateral and guarantees that are required for each loan size. Borrowers of individual loans may not be able to provide adequate collateral to cover the amount of the loan requested. Guarantors may be used alongside or in place of collateral pledges. These individuals should be able to provide the security that applicants are unable to provide themselves. It is important to note that collateral and guarantees should be regarded as complementary, but not key variables in loan assessment. Both should be included as additional support to the client's overall application and need to be considered with flexibility. You may decide to rely more on collateral and guarantees while loan officers develop their client assessment skills. Later on, these criteria should become less important in assessing clients. It is in collateral and guarantees that we see most variances between men and women.
INTEREST RATE AND FEES	Determine the interest rate: whether or not it will be fixed and if there are any additional fees.
GRACE PERIOD AND PENALTIES	Determine the penalties for late repayments.
LOYALTY INCENTIVES	Determine what incentives you will give to individual lending clients to continue taking out loans with your institution.
COMPULSORY SAVINGS?	Determine whether to include a compulsory savings component—and, if so, what percent of the loan disbursed this should be.
ELIGIBILITY CRITERIA	Although you will have already begun to define the eligibility criteria when you defined the target client for individual loans, consider how they might differ depending on the particular loan product features.
FREQUENCY OF REPAYMENT	Determine what frequency of repayment to include.
OTHER REQUIREMENTS ID CARD, SPOUSE'S SIGNATURE	Determine the requirements necessary for taking out a loan.

IMPLICATIONS FOR YOUR EXISTING PRODUCTS

How you design the individual loan product should also have implications for your existing group loan products, as it is important to ensure consistent and coherent product offerings. It is best to make sure that there is very little (or no) overlap between your different product offerings, as this will cause cannibalization—where the introduction of one product eats away at an existing product—and confusion or weakened product brands.

Refinements that are typically made to the group loan product with the introduction of individual lending include:

- Adjustment of minimum and maximum loan size,
- Refinement of eligibility requirements, and
- Introduction of differentiated levels of credit assessment based on loan size (simplified version of credit analysis for group loans over a specified amount).

It is also important to make it clear to your group loan clients what the eligibility requirements are for individual loans. Accepting or declining existing group loan borrowers is often sensitive. Some clients are determined to stay in groups but want larger loans, while others may not need high loan amounts, but are not interested in staying in a group.

The assessment-based approach of the individual lending methodology usually marks a shift for clients and an individual loan may not simply be the next automatic step in their loan cycle.

Prepare a document outlining the eligibility criteria for group lending clients who want to take out individual loans. As mentioned above, this may depend on the particular loan features, but consider the following eligibility criteria:

- Repayment cycle,
- Repayment history,
- Ability to pay off current group loan, and
- Provision of replacement for group.

Applications from eligible existing clients should still be submitted to the credit committee for approval. In situations where existing clients requesting individual loans are questionable, consider offering initial access to individual loans through small loans for short periods that are renewed based on repayment performance.

Prepare Product Documentation

Once you have defined your product features, you should be ready to develop the product description section of the individual lending manual. This should be an in-depth description of each product, including all of the key attributes. **Appendix E** contains a template which you can use for creating the individual lending manual.

At a minimum, the product description should include the following sections for each individual loan product that you plan to introduce:

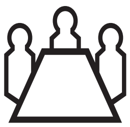
PRODUCT DESCRIPTION DOCUMENT	
SECTION	**DESCRIPTION**
Product Name	Name of product (for both internal and external communications)
Product Description	Summary of what the product is
Target Population	Segment of clients to which the product is targeted
Value Proposition	Key selling points of the products for the target client
Basic Product Features	List of basic product features, including: • Eligibility criteria, • Loan amount, • Loan term, • Frequency of repayment, • Interest rate, and • Arrears penalties.
Product Positioning and Marketing Messages	Create tagline or message(s) to communicate the product externally (for pilot testing)

Design Processes

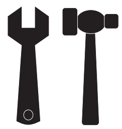
Having designed the key attributes of the individual loan products you will offer to your target clients, you should now be in a position to design the processes which will need to be in place before you can begin the pilot test.

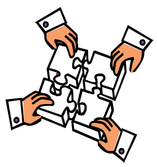
As discussed in the introduction to this document, there are significant differences between the processes you will need to put in place to screen, implement and monitor individual loans and those you currently use for group loans.

Begin, therefore, by considering the processes you currently use to provide group loans, as this will help you to start thinking about the processes that will need to be in place for individual loans. Remember to think about how you will need to adjust your group lending processes once individual lending is introduced in order to maximize potential complementarities.



Hold a series of workshops to design the processes associated with the individual lending product. These workshops should include your individual lending leadership team and any other key stakeholders, especially senior management who are not included in your core team.

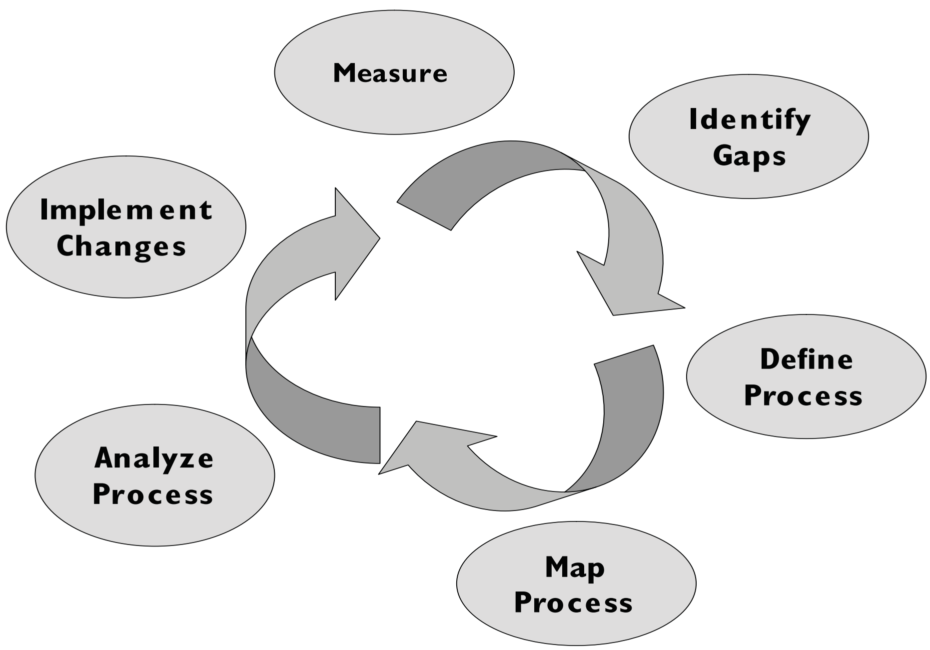




To carry out this exercise, you should consult tools such as WWB's "Process Mapping Toolkit" or seek external help, unless you have in-house experience in process mapping exercises. For an example of a process map that shows both individual and solidarity group lending, please see **Appendix G**.

An overview of how process mapping is conducted is shown in the figure below.

Figure 12: Process Mapping Overview



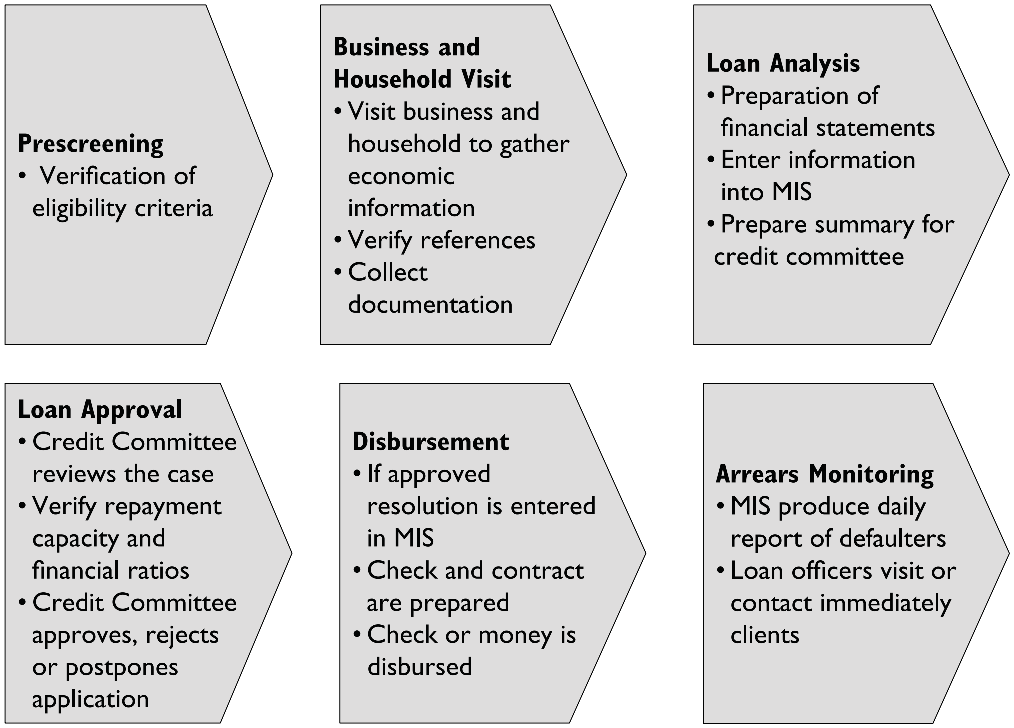
It may be helpful at this stage to start by creating a process map for group lending that shows current processes, and then create one for individual lending that outlines the ideal processes. It is probably best to map the processes at an institutional level. Although it is also possible to map from the perspective of one division or individual, or also from the client's perspective.

Note: Please refer to the remaining sections in this phase. They can help with designing the individual lending process for your institution.

You should then revisit both process maps at the end of the design process and after the pilot test, in order to create a joint process map highlighting the ideal processes. This will also help you identify potential areas that need more work.

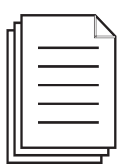
DESIGNING THE INDIVIDUAL LENDING PROCESS FOR YOUR INSTITUTION

Figure 13: Individual Lending Process



This section highlights some of your considerations when designing the processes for individual lending. The next section, titled "Building Institutional Capacity," will describe the skills and capabilities you will need to put in place to ensure that these activities can be conducted effectively.

In group lending, **screening** is primarily conducted by other group members. In individual lending, the credit team must assess clients themselves. This means that it is important to develop processes which are **highly standardized**, and will lead to accurate, **high quality information about your customers**. You should look for **opportunities for cross-verification** in order to build further confidence in the data you are collecting on clients.



You should develop forms which the individual loan officer must complete and share with the credit committee for approval of clients' loan requests. These should help with the assessment of each client's character, capital and repayment capacity. These forms should include a client rating tool, business plan, financial statement, and credit committee summary.

Please see Appendix F for the checklist "Key Points Checked and Considered by the Credit Committee."

The Role of the Credit Committee

It is important to consider how your organization's credit committee will function, because credit approval is a crucial part of the screening process. Experienced credit committees should spend no more than five minutes on each application except in irregular or controversial cases requiring further discussion. Consider the following questions:

- *Who will be on the credit committee?*
- *Will there be one centralized committee or separate committees at the regional or branch level?*
- *How often will credit committee meetings occur?*

The role of the credit committee should be to assess the risk associated with clients that are being recommended for a loan. The objectives of the committee are to:

- *Verify the consistency of the purchases and sales and other relevant information,*
- *Verify the consistency of the business' profits,*
- *Discuss the benefit and use of the loan,*
- *Analyze the debt to equity ratio,*
- *Discuss the guarantee level of the loan, and*
- *Analyze repayment capacity and behavior.*

In terms of **ongoing monitoring of clients**, the institution will need to be much more involved than with group loan clients. It is important to consider what processes you will put in place, for example, your MIS department will need to produce a daily report of defaulters. You will also want to design processes so that loan officers can follow up immediately with clients. You will need to put in place an **arrears committee**, and develop procedures with individual loan clients for your institution to follow in collecting and following up on arrears.

It is also important to consider what you will do to **promote the individual loan product** among your target clients—both existing and individual. It is advisable to develop a separate **communications** plan that includes communications strategies on how you will inform clients about the introduction of individual lending and how you will promote the individual loan product over time.

To complete this step, document all of the processes associated with individual lending in the Processes Section of your individual lending manual which should already contain the detailed product description. This should be written in such a way that it can be used and referred to by everyone in the organization. Please see **Appendix E** for a template to use in developing your individual lending manual.

Building Institutional Capacity

By now, you should have completed a draft of your individual lending manual. This next step should help you identify the skills and capabilities you will need to put in place before conducting the pilot and rolling out the product across the organization. Introducing individual lending is a major step for any institution, so you should expect to conduct a significant amount of training, capacity building and systems redesign. Be sure to give yourselves enough time to complete this—at least for the areas where you choose to introduce the pilot—before you move on to the piloting phase.

The following section is divided by team and division. The individual lending core team should be responsible for developing detailed guidelines for your institution. Other teams within your organization should be consulted for additional input.

CREDIT TEAM

This section addresses three key issues:

1. Individual loan officers: should you recruit from outside or within your organization?
2. Increased responsibilities for branch managers, and
3. Training requirements.

INDIVIDUAL LOAN OFFICERS: RECRUIT FROM OUTSIDE OR WITHIN?

There is no single answer to the question above. The decision to train group lending staff or recruit from outside the institution depends on the educational and professional background of your group lending staff and their capacity to develop new skills through training. In order to make this decision, consider the profile of your existing group of loan officers and the local labor market.

Either way, it is important to ensure that processes are in place for effective communication between individual and group loan officers. And if new staff is recruited, be sure that you build in processes to integrate them and help them learn about the history, mission and vision of your organization. Make sure that group loan officers do not feel excluded. The introduction of the new product will naturally become the focus of your institution, so they may feel left out if conscious efforts are not made to include them.

Typical Profile of an Effective Individual Loan Officer

- *Between the ages of 25 and 35,*
- *Financial, economic or accounting background,*
- *Willing to work in the field—under the sun, dust and rain,*
- *Good communications skills,*
- *Able to work against targets and under pressure,*
- *Skilled at working in teams,*
- *Identifies with the target clientele, and*
- *Analyze repayment capacity and behavior.*

You may decide at first to have loan officers offer both individual and group loans, but in most instances we recommend that you split these responsibilities over time since they require largely different skill sets and different daily activities.

INCREASED RESPONSIBILITIES FOR BRANCH MANAGERS

The responsibilities of branch managers will shift substantially with the introduction of individual lending. Branch managers will need to become more involved in the assessment and monitoring of clients and in analyzing complex financial data. The ability of branch managers, who often head credit committees, to undertake sound loan assessments is pivotal to the success of individual lending. Many group lending institutions have branch managers who have been promoted from senior loan officers, thus lacking the profile and skills required for these responsibilities.

The new responsibilities for branch managers would include:

- Monitoring of more complex and sophisticated products,
- Implementing new reporting requirements: cross-checking and analysis to ensure accurate data collection,
- Ensuring staff have the appropriate capacity and tools,
- Maintaining an understanding of local markets and strategic planning for growth and expansion per product, and
- Promoting communication and information flows, both externally through marketing and through internal communications.

In some cases, it will be possible to offer training to build the necessary staff skills. When this approach does not work, you can either implement difficult changes with the help of the human resources department in order to re-staff positions. Or you can create separate specialized branches exclusively for the delivery of the individual loan product.

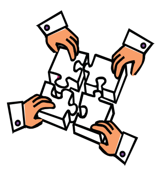
If individual lending is to be implemented through your existing delivery structures, adjustments need to be made to meet the time and skill demands of individual lending. Branch and area or regional managers will typically manage both the group loan and individual products.

Take a look at WWB's *Managing the Change to Individual Lending: Transforming Group Microfinance Organizations* for more detailed recommendations on potential management structures, by visiting **www.swwb.org**.

Two questions you should ask when you develop the processes and build institutional capacity at the branch manager level are:

1. Have the new activities been integrated into the branch manager's agenda?
2. Have managers at all levels developed both the necessary knowledge of finance and the analytical skills to effectively implement and monitor the individual loan product?

TRAINING REQUIREMENTS



Effective training of the credit and operations staff is absolutely crucial to the success of the product introduction. The individual lending project manager should be responsible for coordinating with the human resources department in developing and running the suggested training sessions. S/he should also be responsible for ensuring that the content is developed—preferably with external assistance from WWB or another agency, skilled in writing effective training materials. This external agency can also help with running and facilitating the training sessions or in preparing trainers within your institution.

Try to make the training process as structured and formal as possible, including a certification process with evaluations and examinations. Appendix H contains a detailed description of the recommended training modules for individual loan officers, including:

- Approximately one to two weeks of classroom theoretical training.
- Approximately six weeks of training in the field with managers and experienced loan officers.

Training in Promoting and Marketing of Individual Loan Products

Both individual lending and group lending staff should know both products thoroughly and be capable of representing not just one loan product but the full range of products and services offered by the institution. Beyond simply cross-selling available products, loan staff should be able to advise clients on their potential to grow with the institution through the range of products offered, and the opportunities for long term credit access as their businesses evolve. Loan staff in the field require specific training on marketing and promotion techniques.

Note that the **credit committee** should also receive training in the following areas: verifying that the client accomplishes all the institutional requirements, analyzing data and verifying the quality of the data and identifying risky activities. They will need to understand how to review and analyze a financial statement (including all key financial ratios), and a business plan and should have an in-depth understanding of all of the forms provided as part of the client assessment and monitoring process.

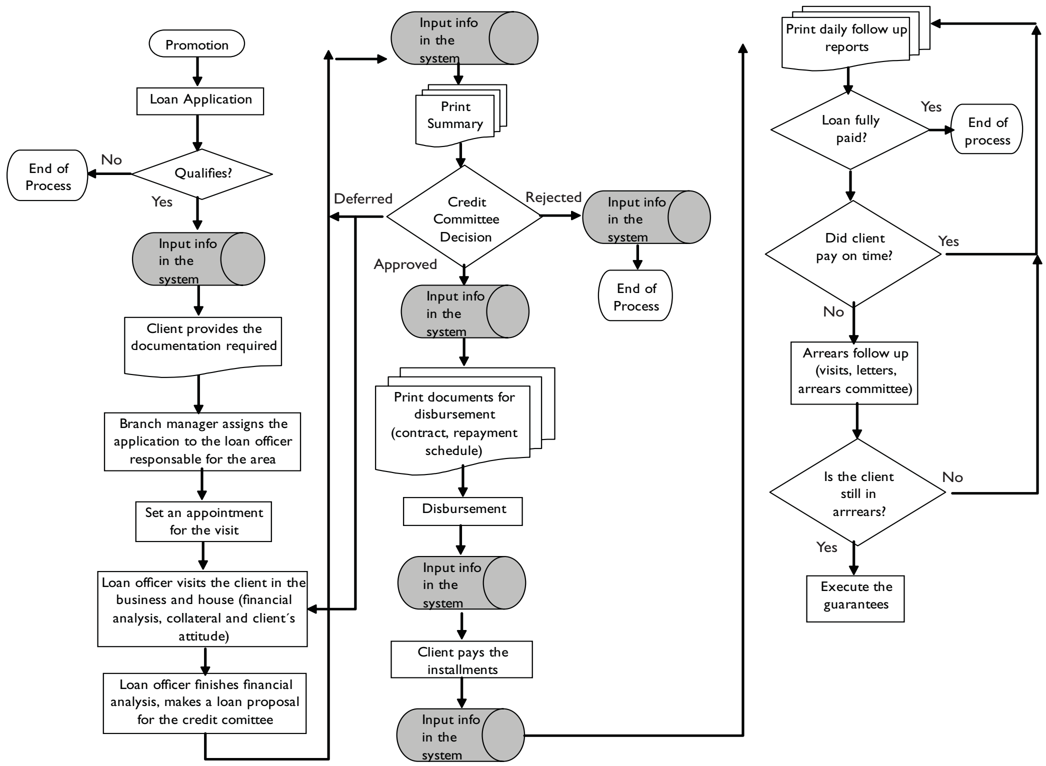
MANAGEMENT INFORMATION SYSTEMS (MIS)

The introduction of individual lending requires both significant adjustments to the competencies of the loan staff and managers and to the supporting administrative systems. The design of the MIS must be adjusted to accommodate the flexibility of individualized lending. There are a high volume of transactions which are managed independently: an irregular flow of installments repayments; partial repayment of installments; flexible loan terms; cash transactions at the branch level; and extensive analysis of socioeconomic characteristics of the business. All of these characteristics imply a number of requirements for your MIS, including:

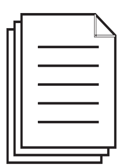
- Monitoring of status of each application throughout the lending process,
- Ability to accept partial payments,
- The daily generation of daily arrears reports by branch and loan officer,
- Teller applications and cash management capabilities, and
- The storage of economic information of the business and generate reports for credit committee.

The following diagram highlights the role of Management Information Systems (MIS) in the individual lending process flow:

Figure 14: Role of MIS in Individual Lending Process Flow



You should work on adapting your MIS to accommodate the needs of individual lending before launching your pilot. If it is not possible to make all of the necessary changes immediately, consider creating a phased plan, for example, offering less flexible products at first. With the growth in the number of clients that will come with the introduction of individual lending, you may also need to revise the software packages that you use. You can hold off on doing this at this stage, but you should at least develop a plan for when and how the new software will be introduced.



You should develop a plan to make the following changes to your MIS system:

- Capture data from each stage of the credit approval process:
  - Applications submitted,
  - Applications where clients have been visited and those pending approval,
  - Loans approved by your credit committee, pending disbursement,
  - Loans disbursed during the period, and
  - Loans repaid during the period.
- Develop required reports and data analysis tools:

- – Client module to store business economic information,
  - – Credit committee report,
  - – Arrears monitoring reports, and
  - – Client qualification based on numbers of days late per installment.

- Develop other applications.

  - – Cashier facility at the branch level (issue payment slips),
  - – Daily close of cashier ledger, and
  - – Projections versus actual performance module.

With the assistance of the human resources department and your MIS manager, it will be important to provide training to all MIS staff in the following key areas: data management, credit assessment criteria, calculations in credit analysis and the design of reports for portfolio management and monitoring.

Consider also recruiting additional MIS staff members to meet the immediate design and programming requirements—including the long-term needs of maintaining an enhanced system. Recruitment of data entry staff can off-set the administrative time requirements for loan staff and provide a cost-effective way of improving productivity.

FINANCE

Managing financial flows for individual lending is more complex than for group lending since the loan structure is determined on an individual basis and set according to customer need. The individual lending project manager should work with the finance manager to make certain that the finance department is prepared to make the following key changes:

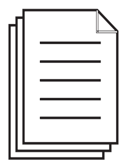
- Development of daily financial statements,
- Reconciliation of all bank accounts on a monthly basis,
- Development of aggressive provision policies,
- Timely treasury management, and
- Adjustment of chart of accounts and reports based on banking standards.

As with the other organizational divisions, the finance team will require training on how to implement the changes associated with individual lending.

AUDIT

To conduct audits of individual lending, the audit team will require detailed training on individual lending principles and credit technology. This should include detailed training in your loan policies and procedures, as well as broad exposure to delivery activities in the field.

Audits should be conducted at least twice a year in each of your branches, and should be used to verify that the lending process complies with that outlined in your individual lending manual. You should also perform a sample of portfolio due diligence procedures, verify treasury management (cashier) and review the conditions of physical assets.



HUMAN RESOURCES

Your human resources (HR) department has a very important role to play in ensuring the success of the introduction of individual lending. The human resources staff will need to develop, with the assistance of the individual lending project manager, the following:

- A comprehensive training plan for the pilot and for the eventual rollout of the product across the institution,
- Recruitment guidelines for individual loan officers, and
- A new incentive structure.

As discussed earlier in this section, **training** should be conducted throughout the organization. Your human resources department may also need training in some of the following areas: developing job descriptions, recruitment, developing individual lending training materials and preparation of appraisals. It is advisable to seek external assistance unless this knowledge and skill set is available in-house.

As discussed earlier in this section, the **recruitment guidelines** for individual loan officers should be clearly defined before launching your pilot program. Of course, these can be refined over time, but it is important to highlight any potential issues and to consider the role of existing group loan officers.

Regarding your **incentive structure**, it is important to consider how to reward both individual and group loan officers for productivity and portfolio quality. The specifics should depend on the existing incentive structure in your organization, but some guidelines that you may want to consider include:

- Waiting to implement changes to the incentive system until the pilot phase is completed, and only after individual lending is fully operational,
- Waiting to implement changes to the incentive system until the MIS is fully functioning with the data required for individual loans, as the data used for the incentive system must be reliable, accurate and timely, and

- Ensuring that the incentive system covers both group and individual lending staff. In particular, make sure that you reward, or at the very least do not penalize, group loan officers for clients who stay with the institution and transition to an individual loan.

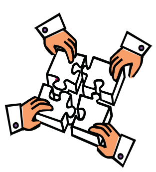
A well-developed incentive system can provide a powerful motivation to staff if the bonus variables are understood and appreciated. However, the opposite can occur if the system is poorly communicated or if its structure is resisted by staff. The success of the incentive system depends largely on how well it is communicated when introduced.

Dealing Effectively with Staff Concerns

Perhaps the most demanding challenge for your HR department during the transition period will be dealing with and mitigating staff concerns and reactions to the change. Staff may be concerned about the impact for their own career progression or job security, and your HR department should be conscious of these concerns and respond to them in an effective and timely manner. Your senior managers, the individual lending project manager and core team will also have an important role to play. There should be ongoing communications among the groups on these key issues.

Resource Requirements and Timing

During phase 2A you will need ongoing involvement from your research team, credit manager, senior branch managers and individual lending leadership team over a period of one to six months.



It is important at this stage to bring in external technical support to help you conduct your market research and to facilitate the discussions to develop products and processes that are based on market research. External help will also be useful in assisting you with the preparation of documentation and gathering information to support you in your decision-making process. Because MFIs do not typically have extensive experience in this area, assistance and feedback may add value and important resources to this process. It may also be difficult for internal staff to provide an objective viewpoint on the product design process.

Tools

The following tools are used at this stage:

TOOL(S)	DESCRIPTION
Competitor and Industry Research	Analysis of secondary research and industry and competitor interviews to assess the industry and competitive environment.
Customer Research	Research with current and potential clients to design the product and processes to most effectively meet the target clients' needs.
Focus Group Discussion	An interview and group discussion mechanism that will be conducted with different groups from the same market segment. Focus groups are used for understanding issues, concerns, advantages and disadvantages. In this case, this qualitative tool is used to discuss reactions to your prototype individual lending product features before launching your pilot.
Client Segmentation	Research and accompanying analysis allowing the institution to segment existing clients according to key characteristics. In this case, a simple segmentation is conducted to identify eligibility for the individual lending product.
Michael Porter's Five Forces	Tool developed to enable organizations to analyze the competitive environment in which they exist and the relative strength or threats to their position.
Individual Lending Manual	Describes the key product features and processes associated with the individual lending product. Should be used to introduce individual lending to staff, funders and clients.
Internal Process Mapping	Tool used to document and analyze the efficiency of your current processes from loan disbursement to recovery.

Checklist

As a result of this stage you should have created each of the following:

- Completed process map for offering the individual lending product,
- Marketing strategies for each of your target market segments,
- Individual Lending Manual, and
- Training and recruitment plan designed for each division.

Before the pilot starts, you must ensure that you have revisited your action plan and that you are certain that all required steps in the phases 1 and 2A have been undertaken and that you have met the required criteria to begin your pilot.

The following checklist helps to highlight whether you are ready to proceed to pilot:

STEP	KEY QUESTIONS	YES/NO
1	Have all products, processes and marketing plans been documented and agreed upon by management and external support team?	
2	Are all processes agreed to and is the individual lending manual completed?	
3	Are you satisfied with the feedback that you received on the prototype products and processes on your feedback forms? Has this feedback been built into the products and processes for your pilot?	
4	Have you determined the capabilities and skills that still need to be built throughout the organization, and added these to your action plan?	
5	Is there a plan in place to resolve any remaining issues which you have identified?	

Pilot Test

Phase 2B—Pilot Test

Pilot Test Phase Overview

Undertaking a pilot test is an important step in the introduction of individual lending. It will allow you to test your product and processes before investing in a complete product rollout.

- During phase 2B, your goal will be to ensure that your institution does the following:
- Rigorously tests the individual lending product prototype you have developed in Stage 2A at a single branch site,
- Monitors and evaluates the outcomes of the pilot,
- Makes adjustments to the product and processes in accordance with lessons learned from the pilot, and
- Complies with the checklist at the end of phase 2B to move to phase 3.

Strategies vary for different organizations depending on their size. If the pilot program is successful and you are a small-scale institution, you should start developing an implementation plan for your individual lending rollout. If the pilot is successful, but your institution is larger and your planned rollout broader, you should plan a second pilot test which will help in a smoother implementation and roll out.

If your pilot is not successful, your organization should not proceed with the implementation of individual lending until you are certain that you have resolved all the issues.

Preparing for the Pilot

Based on the steps completed in Phase 2, you should now be ready to revisit your action plan, make the necessary adjustments and create a strategy plan to carry out a pilot for individual lending.

CREATING THE ACTION PLAN FOR THE PILOT

Your action plan should outline how you are planning to carry out the pilot and should include key areas such as:

- Definition of expected outputs, results and objectives,
- How you will finance the pilot test,
- Training and recruitment requirements,
- Structural and branch layout changes,
- Marketing requirements, and
- Measuring your success—determining the methods that you will use to define the specific and quantifiable objectives for the pilot which will be used to measure results against targets and may include such objectives as: growth, profitability, efficiency, and marketing efficiency.

Planning the Budget

The pilot test should never take place without carefully thinking through the financial implications. A pilot will require funding in order to cover the costs of setting up new facilities, recruiting and training new staff and marketing and promotions. Your institution should be able to source this funding and evaluate whether you are making a wise investment with returns that will outweigh the costs. If you have not done this at this stage, you should conduct such analysis immediately.

SELECTING THE BRANCH TO HOST THE PILOT

An extremely important question prior to the start and planning of the pilot is to select which of your branches will host the pilot. Suggested criteria for selection are:

- Branch has been in operation for at least two years,
- Has good performance indicators and smooth operations,
- Market research conducted has shown demand for individual loans,
- Limited competition to provide relatively neutral testing ground,
- Organized branch manager with good leadership and management skills,
- Good communication with head office,
- Population in pilot location should be reasonably typical of at least a major portion of the region where you work,
- Adequate physical space at branch for additional staff and clients,
- Easy to commute to by the team and support staff, and
- Should not be central branch.

You should also begin to implement any physical modifications to the branch where you will pilot the service; building and construction changes can take time and you want to be well prepared for the start of the pilot test.

The look and feel of the branch is an important part of how clients will perceive the new product. As much as possible, you should try to ensure the following:

BRANCH LOCATION	• Branch should be located on a main road, • Branch should have good accessibility (close to a bus station), • Branch should be close to the clients (close to markets, or areas with high concentration of microentrepreneurs), and • Branch should look professional.
BRANCH STRUCTURE	• Each loan officer should have their own desk, • Offer basic privacy for clients to enable discussion, • Additional room to conduct credit committees, • Accessible computers for loan officers, and • Availability of phone lines for contacting clients.
RECEPTION HALL	• Spacious enough to accommodate traffic of clients, • Tellers should be well isolated and protected, • Simple but professional look, • Comfortable and practical waiting areas, and • Visible signs.
TELLERS AND CASH TRANSACTIONS	• Tellers isolated and secure, • Cashier connected to MIS, • Good light and comfortable counters, and • MIS should print a receipt for each cash transaction.
CUSTOMER SERVICE	• Customer service and information visible and accessible, and • Loan officer's desks visible and accessible.

SELECTING AND TRAINING THE STAFF TO RUN THE PILOT

Once you have selected the pilot site, you should identify which staff will run the pilot and begin the process of transferring any staff not currently working on site. This includes building capacity in individual lending, especially for the analysis and evaluation of loan applications at three levels of the institution: loan officers, project management and the credit committee level. You will need to build the capacity of participating staff to effectively offer both group and individual loans simultaneously.

You should also develop your individual lending training modules like the ones described in phase 2A. You will need to identify who will carry out your training and conduct the training for all staff who will be involved in the pilot test. The training that you conduct would include loan officers, the credit committee, MIS, finance, HR and any other relevant departments in your organization.

IMPLEMENTING NECESSARY STRUCTURES AND PROCESSES

In Phase 2A, you should have identified the ideal processes for delivering individual loans. Before proceeding with the pilot, it is important to make sure that you are prepared to implement each part of the process. This would mean having the required internal skills and capabilities and proper documentation and tools. The following elements should be in place: changes to the MIS system; the creation of screening and monitoring documentation; functioning credit and arrears committees; finalized adjustments to the internal controls and accounting; and a detailed plan for promoting and marketing the new product.

Note that changes that are not centralized should only be implemented in the pilot branch. You should wait to learn the results of the pilot before rolling out the changes across the entire organization.

SETTING GOALS AND PERFORMANCE METRICS

It is important to set clear objectives for the pilot so that you can then measure success before moving onto a full rollout. Metrics should be both quantitative such as the number of individual loans provided, client demographics, impact on financial bottom-line, average loan size and the number of individual lending staff per branch and area. Qualitative metrics would be staff and client perceptions and your assessment of the ease of putting processes in place.

Please see Appendix I for a simple performance report to use in evaluating the pilot.

Before running your pilot test, you must be confident in your choice of pilot branch. The required changes should have been put in place and organizational changes instituted. Make sure that you can respond "yes" to each of the following questions:

KEY QUESTION	YES/ NO
Have you identified a pilot branch?	
Have you discussed and determined goals for the pilot branch?	
Have you established clear performance targets for loan officers?	
Have you trained the pilot group in the different aspects of the lending technology such as information collection in the field, loan assessment, loan approval and arrears monitoring?	
Have you implemented and adjusted lending policies if necessary?	
Have you developed documentation and training manuals and support materials?	
Have you developed individual lending guidelines for loan officers and branch managers?	
Have you prepared the pilot group for disbursing the first loans?	
Have you prepared the credit committee and arrears committee for operation?	
Have you developed a plan for ongoing monitoring and evaluation of the pilot?	

Running the Pilot

You are now ready to run the pilot, a process which may take from six months to one year. The time required for the pilot will depend on both your internal and external contexts. When the conditions are particularly favorable—such as strong leadership and management and good product acceptability—the pilot may last only six months. With less favorable conditions, however, you might need to pilot test your individual lending product and services for more than a year.

> *Remember, establish processes first, publicity second. You should be discreet and publicize your new individual lending product only at the pilot branch first. Otherwise, you may be swamped with large numbers of requests for the individual loan product before you are ready for them.*

While the pilot test is running, you also have the opportunity to prepare for analysis of the pilot's results and to conduct some preliminary monitoring and evaluation. Doing this before the pilot is complete, allows you to better prepared to move forward either with implementation of your individual lending program or to conduct a second pilot. You should conduct weekly and monthly evaluations of the pilot during the first six months, evaluate different types of clients and record both complaints and positive feedback.

Preliminary monitoring and evaluation should allow you to do the following;

- Review your systems,
- Monitor levels of staff knowledge,
- Evaluate your customer service, and
- Gauge the effectiveness of your marketing and communications.

Reviewing all of these on an ongoing basis (possibly weekly) will help you identify issues and problems, and improve your processes as you go through the pilot.

Monitoring and Evaluating the Pilot

Monitoring and evaluation should take place throughout your pilot and afterward. The goal of this step is to analyze the performance of the pilot and make any necessary changes before the product is rolled out across your organization. It is much easier to make changes and test them throughout the pilot. Do take the time to get the pilot right!

The monitoring and evaluation should include the following key steps:

- Evaluate actual versus targets of the pilot project,
- Monitor your lending process quality at three levels: information gathering, loan assessment and documentation and loan approval,

- Re-assess proficiency level of the pilot team,
- Analyze product acceptance by clients,
- Talk to staff or hold informal focus groups to evaluate the level of satisfaction with the product and check for product marketing consistency across loan officers and branches,
- Discuss any necessary product adjustments with pilot team, and
- Design and monitor the necessary adjustments of the different areas (MIS, branch structure, incentive systems, and finance). Provide further support and advice on implementation of adjustments.

If your institution does not have an ongoing customer satisfaction program, it is critical that you conduct research with your individual loan clients to understand how they perceive your product and evaluate their level of satisfaction with the product. Qualitative research with current customers will give you a sense of how satisfied customers are with your product and their response to your marketing initiatives. Qualitative research with potential customers will inform you of any barriers customers have against borrowing from your institution and why marketing initiatives have not compelled them to borrow.

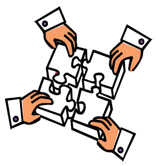
Upon completion of the pilot, feedback should be collated and written up into a pilot evaluation report which outlines the actual versus target metrics, key lessons learned, outstanding issues and recommendations. This should be used for any further pilots, as well as for developing the plan for rolling out the product across the institution.

Second Pilot Phase

Upon completion of the first pilot test, your institution will need to make decisions on its level of comfort with the results and willingness to roll out the product rather than undertake a second pilot phase. The general rule at this stage is that if your pilot has been successful, your institution is small and your intended rollout is fairly narrow, you should proceed immediately to the rollout stage. On the other hand, if the first pilot has been successful but your institution is larger and your planned rollout broader, you should undertake a second pilot to ensure that the rollout will be successful.

Resources and Timing

During phase 2B, you will need cross-functional support to design, run and monitor the pilot(s), a process which will take about three months to one year. You will need the involvement of your individual lending project manager, credit manager, loan officers at the pilot site, credit and arrears committee, human resources, MIS and your audit and finance departments.



Depending on your institution's level of experience you may also want to enlist external technical support to help you develop training materials and conduct the training. This support, if acquired, should be available for the three to four month set-up period for the pilot.

Tools

The following tools will be used at this stage:

TOOL(S)	DESCRIPTION
Training and Certification	A major part of the success of the pilot is ensuring that everyone who will be involved is properly trained. Developing a certification process can help make certain that this is done effectively.
Monitoring and Evaluation Tools	Measurement tools to evaluate the success of the pilot against its objectives, including financial analysis, research with clients, and discussions with staff.

Checklist

As a result of this stage you should have the following:

- Identified a location and prepared the site for the pilot,
- Training materials for all staff involved in the pilot,
- Financial and business analysis of the cost and expected outcomes of the pilot,
- A monitoring and evaluation system for the pilot,
- Product costing materials,
- Feedback from the pilot such as client feedback forms and staff feedback,
- Information on product pricing and cost analysis and financial results, and
- A complete pilot evaluation report.

Before Phase 3 begins, you should revisit your action plan and make sure that all required steps within phases of 2B have been undertaken and that you have met the required criteria to move to Phase 3.

The following checklist will help you to determine whether you are ready to proceed to implementation:

STEP	KEY QUESTION	YES/NO
1	Did you meet all of the requirements necessary to launch the pilot?	
2	Was all staff trained and certified to carry out the pilot?	
3	Did the pilot run according to plan and was it completed within the set deadlines?	
4	Did you successfully resolve all the issues and problems arising from the pilot?	
5	Were the results of the pilot monitored on a regular basis throughout its duration? Were these results combined with an evaluation when the pilot was complete?	
6	Has a decision been made about your need to conduct a second pilot? If your team decided that you needed a second pilot, has it been completed?	
7	Have the key lessons from the pilot been documented and implications for implementation been identified, especially recognizing how the lessons might apply in different branches and with different client groups	
8	Have you completed an individual lending product viability analysis using Microfin or other financial projection tools?	
9	Was your project manager, senior management and the board satisfied that the pilot had met the required targets?	
10	Do your external advisors agree that the pilot(s) was successful?	
11	Is the pilot team prepared to transfer their knowledge to other staff members not involved in the initial pilot(s)?	

Phase 3—Individual Lending Program Implementation

Program Implementation Phase Overview

During phase 3 your aim will be to build on the work undertaken in your pilot phase(s) and to:

- Develop an expansion strategy for individual lending across your branches,
- Roll out individual lending across your branches,
- Create a short, medium and long-term strategy for individual lending at your institution,
- Plan and budget for the rollout, and
- Manage the growth of individual lending and ensure that costs are kept low and capacity-building takes place.

Develop a Rollout and Implementation Plan

Based on the results of your pilot(s), you should now be ready to develop a plan to introduce individual lending throughout your institution. This plan should include detailed steps and responsibilities, showing the specific timing associated with each phase of your rollout.

In developing this plan, you should:

1. DEVELOP A STRATEGY TO GROW YOUR INDIVIDUAL LOAN PORTFOLIO

Based on the results of the pilot and research conducted in phase 2A, you need to decide if this is best done by:

- Attracting new clients,
- Encouraging existing individual loan clients to take out additional higher loans, or
- Encouraging eligible existing group loan clients to transition to individual loans.

You may decide to use a combination of these approaches, but it is important to set clear targets and objectives.

2. DEVELOP A MARKETING AND PROMOTION STRATEGY FOR INDIVIDUAL LENDING

Combining your institution's marketing experience and the results of the pilot, you should devise a strategy for promoting the individual lending product, specifically to the target audience you selected as the priority in step one above. Use the data from the focus groups in Phase 2A to help you design the marketing strategies. This data should help you determine which message is most compelling to your target audience and which medium is the most effective for reaching your target audience.

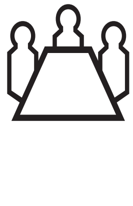
Your strategy for promoting individual lending should form part of your institution's branding and marketing strategy. The messages you use should complement those you use for your other products and for your overall corporate brand. Likewise, you should develop an integrated approach to marketing and communications. Each component of your marketing and communications should be complementary and promote a consistent, compelling message about your institution that resonates with your external audiences.

3. INTRODUCE STANDARD PROCESSES

The systematic implementation of your new individual lending product requires that standardized processes be introduced prior to and during your rollout. Strong financial and HR capabilities are a prerequisite as are the correct management information systems. These processes should be documented in a process manual which can be distributed to each branch taking part in the rollout. The individual lending manual, created during Phase 2, can help guide you with documentation. You should, however, adapt and revise it based on the results of the rollout.

4. PLAN AND BUDGET

In conjunction with making specific decisions about your rollout plan, you should finalize plans developed in Phase 1 on how individual lending fits into your mission, vision and organizational objectives.



This step should be conducted during a workshop with the individual lending project manager and leadership team, as well as any other key stakeholders.

Based upon the results of the pilot and feedback from your customers and staff this team should draw up:

- An individual lending vision for the future,
- A long-term development strategy,
- Short-term strategic actions for individual lending, and
- An ongoing marketing plan to cover all branches that includes profitability planning to finalize the numbers of individual loans and total size of portfolio that will be required for individual lending to be profitable.

5. MANAGE GROWTH

Your final step is to develop and put in place a plan for monitoring and evaluating your rollout and implementation. The three objectives at this stage are to:

- Establish measures to ensure quality of service when growing,
- Ensure costs are kept low, and
- Coordinate capacity building.

Your key measures of success at this stage are:

a. Well established product attributes and processes that you are ready to roll out,

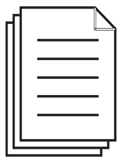
b. The operational capacity in place to support the rollout – including financial and HR capacity, and

c. Finalized product costs and pricing.

Figure 15: Sample Report of Key Issues to Resolve before Proceeding with Full-Scale Implementation from Al Amana, Morocco

ISSUE/QUESTION AL AMANA, MOROCCO NEEDED TO ASK	EXISTING DATA AND ADDITIONAL DATA TO BE COLLECTED	SOURCES (DEPARTMENT, PERSON, SECONDARY DATA)	RESPONSIBLE FOR DATA COLLECTION AND INITIAL PROPOSAL	RESPON-SIBLE FOR DECISION	DEAD-LINE
Individual loan officer profile (recruit from within or outside of the institution?)	Information From other MFIs with the same experience (examples from WWB network)				
Impact of individual lending on the composition of solidarity groups (what happens to the group when one or several group members access individual loans)	Review what happened to groups of more than 300 clients who have accessed individual loans in Rabat				
Loan officer incentive system for IL loan credit agents (determining optimum performance level and relevant compensation)	Data from top Morocco performing individual lenders globally on optimum performance level				
Training of solidarity credit agents to enable them to do cross-marketing					
Motivation for solidarity credit agents to pass clients to individual loan program					
Which region and branch do we go to next? What are the criteria for making this selection (level of demand? Are we able to assign a regional coordinator?)					
What structure do we want to put in place ("regional center" vs. "one credit agent per each antenna")? Which structure is more cost-effective? More prudent?					
What human resource capacity does Al Amana need to introduce individual lending in one additional region? More regions?					
Level of financial resources Al Amana will need to introduce individual lending in one region? Additional regions?					
Marketing strategy developed and all loan officers have clear messaging to distinguish the individual lending from the other loan products					

Begin the Rollout



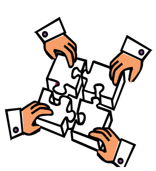
At this stage, you should be ready to begin your individual lending program rollout and implementation using the detailed plan that you have developed.

Before you begin, make sure you can answer each of the following questions in the affirmative:

KEY QUESTION	YES/NO
Have you created a detailed expansion strategy and rollout plan, including a detailed time-line, assigned responsibilities and budget?	
Have you created a promotions and marketing strategy?	
Have you agreed and documented where individual lending will be rolled out and in what order?	
What specific products will be offered at each branch and how will these products be offered?	
Has the staff been trained to carry out the rollout?	
Have standardized processes been drawn up for all branches adopting individual lending?	
Have you established a means of monitoring and evaluating your rollout?	

Resource Requirements and Timing

During Phase 3, you will need the ongoing support of your executive director, leadership team and individual lending project manager. It will be necessary to have a complete adjustment to the processes in your institution which are required to support the product and service rollout. This includes ensuring that your financial and human resources capabilities and infrastructure are all able to handle your product rollout.



External help at this stage can assist you to assess how well you have planned for the rollout and how ready you are to move forward. Consultants will also be able to help you coordinate your dates and rollout resources, provide support for all activities and prepare trainers and training materials. This will be an ongoing process, but you should be sure to allocate approximately two months at the beginning of the process to prepare for your rollout.

Tools

The following tools are used at this stage:

TOOL(S)	DESCRIPTION
Workshop	A workshop should be conducted with the individual lending project manager and leadership team to develop a detailed, long-term plan for rolling out individual lending across the organization.

Checklist

As a result of the implementation stage, you should have the following:

- A documented expansion and rollout plan which outlines the short, medium and long-term strategies for individual lending at your institution,
- A plan and budget for your rollout,
- Training materials for all staff involved in the rollout, and
- A monitoring and evaluation plan.

In Phase 4, monitoring and evaluation should start as soon as you have begun the rollout, as it is important to monitor and evaluate the results on an ongoing basis.

Phase 4—Monitoring and Evaluation

Phase Overview

Introducing individual lending is a time-consuming and costly process, but the benefit to your organization in being able to diversify your products by offering individual loans can be significant.

The goal of the fourth phase is to monitor and evaluate your work to date, conduct any required maintenance and begin the knowledge transfer process. This will mean the following:

- Documenting the outcomes of the rollout,
- Finalizing the individual lending implementation process,
- Conducting variance analysis of planned versus achieved results,
- Undertaking organizational process re-design based on the variance analysis, and
- Identifying your next steps.

Tools used to measure success will include a quantitative analysis of financial and performance measures qualitative data from focus groups, client surveys, in-depth interviews and discussions with staff.

Monitor Success against Objectives

At this stage, you should try to produce a report about your rollout and implementation which outlines the actual results for your products and your institution versus those that were part of your planning.

Check your progress against all objectives set for your products and your institution during the Phase 3 implementation stage, including:

- Size of total portfolio – including the amount in local currency,

- The percentage of your portfolio that is at risk (PAR),
- Loan officer productivity, such as loans per officer each month,
- Individual lending portfolio versus the institution's total portfolio,
- Average loan size for individual loan products,
- Cycle time—the total number of days from first contact to loan disbursement, and
- Customer satisfaction level and demand for the individual loan product that was piloted.

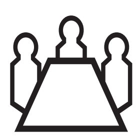
Note: To assist you in monitoring your progress, you can use the performance reports included in Appendix I.

Monitor Progress against your Action Plan

Now, you will also be able to monitor results from both the pilot test and your implementation progress against your action plan. This exercise should be conducted by your project manager and heads of departments. It is designed to reveal any strategic, operational or organizational gaps in your progress in comparison to your action plan. The monitoring team should make an assessment of any steps that have not been completed and evaluate work in progress to determine why these gaps exist and how to resolve them.

Internally Monitoring Impact

You will need to monitor the impact of introducing individual lending within your organization to ensure that your staff is committed and believe in the process. Your staff is a valuable source of information and you should maintain an open dialogue with them for feedback. Front-line staff, in particular, will be well-equipped to provide information on whether individual lending is proving successful and what changes need to be made to the product. Staff should be able to approach their management with feedback at any time and at every level—from branch to head office. There should be a structured, monthly report which is used to pass on this feedback to the individual lending project manager.



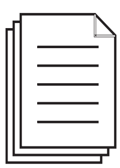
In addition, individual lending should periodically be discussed in team meetings and a timetable of individual lending "check-ins" should be run by the individual lending project manager and some of the individual lending team in different locations in order to get direct feedback. The check-ins should be designed to motivate and excite the staff and to collect information.

It is also important to remember to obtain feedback from key stakeholders such as board members and strategic partners. Making individual lending a topic of discussion in pre-arranged meetings such as board meetings is a good way of soliciting suggestions for improvement, as well as of maintaining the commitment of individuals whose buy-in is particularly important to the success of the individual lending initiative.

Monitoring External Impact

Monitoring impact of individual lending outside your organization is equally important to ensure that you have gotten the product and service right. Ideally, customer satisfaction research with your client base should be conducted every year to monitor how your lending products and institution are perceived. A complete review may be too costly for your organization. The most affordable option is to conduct qualitative research such as focus groups, to learn if your product design and service delivery meets customer needs. Complement qualitative research with quantitative analysis of product take-up, average loan balances, conversion rates of prospects (from applicants to clients) in order to gauge your impact.

Remember, also, to monitor the program's impact on your existing group loan clients. As with all change, resistance to the introduction of new policies is likely. Therefore, it is important to recognize resistance early on so you can determine whether you need to make changes to your programs. The problem is often poor communication, thus actively monitoring perceptions will help you determine how to improve your marketing communications strategy.

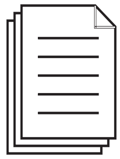


Your combined output from all four monitoring sections should be included in a report for discussion with the individual lending leadership team and senior management.

Identify Changes Required

Having combined feedback from internal and external sources with your assessment of progress against your objectives and your action plan, you now need to analyze the results and draw conclusions on any changes required. These changes should be based around your organization, operations and financial set-up, and should be specific recommendations either to the entire project team, or to specific branches.

This process should take place systematically. For example, it could occur on a monthly basis, when you begin the implementation or twice yearly after the project is more developed. Your aim will be to collate all of the internal and external feedback, discuss it in a workshop with your individual lending product manager, relevant members of the individual lending product team and your institution's senior management.



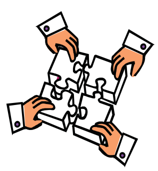
The outcome of the meeting should be a short report which highlights your key conclusions and the steps to be taken to resolve any problems or issues. This guide should be available to all staff in your institution with the goal of indicating the team's willingness to accept feedback and improve the individual lending product(s) and services.

Resource Requirements and Timing

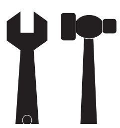
Phase 4 requires the involvement of your individual lending project manager, credit manager, marketing manager and branch managers at branches that offer individual lending. They are responsible for ensuring that sufficient information is produced to enable ongoing monitoring of the project.

Monitoring and evaluation should occur on an ongoing basis. The individual lending project manager should determine how frequently additional research should be conducted and focus groups of staff and other key stakeholders should be held.

At the beginning of the process, it is advisable to produce monitoring reports every one to two months with all of the collected information. The frequency of reporting can decrease as individual lending becomes more established in the institution. Research with clients and other key stakeholders should occur at least once or twice a year.



You may want to use external advisors at this stage to help you with short-term monitoring of progress and then on an as needed basis to evaluate individual lending and provide advice.



Tools

The following tools are used at this stage:

TOOL(S)	DESCRIPTION
Workshop	Workshops should be conducted with the individual lending project manager and organizational leadership to discuss the results of the monitoring and evaluation and consider the implications for the process going forward. They should also be used to solicit feedback from key staff and other stakeholders.

Checklist

At regular intervals during this ongoing phase, you should generate a comprehensive report outlining each of the following:

- Actual product and institutional results during the rollout versus planned results and analyzing the impact of these variances,

- Progress made against the action plan,
- Perceptions of the success of the individual lending initiative, and recommendations for improvement from an internal perspective. You will want to capture the perceptions of staff, partners and your board,
- Clients' perceptions of the individual lending product and processes—including their recommendations for improvement, and
- Implications for your action plan going forward.

Remember: monitoring and evaluation should be conducted on an ongoing basis to ensure the effectiveness of the individual lending initiative. The influence of individual lending on your other products should also be monitored. This should be part of your overall performance analysis to make your organization's approach as consistent and cohesive as possible to enable you measure success.

Conclusion

Conclusion

Key Points and Lessons

Key points to remember when you introduce individual lending are:

- You must make sure before you start that your organization possesses the **right preconditions**. It should operate in the appropriate macroeconomic and regulatory environment, be a sound institution, have sufficient management capacity and client demand,
- You must **understand your target client** in order to design products that effectively meet their needs,
- You must **create a sound team** to introduce individual lending,
- You should **seek external help** for phases where your institution lacks the required capabilities,
- Your individual lending team, and your senior management, must **plan carefully** for the introduction of individual lending,
- You should **introduce individual lending gradually** and follow the **proper sequencing**,
- You should **conduct at least one successful pilot** before you roll out individual lending, and
- You should **monitor and evaluate individual lending on an ongoing basis** and deal with problems as they arise.

Following these guidelines should help you introduce individual lending successfully, generate profit for your institution, motivate your staff and satisfy your clients.

Hopefully at this stage you will have fully introduced individual lending and experienced all of these benefits!

Key Success Factors for Introducing Individual Lending

In an exchange visit to Fundación WWB Colombia, Cali, Clara Serra de Akerman, President, described five key success factors:

1. *The leaders of the institution should clearly define the mission and vision of the institution, and the institutional culture should be dynamic and coherent,*
2. *The credit methodology should be:*
   - *Based on careful analysis of the capacity and willingness of the client to repay,*
   - *Responsive and timely—the institution must respond to a loan request on a timely basis (In the case of Fundación WWB Colombia, Cali, new loans take an average of 5 days to disburse and repeat loans take 3 days),*
   - *In an easy format to gather information from the client, ensuring personalized attention from loan officers,*
   - *With written credit processes that are constantly reviewed and updated, and*
   - *Providing low turnover, decentralized services, adequate controls, internal auditing, and up-to-date technology.*
3. *Products and services should be responsive to clients' needs,*
4. *Regarding human capital, there should be:*
   - *A well-detailed profile of ideal candidates,*
   - *A training process with theoretical and practical training for two months and a thorough review of the credit methodology, from analysis to collection.*
   - *Incentives which are designed to motivate:*
     - *Carefully graded salary levels,*
     - *Monthly, semester and annual bonuses based on outstanding portfolio, portfolio quality and disbursement,*
     - *Competitions for the best loan officer,*
     - *Possibility of a clear career path within the institution,*
     - *Other incentives (scholarships, loans for vehicles).*
5. *There should be the capacity to influence policymakers on the enormous potential for microfinance.*

Final Thoughts

By now, we hope that you have successfully introduced individual lending at your institution. You might have already faced challenges, but by persevering and following the process carefully, should have resulted in a strong individual lending practice in a number of branches.

Next, you will probably face increasing competition as the numbers of institutions offering individual lending in your area grow. Continuing to follow all the best practice examples given in this document, maintaining excellent processes and striving to meet and exceed your clients' needs, will make your organization more competitive and move it towards being a market leader in individual lending.

Your institution should continue to develop and improve its individual lending offerings. You will be able to use much of the data and many of the processes you have utilized in the introduction of individual lending to garner the opinion of your clients, revamp products and marketing and continue to keep your operating costs as low as possible while meeting your clients' demands.

Good luck! Please remember that WWB is available to answer your questions and offer you advice.

Appendix A

Appendix A: Key Differences between Individual and Group Lending

I. Differences at the Screening Stage

CHARACTER CHECK, CAPITAL ASSESSMENT AND REPAYMENT CAPACITY

In group lending, time and effort is invested in building social networks that enable groups to select members who are creditworthy. Members of the same community generally have good knowledge about the potential credit risks of their peers.

Group lenders rely on rigid processes to ensure discipline and consistency among the groups. This begins with screening guidelines to ensure that groups assess their fellow group members' ability and likelihood to repay their loans. Using this approach, group lenders outsource the screening process and costs to the group members. The loan officer's role in this process is to provide structure, training on loan processes and administrative support.

In individual lending, loan officers bear principle responsibility for loan decisions, as well as all screening, monitoring and repayment enforcement of their clients' loans. Their functions require that they have financial background, specialized training and support from the managers in their institution.

Pre-screening of individual loan clients begins with the verification and cross-checking of client references by loan officers. Loan officers typically look at the client's repayment history on previous loans, commercial references and the client's reputation in the community. Individual applicants are then required to undergo a very detailed assessment of their financial and economic information—both for their business and their household. This information is assessed and corroborated for consistency. All credit decisions are made based on the detailed financial analysis, repayment capacity and level of the client's personal and business risks.

In individual lending, data accuracy is highly essential. Individual lending organizations invest significant time and energy into understanding their clients' characteristics and risks and use that information to design loans that are sensitive to the cash flows of the household business unit.

2. Differences Between Group Lending and Individual Lending at the Monitoring Stage

LOAN FOLLOW-UP/ARREARS MONITORING

Group lending methodologies emphasize discipline, transparency and mutual accountability among group members. As co-guarantors, group members are constantly reminded of their roles and responsibilities to ensure full and timely repayment of loans by each member and tracking the mandatory savings. Only when groups fail to meet this obligation do loan officers intervene.

In individual lending, loan officers are responsible for tracking each loan through daily performance reports. Loans officers develop their own mechanisms for ensuring strong repayment performance by staying informed about each client and anticipating potential problems. They need to have an understanding of different business activities and to track market developments that might affect repayment behavior. In understanding the nature of each delinquent payment, loan officers and their managers need to ensure that a speedy and effective follow-up strategy for each case is in place.

3. Differences at the Enforcement Stage

COLLATERAL AND INCENTIVES

The principle incentive for repayment of group loans is joint liability. The reputation, credit rating and future access to credit for each member is directly contingent on each member upholding his or her obligations. The strength of the group is therefore a key element in ensuring that members support each other. Mandatory savings are used in some institutions to cover missed payments or offset delinquent clients.

Individual lending uses a variety of incentives to promote repayment and reduce delinquency. Collateral requirements, co-signers and guarantees are used in different proportions depending on the institution and the loan size. These may include pledges of a client's business or household assets.

In individual lending, financial discipline is created by strict enforcement of contracts, including legal methods. Positive incentives for on-time repayment such as guaranteed access to larger loans with better terms, conditions and requirements are also effective means to ensure good repayment behavior.

Appendix B: Institutional Diagnostic

Appendix B

This diagnostic should help you to assess the feasibility of introducing individual lending in your institution. It should be used to summarize the results of the industry and competitor assessment market demand and organizational readiness.

You should fill in the institutional diagnostic as you go through the relevant steps in phases 1 and 2A, adding in any additional information as you go along.

This template should be used only as a guide. It is best to include as much information as possible, so you may need to include additional sections within this diagnostic.

In addition, we recommend that, in reviewing the implications of the completed diagnostic, you solicit assistance from an external agency with experience in introducing individual lending within group lending institutions.

Institutional Diagnostic

Name of Institution ____________________________________

Date ____________________________________

INDUSTRY AND COMPETITOR ANALYSIS

Marketplace Analysis

KEY QUESTION	2006	2007	PERCENTAGE CHANGE
Market share vs. total market			
Market share vs. top 5 microfinance institutions (MFIs)			
Average annual loan payment over per capita GDP			

Legal and Regulatory Environment Overview

Include a brief summary of the legal and regulatory environment in this space.

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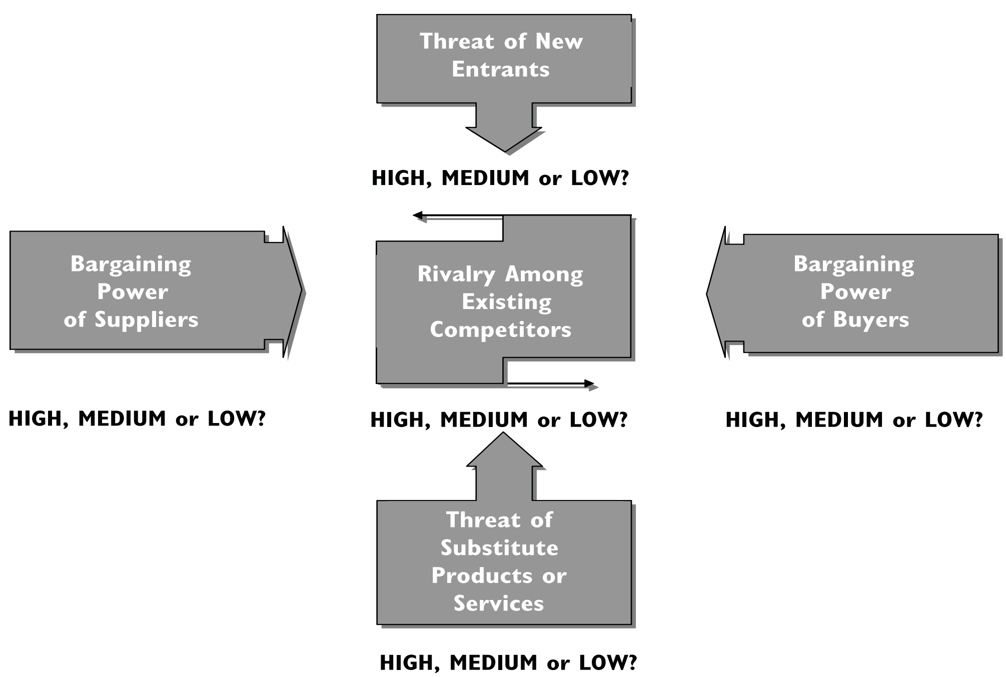
Five Forces Analysis

Note: In addition to assessing whether each of the forces is high, medium, or low, include 3 to 5 bullet points summarizing the influence of each force in your market.



MARKET DEMAND AND SEGMENTATION ANALYSIS

Market Demand

Summarize below the results of your research with target clients, including key learnings and specific recommendations.

Client Segmentation

Summarize below the results of the segmentation of existing clients, as well as implications for their eligibility for taking out individual loans.

INSTITUTIONAL READINESS

Financial Analysis

	2006	2007	PERCENTAGE CHANGE	PROJECTIONS
PORTFOLIO QUALITY				
Repayment Rate as of 30 Days				
Portfolio at Risk (PAR) as of 30 days				
Arrears rate				
Write off ratio				
Risk coverage ratio				
EFFICIENCY				
Cost per borrower				
Personnel productivity				
Operating expense ratio				
Case load				
Average portfolio per loan officer				
PROFITABILITY				
Operational self-sufficiency				
Adjusted return on assets (AROA)				
Adjusted return on equity (AROE)				
Yield				
FINANCIAL MANAGEMENT				
Funding expense ratio				
Cost of funds ratio and cost of debt				
Debt to equity ratio				
Equity and assets				

OPERATIONAL EFFECTIVENESS

	2006	2007	PERCENTAGE CHANGE
Repayment Rate as of 30 Days			
Portfolio at Risk (PAR) as of 30 days			
Operating expense ratio			
Operating self-sufficiency			
Loan loss reserve			
Number of loans per loan officer			
Average portfolio per loan officer			
Ratio of number of loans total staff			
Number of active loans			
Cost per loan			
Average loan size			
Client retention rate			

LENDING METHODOLOGIES

Processes

Provide a brief description on the type of lending methodology used by the institution, identifying principles and the methodology approach:

GROUP LENDING	INDIVIDUAL LENDING
First contact	First contact
Group formation	Client's visit
Group training	Loan appraisal
Savings	Loan approval
Loan application and screening	Disbursement
Loan approval	Arrears monitoring
Loan repayment and group meetings	
Arrears monitoring	

- Have the processes been standardized?
- Map out loan the process for each type of methodology, if there is more than one.
- How does the process compare to other best practices from institutions in your country or region?
- What are the specific areas for improvement?

PRODUCTS AND SERVICES (PRODUCT DESIGN AND RANGE OF PRODUCTS)

- List types of product and services in appendix (product matrix),
- Show graph of growth by product, and
- Understand rationale for each product offering (does it target a different market? does it serve a different need?)

CHARACTERISTICS	PRODUCT 1	PRODUCT 2	PRODUCT 3	PRODUCT 4
Outstanding portfolio				
Number of loans outstanding				
Loan size (include minimum and maximum)				
Loan term (include minimum and maximum)				
Interest rate nominal, monthly (Flat or declining balance)				
Fees (percentage of total amount disbursed or flat amount)				
Compulsory savings (indicate percentage of loan disbursed if applicable)				
Other fees (for insurance as an example)				
Type of guarantees				
Other requisites				

BRANCH STRUCTURE AND BRANCH MANAGER ACTIVITIES

a. Branch structure

b. Performance monitoring and key reports

   i. What are the key reports that branch manager uses to track loan officer performance?

   ii. What are the key reports that branch manager uses to report performance to headquarters, and

   iii. What are the key reports to track arrears?

c. Branch manger functions

   i. Description of the main functions and responsibilities, and

    ii. Identify the weekly schedule of those activities

d. How does the branch manager enforce lending policies

    i. Group formation,

    ii. Loan approval, and

    iii. Arrears monitoring.

TABLE OF WEEKLY ACTIVITIES

TIME	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
Morning					
Lunch					
Afternoon					

LOAN OFFICER ACTIVITIES

e. Loan officer functions

    i. Description of the main functions and responsibilities, and

    ii. Identify the weekly schedule of those activities.

f. Performance monitoring and key reports used by the loan officer(s)

    i. To track disbursement, and

    ii. To track arrears.

TIME	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
Morning					
Lunch					
Afternoon					

MIS

- How efficiently are the loan tracking systems working?
- Are the reports generated from the system adequate for monitoring performance? Does each layer within the organization have the necessary information to manage their area?

- What is the minimum amount of information needed to manage in an optimal manner?

MIS and Lending procedures:

- Do MIS track pre-disbursement processes
    1. First contact.
    2. Client assignation.
    3. Client visit.
    4. Loans assessed ready to be approved.
    5. Loans approved ready to disbursed.
- Post Disbursement Tracking
    1. Arrears monitoring,
    2. Ageing of arrears by loan officer, and
    3. Future payment schedule by month and week.
    4. Who is responsible to input the data in the MIS?

ORGANIZATIONAL EFFECTIVENESS

Overview and Analysis

	2006	2007	PERCENTAGE CHANGE
Staff retention rate			
Ratio of direct to indirect staff			
Incentives as a percent of salary			
Quit rate			
Termination rate			
Layoff rate			
GRIEVANCE RATE			

ORGANIZATIONAL STRUCTURE (ORGANIZATIONAL CHART SHOULD BE INCLUDED IN APPENDIX)

BOARD AND MANAGEMENT ASSESSMENT

Internal Audit

- Are there policies and procedures for key functional activities such as credit, accounting, and finance?
- Are these policies clearly communicated and understood?
- Are these policies updated and if yes, how often?
- What is the process used to update policies (how is feedback solicited and documented?)
- What controls does the organization have in place to prevent fraud? Has fraud occurred before? (If yes, when and after how long before was it detected?

Human Resource (recruitment, training and incentives):

- Commitment—to what extent do the HR policies enhance the commitment of your people?
- Competence—to what extent do the HRM policies attract, keep and/or develop people with the skills and knowledge needed by the organization?
- Cost Effectiveness—what is the cost effectiveness of a given policy in terms of wages, salaries and productivity, and
- Congruence—what level of congruence do HR policies generate or sustain between management and employees?

Human Resources Audit: the main purpose of the audit is to evaluate the effectiveness of the organization's human resource function—it should show both the department's strengths and weaknesses and provide management with a clear picture of the department's role in the organization, and the following:

- Understand turnover: quit rate, termination, layoff, retention, retirement, length of service, absence, overtime, position vacancy, training and development and grievance rate, and
- Understand personnel policies: salary and benefits package, supervisory practices, job design and retirement plan components.

FINANCE AND FUNDING

	2006	2007	PERCENTAGE CHANGE
OROA			
OROE			
Average Cost of Debt			
Yield on Portfolio			
Equity Multiplier			
Debt to Equity Ratio			

Appendix C: Market Analysis Module

Introduction

The objective of this tool is to serve as a guideline for those who will be involved in conducting competitor and industry analysis. It is geared especially for use by a WWB Relationship Manager or other external consultant who is familiar with market research techniques, the microfinance industry and the market in which your institution is operating. The tool has been developed using WWB's global experience and expertise.

The tool has three components:

1. Section I—Learning about the competitor and Industry: This section includes various methodologies that can be used in obtaining competitor and industry information,
2. Section II—Developing the Interview Guide: This section includes a list of questions by area of operation that need to be answered through any one of the methodologies mentioned in Section I, and
3. Section III—Techniques for interviewing the competitor or industry expert. This section contains tips that can be used during the interview process.

SECTION I—LEARNING ABOUT THE COMPETITOR/INDUSTRY

There are various methodologies that can be used in obtaining information on a competitor and industry. They include:

- Secondary research.
- Competitor Interviews, and
- Industry interviews.

Secondary Research: refers to the review and understanding of already published information. The sources of information can vary and include the print media and electronic media.

Industry Interviews: would include meetings with industry experts and other key stakeholders such as bankers, regulators, funding agencies and other international agencies.

Competitor Interviews: would include meetings with management and staff of the competitor institutions selected for the analysis.

SECTION II—DEVELOPING THE INTERVIEW GUIDE

This section provides a comprehensive list of questions about a competitor and industry that need to be answered. The framing of the questions will be left to the discretion of the user of the this tool. The questions serve more as a checklist of areas to cover and can be answered using one or more of the data gathering methodologies listed in section I.

Before moving onto the questions themselves, below are some tips to keep in mind in preparation for the interviews.

1. Do as much secondary research on the local industry as you can before arriving. Plan to talk to industry experts soon after arrival to get the "big picture" of the industry before you start to talk to competitors.

2. It is easier to do competitor interviews once you know something about the market as a whole. If possible, interviews with industry experts which can give you a perspective on the local industry as well as impressions of various MFIs. Good sources for industry expertise are: university professors, development bank staff, international funders, private consultants specializing in microenterprise and local economists.

3. Try to find out as much as possible about the competitor before the interview. This will save you from asking basic questions and will also allow you to confirm or expand on the information you have gathered through other means.

4. Determine the objective(s) of the interview. This will help you to establish the areas to focus on during the interview. Each interview will have to be customized to the specific individual being interviewed, for example, the executive director, credit manager or loan officer, in the case of competitors or industry experts. In the case of industry interviews, you would talk to regulators and researchers.

5. Write up your questions in advance. Your list of questions should be flexible. Decide the type of information that you are looking to obtain, and also decide what you think will be possible to get from the person with whom you are speaking (for example, you would not expect to get big picture strategic goals from a loan officer, and you would not expect to get sensitive financial data from the executive director). Also, consider time constraints; you have an hour of the person's time, and you won't be able to ask detailed questions about a wide range of subjects, so choose your subjects and questions carefully.

QUESTIONS TO BE ANSWERED ABOUT THE COMPETITOR MFI

General Questions

- Please provide a brief history of the organization (creation, mission, goals, products and services)
- What is the legal structure?
- What is the organizational structure of the competitor? (Number of total employees and administrative versus field staff)
- How are loan officers recruited?
- Describe the legal and regulatory environment for microfinance in the country, and
- Has the microfinance industry changed over the past two years? How so?

Market Questions

- What is the competitor's perception of the market?
- How competitive is it? Is it saturated?
- (The competitor's view on the market can also provide insights into the competitor's own position and changes in market share, challenges and opportunities that the competitor has faced in the past or is currently facing).
- Is the microfinance market in ____________ different than what it was five years ago? If yes, how?
- Is the microfinance market in ____________ different from the microfinance market in other parts of the country? If yes, how?
- What is the competitor's understanding of the market size?
  - What is the estimated number of potential clients?
  - How is market potential calculated?
- How many active borrowers does your competitor have? Number of savers? Has this changed over the last few years (time-frame will depend on country information), and
- What are the challenges and opportunities for growth in the particular microfinance market?
  - number of clients
  - size of portfolio

Client Questions

- What is the competitor's target market? What is the client mix?

CATEGORY	BREAKDOWN (NUMBER OR PERCENTAGE)	
Male/Female		
Rural/Urban		
Microentrepreneur/SME		
Other, please specify		

- What are some client demographic (age, literacy level) characteristics?
- What is the client targeting strategy?
- What are the client eligibility criteria?
- How does the competitor define a good client?
  - Does the organization differentiate between a good and bad client? If yes, how?
- If the retention rate is low, ask about possible causes for drop-outs, and
- What process does the institution have to manage drop-outs?

Products and Services

- What kind of products and services does the competitor offer? (obtain data from the product development template)
- What is the average loan size? Type of loan most commonly taken? Range of loan sizes most frequently taken?
- How does the institution set interest rates?
- What is the interest rate the MFI charges on the various loan products? What interest rate does the MFI pay on savings products? (This information should already be available from the competitor template obtained through secondary research), and
- What is the institution's most popular product?

Operations

- What is the size of the active loan portfolio?
  - Number of active loans?
- What lending methodology or methodologies does the competitor use?
- Describe the loan application and approval process,
- How are lending decisions ultimately made (centralized or decentralized decision making process?)
- What is the loan turnaround period, and
- How long does it take to disburse the first loan? Subsequent loans?

Financial and Cost Questions

- What are the various sources of funding? What is the average cost of capital?

SOURCE	INTEREST RATE
Commercial	
Concessional	
Donor grants	
Other	

What are performance standards of the competitor?

- How do they compare to peers in the sector?
- How do they compare to WWB standards?

PERFORMANCE MEASURE	ACTUAL PERFORMANCE AS OF ________________
Outreach	
Repayment rate	
Portfolio of risk (PAR) 30 days)	
Cost of unit of money lent (CUML)	
Financial sefl-suffiency (FSS)	
Operational self-sufficiency	
Retention rate	
Arrears rate	

- If costs are high, the questions to answer are where do most of the costs come from (interest, salaries, information technology systems)? You should ask follow-up questions if necessary and if there is time, and
- Does the competitor account for financial and non-financial services separately on their balance sheet?

Human Resource Questions

- How are your loan officers trained?
- Is there an incentive system for your employees? What is it based on?

Other Questions

- What are you proudest of in your organization?
- What challenges does your organization face?

QUESTIONS TO BE ANSWERED ABOUT THE INDUSTRY

General Questions

- Please describe the history of the microfinance industry in your market. Do you think the industry here will be different in five years?
- Is it changing now? If yes, how?
- Has it changed in the past three to five years? If yes, how?
- Which organizations are the most significant in the market today? Why?
- Do the current legal and regulatory frameworks enable MFIs to deliver appropriate services in a sustainable manner? What legal structures are best suited to deliver microfinance services?
- Are there any upcoming changes that you are aware of with respect to government regulation of the industry?
- What if any, are the performance standards used in the industry? What percentage of MFIs meet these performance standards?

Market Questions

- What is the market potential and how is it calculated?
- What are the likely areas of innovation and who will drive this innovation? Where are the bottlenecks?
- What is the role of credit-rating institutions and what are the possibilities for further development?

Finances and Funding

- Where does most of the funding for local microfinance organizations come from?
- Has the focus of the funders changed? In what direction is funding moving? What initiatives are donors pursuing?
- Are formal banks interested in doing microlending in your markets? Have any started? Which ones?
- Do you think they will enter the local microfinance sector?
- Are there current linkages between the informal, unregulated and fully regulated institutions? What have been the results of these linkages in the microfinance sector, such as (flow of funds?
- What type of mechanisms exist (formal or informal) to borrowers to access credit here?

SECTION III—TECHNIQUES FOR INTERVIEWING A COMPETITOR AND INDUSTRY EXPERT

Sample Introduction: I'm ___________, and I work for ________________. I am doing research on the microfinance market in _________and trying to learn about various organizations that provide microcredit. Thank you very much for taking the time to meet with me today. As part of my study, I am talking to a number of people who play different roles in the sector and would like to learn more about the sector in general, and about the history of certain organizations and what kinds of products and services they offer.

- Start with the easiest questions, and work your way up to more sensitive ones as you build up rapport through conversation. Also, try to think of subtle ways of finding out information, for example, by asking whether they think the market is competitive and will give you a sense of their positioning in the market. In addition, if you let the interviewee talk, they may tell you who they think their biggest competitors are.

- Be prepared to change course mid-stream if the interviewee starts sharing information that you wanted but didn't expect to get. Let the conversation take a natural course. At the same time, know what information you absolutely must have, and try to make sure you obtain it, even if you have to ask the question in several different ways.

Appendix D: Segmentation Analysis at Kashf, Pakistan: Terms of Reference

The WWB and KASHF teams agreed to conduct an in-depth financial assessment of a sample of KASHF's solidarity lending clients in order to develop a better understanding of a segment of KASHF's existing group clients who would be eligible for individual lending, as well as to:

- Develop detailed profiles of KASHF's solidarity group clients by stages of business development, such as:
  - Income-generating business, and
  - Microenterprises.
- Determine the repayment capacity of solidarity group clients by stage of business development.

In addition to the current clients, the WWB and KASHF teams will interview 50 potential clients in order to understand their business characteristics and financial needs. This information will be used to discuss future product design implications.

The following decisions were made regarding the segmentation project:

- A branch with potential for individual lending and with available MIS should be chosen as the area for the project,
- The sample size will be 120 to 150 clients,
- The assessment team would include five potential individual loan officers, two branch managers, the individual lending manager, the individual loan coordinator, the credit manager and the WWB team,
- The sample size for potential clients will be 50 microentrepreneurs, and
- To conduct the interviews with potential clients KASHF needs to provide three to four additional persons, either staff or students.

During the upcoming trip, the WWB team will focus on three main areas of work – conducting the segmentation project, developing lending policies, implications for the individual lending product and assessing the progress to date on the preparation phase of the individual loan pilot test.

Key Objectives

- The objectives for the trip were jointly developed by the WWB and KASHF teams and are as follows:
- Conduct a financial analysis of a sample of 150 group clients at the branch to be identified in order to determine financial profiles of KASHF's existing clients,
- Conduct a survey with 50 potential clients to identify their business characteristics and financial needs,
- Review the progress of the action plan set for the preparation phase of the pilot and make necessary adjustments,
- Conduct first training of future loan officers, branch managers and key staff involved in the segmentation exercise,
- Develop client criteria to access individual loans, and
- Discuss product design and the implications of lending policies.

Key Actions—Segmentation

METHODOLOGY

Current Clients

The assessment methodology will be based on a simplified version of the analysis of the client's economic unit used in best practice individual lending methodology. This analysis incorporates an evaluation of the client business balance sheet and income statement as well as the cash flow of the household. It is usually accomplished through a visit to the client's business and a separate visit to the client's house. However, for the purposes of the present analysis, the process will be limited to the business visit, while information about the economic situation of the client's household will be collected through a detailed interview of the client at the place of the business.

Potential Clients

For potential clients, a survey will be conducted to a randomly selected sample of 50 businesses. The sample of business should be chosen based on the business size. In this category, the interviewers need to select larger businesses that are only interested in individual loans. Also, the sample should reflect the business composition of the market. For example, the sample should have the following:

- At least 50% of traders (grocery shops, clothing shops, hardware stores, pharmacies),
- 30% of businesses in the service sector (beauty saloons, restaurants, cafeterias, etc), and
- 20% of manufacturers (bakeries, clothing manufacturers, furniture producers.

The proportions of businesses from each sector was decided by the KASHF team, based on their common knowledge of the informal sector.

PROCESS

The client business segmentation process has been defined as follows:

Preparatory Phase

Determine a branch office where the assessment will take place. Some of the criteria for branch office selection should include: concentration of growth-oriented microbusinesses that will offer potential individual borrowers. Another consideration was close proximity to KASHF's head office in Lahore, in order to closely monitor the assessment process as well as the pilot project.

Identify a Pakistan client sample. Once a branch office is designated, the next step is to determine a sample of clients that would provide statistically significant information about the entire client population in that branch office. Some of the important variables to take into account while building a sample are type of business activity such as trade, production, services and loan cycle.

Selection of the team to conduct the assessment. It was agreed that the individual loan officers, two branch managers, the individual loan manager, individual loan coordinator, the operations manager and the WWB team will conduct the assessment.

Training new loan officers. The five new potential candidates for individual loan officers, the branch managers and the rest of the staff involved should be trained in advance by the individual loan coordinator, this will speed the concepts refreshing process that the

WWB team will conduct the first day of the engagement. The training should involve a detailed review of the appraisal tool and include at least three field visits to clients to collect the information.

Appraisal form for individual lending. During the engagement, the WWB team will introduce the forms that will be used in the segmentation exercise. This form has also a balance sheet for the business. This form will be send in advance so that the KASHF team is familiar with it. Please see Annex I.

Implementation Phase

Conducting economic assessments through visits to client businesses. A group of 5 loan officers and two branch managers, the individual lending coordinator, individual lending managers and two senior managers will conduct the assessments. The individual loan supervisor, the operations manager and the WWB advisors will work with different team members providing back-up and hands-on guidance. At the end of each day, each individual assessment will be checked for completeness and validity.

Entering information in the database. At the end of each day, all data will be entered in the database. One person will be responsible for checking the accuracy of the data input.

For the potential clients, a coordinator appointed by KASHF should make sure that all of the interviews are completed and properly documented. Once the interviews have been reviewed, the coordinator should pass the interviews to the data-entry person.

Analysis Stage

Upon completion of the client business assessment process and subsequent data entry, a joint KASHF/WWB team will analyze the information. Some of the areas evaluated will include:

Analysis of clients' total business assets and monthly turnover as key indicators in defining financial profiles of client businesses. These indicators will be analyzed in relation to different variables, such as the type of economic activity, gender and total years in business.

Analysis of clients' business liabilities to understand all sources of business financing. This analysis will help the team understand where else clients are borrowing from, such as family, ROSCAs (savings clubs), banks and other MFIs.

Analysis of business net worth. The enterprise's equity is a key determinant of the size of external borrowing (usually the size of the loan does not exceed the size of the capital of the business, with the exception of restaurants, sodas, cafes and fast food businesses). Therefore, this was an important input in determining KASHF's loan sizes.

Outstanding Preparatory Steps

In order to achieve all of the above stated objectives, the following steps must take place prior to the visit:

KASHF

- Identify the current client sample (180 clients),
- Identify and contact the potential client sample (50 potential clients), and
- Create daily lists of current clients to be visited, including back-up names (clients with the same characteristics). Contact and arrange visits with at least 180 clients,
- Arrange logistics – you will need to determine where the end of the day meetings will happen and to check the correctness and completeness of each assessment, and
- Create a daily list of potential clients to be visited, including back up names (clients with the same characteristics). You should try to contact at least 60 clients to visit.

WWB

- Send a refined sampling methodology to KASHF,
- Send interview forms for current clients, and
- Send Interview forms for potential clients.

KEY ACTIONS—ASSESSMENT OF THE PREPARATORY PHASE FOR INDIVIDUAL LENDING

- Review progress on MIS adjustments,
- Discuss implications for graduation strategies for target clientele,
- Discuss organizational structure to monitor individual loan officers, and
- Prepare and present to the board and senior managers the segmentation analysis, outlining strategic implications for your organization.

OUTPUTS

The key expected outputs of this mission are the following:

- A road map for the implementation of the pilot phase of individual lending,
- The segmentation report will serve as an important input in determining an adequate mix of KASHF's future loan products,
- Based on the results of the segmentation analysis, the lending policy for individual lending should be drafted, and
- Product design implications will be discussed.

Appendix E: Individual Lending Manual Template

Appendix E

1. Lending Policy Guidelines

This section should include principles, key people responsible, target group, restrictions, and procedures for migration from group loans to individual loans.

2. Loan Requirements

This section should include the loan requirements, such as age, business, type of activity and experience.

3. Guarantees

This section should include each type of guarantee with a detailed description.

4. Loan Amounts and Loan Conditions

This section should include conditions such as loan amounts, loan use, term, frequency of repayment, interest rate, insurance and arrears penalties.

5. Loan Conditions According to the Loan Amount

This section should include conditions according to each loan amount and range.

6. Documents Required for Each Type of Guarantee

This section should include the items to request from the client for each type of guarantee.

7. Process Description for Each Type of Guarantee

This section should include the guarantee process for each type of guarantee.

8. Loan Process

This section should include detailed information on the process followed at each phase.

Sample phases include:

i. Promotion,

ii. Preliminary Interview,

iii. Financial Analysis—which includes analyzing the business, the home visit, interview(s) with guarantors, preparing the loan proposal to present to credit committee and entering data in the appropriate computer program,

iv. Deciding whether to Grant the Loan—which includes the loan officer presenting the loan proposal to the credit committee, the credit committee analyzing the proposals and making lending decisions, entering data in the appropriate computer program and preparing for disbursement,

v. Guarantee agreements,

vi. Loan disbursement—which includes the issue and verification of documents for disbursement, loan disbursement, composition of the client's file and the input of disbursement in your computer system,

vii. Portfolio follow-up,

viii. Arrears committee, and

ix. Renewing clients.

Each phase should include detailed information on each of the following:

- People responsible,
- Objective,
- Process,
- Key Points, and
- Outputs—provide examples when relevant.

Appendix F: Key Points to be Checked and Considered by the Credit Committee

	LOAN DOCUMENTS TO BE CHECKED
LOAN APPLICATION FORM	
	Type of business (trade, service or manufacturing)
	Experience in the business
	Age of the client
	Client's signature
	Complete information? (information on co-signer and guarantor included?)
	Location map
	Does client or guarantor own the house?
	Pictures of the client, business and guarantee
	LOAN ASSESSMENT
GENERAL CONSIDERATIONS	
	Did the loan officer visit the house and business?
	Interview conducted with the responsible party of the business?
	Loan officer's general impression of the client, including:
	• Cooperation
	• Honesty
	• Accuracy
	• Management Skills
	• Household care, and
	• Repayment behaviour
BALANCE SHEET	
	Was there cash in hand? Were savings verified?
	Ask about amount of cash in hand and how many days of sales it consists of?
	• When was the last inventory purchase dates and for how much?
	• Compare it to monthly sales
	What is the risk concentration of accounts receivable?
	Are fixed assets reasonable for the type of business?

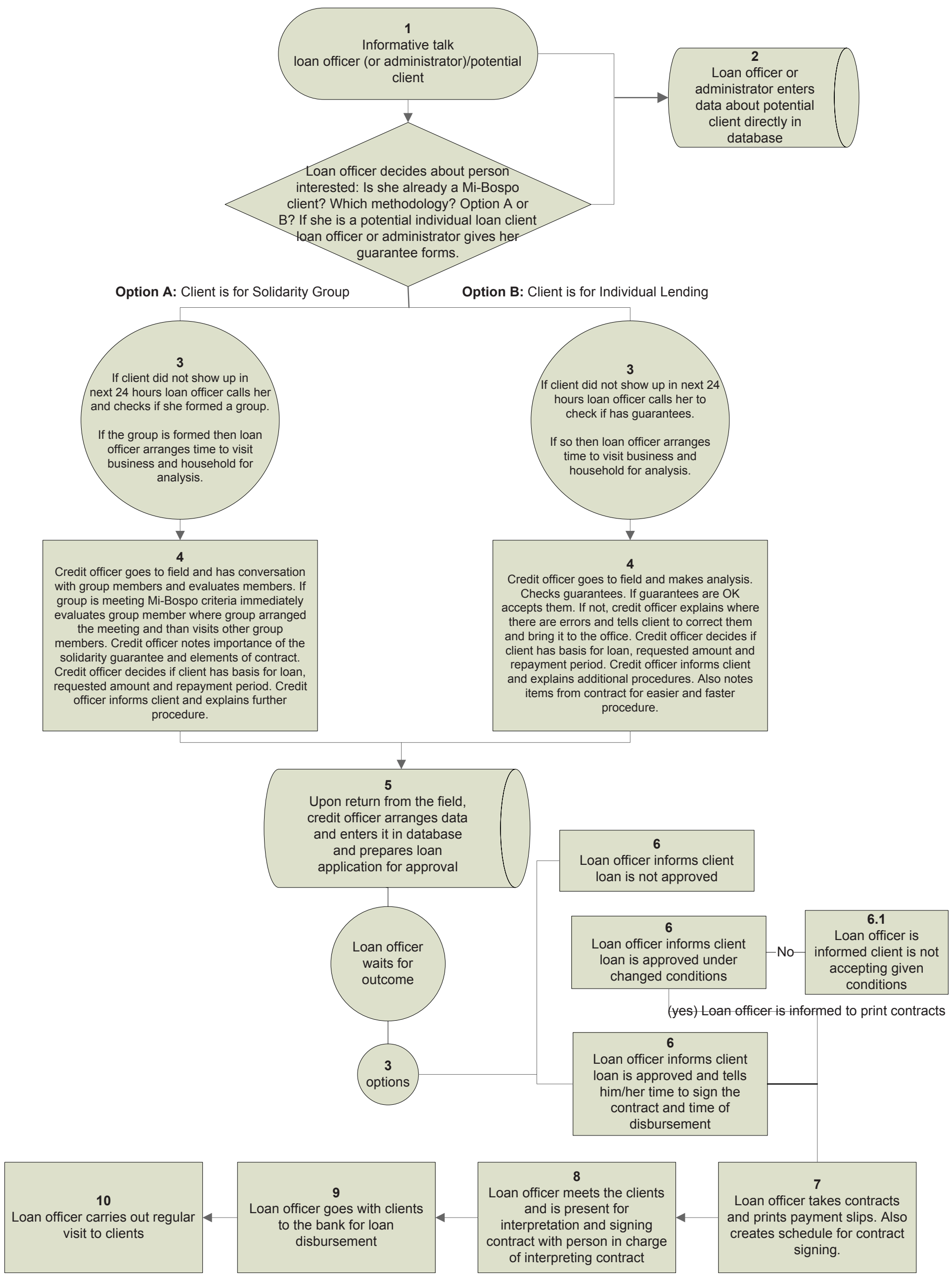
Appendix F

	Is inventory reasonable for type of business?
	Characteristics of the liabilities and use of the loans?
	Reasonable balance sheet for the business?
	Family balance sheet consistent with available surplus?
	Is all information complete? (date and time.)
SALES & PURCHASES CALCULATION	
Sales	
	Cross verify sales—considering the daily, weekly and monthly calculations
	Consider the calculations for the good, regular and bad months of business
	Consider the seasonal nature of sales
	Is the client going to be able to pay the loan in the bad months?
	Frequency of sales and amount. Cross verify them with weekly sales
	Risk of sales concentration and risk of the market for the business
	Check sales in both credit and cash
Purchases	
	Frequency of purchases
	Cross verify purchases with the "purchases per item"
	Cross verify purchases with the average gross margin
	For manufacturing cases, consider how reasonable production costs are
	Number of units produced, unit cost, cost of production and gross margin
Gross Margin	
	Is gross margin reasonable for the activity and business?
CASH FLOW	
	Are operating costs reasonable for the business?
	Are family expenses reasonable, considering the number of family members?
	Payment of liabilities and savings (committees) considered?
	Is the available surplus enough? (no more than 50% of available balance)
	Is there other family income included in the net family surplus?
	Other family income reasonable?
	Is loan installment according to what client mentioned in the application form?
SUMMARY	
	Complete information?
	Financial ratios reasonable for the business?
	*Turnover according to the business activity? Check the need for working capital.
	*Gross margin according to the business activity
	*Indebtedness ratio shouldn't be greater than 70% (except for services)

	*Ratio of installment shouldn't be greater than 50%
	Loan officer proposal (amount, installment and term)
	Is collateral enough? (at least 80% of the loan amount)
	Reasonable, detailed investment plan?
	Risks of the business and activity?
	Check information of the spouse and guarantor
	Correct calculations?
	Credit committee resolution?

Appendix G

Appendix G: Example of Individual and Group Lending Process Map, MI-BOSPO, Bosnia Herzegovina



Appendix H

Appendix H: Training for Credit and Operations Staff

Introduction

The importance of comprehensive training for loan officers and all operations staff involved in the delivery and management of individual lending cannot be overly stressed. WWB recommends using a structured individual lending training program that includes a certification process.

The training program for individual loan officers includes:

- Approximately one to two weeks of classroom theoretical training, and
- Approximately six weeks of training in the field with managers and experienced loan officers.

Theoretical training covers subjects including: business analysis, financial analysis, accounting principles, credit assessment, understanding different business sectors, the financial structure of clients' households and aspects of customer service. Analytical tools and approaches used by the institution are explained and tested, and preparation for field training is done through role playing and processing of "mock" client applications.

By the end of the theoretical training, trainees should be comfortable with calculating repayment capacity and the financial ratios used for loan decisions. A test is conducted to measure the trainees' comprehension of the topics treated, and to screen out unsuitable individuals before they move in to the field. Screening prospective staff is important since it avoids potentially problematic contact with clients, and also limits costly time investment involved in the field training.

Field training involves coaching new loan officers in conducting client interviews, observing indicators about the household or business which might influence their loan assessment and capturing key socioeconomic information for the financial analysis. It also involves illustrating ways to insure cross-checking and verifying accuracy of information.

During field training, trainees are often mentored by an experienced loan officer in conjunction with the branch manager. It is an essential component of the training, and therefore, important that the operations and human resources teams plan adequate time and staffing for coaching of trainees.

The suggested total training period is up to two months. Although loan officers may begin to assess their own clients after six weeks under supervision by another staff member, depending on their individual capacities.

Training through Credit Committees (MI-BOSPO Example)

As part of its training program, MI-BOSPO, the Bosnia Herzegovina MFI, established training credit committees through which applications were discussed before passing to the formal credit committee for final loan decisions. The training credit committee provided a sort of laboratory of learning for both loan officers and managers, especially in the early stages of program start-up. They enabled detailed discussions on a range of issues and dilemmas presented by different types of applications and avoided turning formal credit committees into training sessions.

Who Should Be Trained for Individual Lending?

MFIs approach the question of which staff should receive individualized training. Differentiated training programs on individual lending should be developed for staff in the various areas of the institution.

Loan officers for both group and individual lending need to have an understanding of each of the products offered by the institution. A key component of client service is the clarity and ease with which staff are able to explain products and services offered to their customers. Group and individual loan officers should be able to fill in for one another, at least during the initial information meeting with clients. They should also be able to advise customers on which product is best suited to their needs and assist them through the basic application process, but not necessarily through the loan processing analysis.

Some MFIs train their group loan and individual loan officers through a single training program. There are pros and cons to this approach:

PROS:

- Provides equal mobility for loan officers to move within the organization,
- Ensures that everyone has the same information,
- Offers potential to strengthen service delivery for all products, and
- Good human resource strategy for integrating the two groups of staff members.

CONS:

- Can be time-consuming—takes group loan officers away from their productive activities.
- Is providing all staff with the same information a good investment of time and resources?
- Not all group loan officers have the educational background or capacity to learn the new material.

Training of credit managers is equally important as they will both drive the implementation and development process, as well oversee day-to-day performance of loan officers. In addition to training in individual lending credit technology, they also require training in specific management procedures and issues for individual lending, strategic portfolio analysis and guidance on credit committee functions. It is important that training for managers does not greatly disrupt their ongoing responsibilities to oversee existing operations.

TRAINING OF THE CREDIT COMMITTEE

Credit committees are pivotal to the successful implementation of individual lending. They need to be adequately prepared and managed to ensure that good quality loan decisions are made on a consistent basis. Effective credit committees serve as a barometer of the effectiveness of the loan assessment procedures and the quality of loan officers' adherence to loan policies in preparing cases for approval. Moreover, organizations with strong committees are able to decentralize decision making without affecting portfolio quality.

Credit committees without adequate preparation or structure. On the other hand, are unable to identify weak loan assessments or identify risky cases. Decentralization of loan approval with ill-prepared credit committees can be a recipe for disaster.

Training for credit committees is therefore a high priority. Trainers should work closely with the operations department to provide the analytical framework for committees, including specific guidelines for evaluating loan officer presentations and relevant questions to verify the accuracy and consistency of loan information. Based on WWB experience, training for credit committees can take up to three months of on-the-job coaching.

ON-GOING TRAINING

Training staff for the implementation of a new product does not end once the product has been introduced. Staff training needs are ongoing and need to be monitored by managers. Typical topics for ongoing training as defined by the field officers include:

- Strengthening customer service,
- Interviewing skills,
- Communications skills, and
- Promotional techniques.

MFIs should provide opportunities for credit staff to provide feedback on areas where they feel they may need further training.

Appendix I: Sample Performance Report

Target

A target for each loan officer was developed and communicated to credit team. Each branch is fully aware of its target.

Credit Committee

CLIENT	LOAN OFFICER RESPONSIBLE	AMOUNT SUGGESTED	AMOUNT APPROVED	AMOUNT REJECTED	IF REJECTED, REASON FOR REJECTION

Performance Analysis

LOANS DISBURSED

A. Number of loans disbursed

BRANCH	NAME OF LOAN OFFICER	NUMBER OF LOANS DISBURSED		ACTUAL VS. TARGET	PERCENTAGE FROM TOTAL DISBURSE-MENT	NUMBER OF LOANS DISBURSED PER LOAN OFFICER	
		TARGET	ACTUAL			TARGET	ACTUAL

B. Amounts Disbursed

BRANCH	NAME OF LOAN OFFICER	AMOUNTS OF LOANS DISBURSED		ACTUAL VS. TARGET	PERCENTAGE FROM TOTAL DISBURSEMENT	AVERAGE LOAN SIZE	NUMBER OF LOANS DISBURSED PER LOAN OFFICER	
		TARGET	ACTUAL				TARGET	ACTUAL
Total								

2. GROWTH PERCENTAGE IN JANUARY

BRANCH	NAME OF LOAN OFFICER	LOANS DISBURSED IN DECEMBER 2004		LOANS DISBURSED IN JANUARY 2003		NUMBER OF LOANS DISBURSED PER LOAN OFFICER	
		NUMBER	#	NUMBER	#	NUMBER	#
Total							

3. PORTFOLIO OUTSTANDING

BRANCH	NAME OF LOAN OFFICER	PORTFOLIO OUTSTANDING			PERCENTAGE FROM TOTAL DISBURSEMENT	NUMBER OF LOANS DISBURSED PER LOAN OFFICER	
		TARGET	ACTUAL	PERCENTAGE FROM THE TOTAL PORTFOLIO		TARGET	ACTUAL
Total							

4. OUTSTANDING PORTFOLIO IN ARREARS AND AT RISK

LOAN OFFICER	PRINCIPLE OUT-STANDING	1-15 DAYS		16-30 DAYS		61-90 DAYS		91-180 DAYS		180+ DAYS		TOTAL ARREARS	ARREARS PERCENTAGE
		NO.	#	NO.	#	NO.	#	NO.	#	NO.	#		
Total													

5. DISTRIBUTION OF LOANS DISBURSED

a. By Number and Amount

AMOUNT (JD)	NUMBER	PERCENTAGE	AMOUNT		PERCENTAGE
Total					

b. By Sector

BRANCHES	NAME OF L.O.	TRADE						SERVICE						PRODUCTION						TOTAL	
		HOME BASED		INDEPEN-DENT		TOTAL		HOME BASED		INDE-PENDENT		TOTAL		HOME BASED		INDE-PENDENT		TOTAL			
		NO.	JD	NO.	JD	NO.	JD	NO.	JD	NO.	JD	NO.	JD	NO.	JD	NO.	JD	NO.	JD	NO.	JD
Total																					

c. By New or Repeat Clients

NO. OF LOANS DISBURSED	NEW CLIENTS	PERCENTAGE	REPEAT CLIENTS FROM				PERCENTAGE
			OLD INDIVIDUAL	NEW INDIVIDUAL	GROUP LOANS	TOTAL	
Total							

d. By Home Base or Independent

LOANS DISBURSED	INDEPENDENT	HOME BASE
75	53	22

6. LOAN OFFICER PERFORMANCE IN CREDIT COMMITTEE

BRANCH	LOAN OFFICER	NO. OF LOANS SUBMITTED TO CC	NO. OF LOANS APPROVED	TOTAL # REQUESTED FOR ALL LOANS BY		TOTAL NUMBER APPROVED BY CC
				CLIENT	LO	
Total						

7. STATUS OF APPLICATION

BRANCH	LOAN OFFICER	NO OF APPLICATIONS RECEIVED	FIRST SCREENING STAGE		ANALYSIS STAGE		CREDIT COMMITTEE STAGE			DISBURSEMENT STAGE		
			ACCEPTED	REFUSED	ACCEPTED	REFUSED	ACCEPTED	RE-FUSED	POST-PONED	ACCEPTED	REFUSED	POST-PONED
Total												

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