

Introduction

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

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

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

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

1.1 How the handbook is structured

This handbook takes readers through the process of developing a business plan for a microfinance institution. Part 1 briefly describes the steps of strategic planning:

- Articulating the mission and goals
- Defining markets and clients
- Analyzing the environment

- Performing an institutional assessment
- Developing a strategy for expansion that focuses on maximizing outreach and profitability.

Part 2 describes operational planning from the perspective of developing a set of detailed financial projections. It explains how to model the operational planning process using Microfin, the Microsoft Excel spreadsheet on the accompanying diskette. And it describes the steps of operational planning:

- Defining financial products and services
- Specifying marketing channels
- Mapping out institutional (program and administrative) resources and expenses, including areas needing development
- Developing a financing strategy
- Analyzing financial projections and indicators.

Part 2 concludes with a brief discussion on how the business plan and financial projections can be used as ongoing management tools.

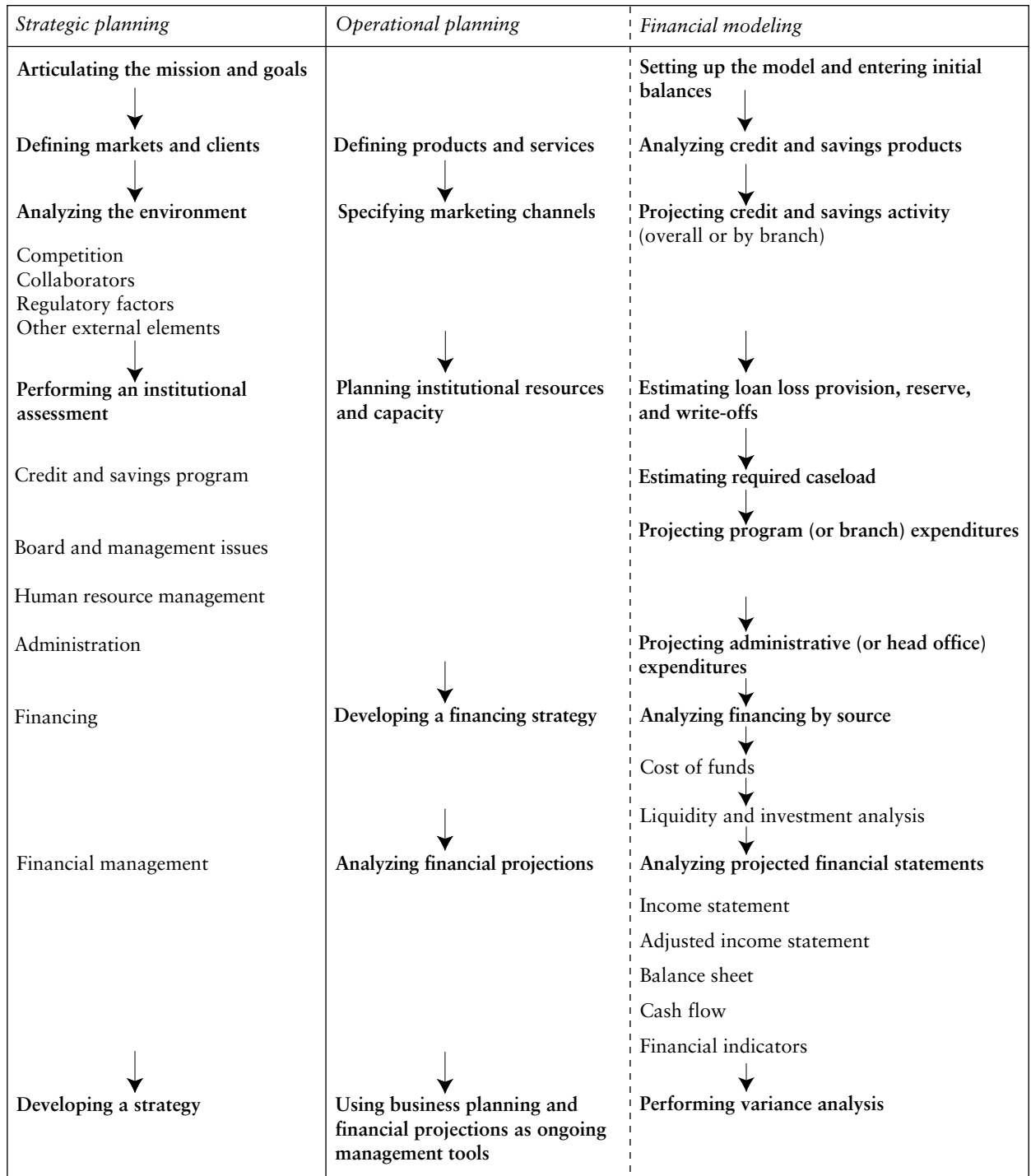
Through strategic planning, an institution assesses its current situation and develops a proposed strategy for going forward. This strategy links the two phases of business planning: it synthesizes the information developed in strategic planning and outlines objectives and activities for implementation (figure 1.1). Whether the strategy is achievable is determined in operational planning, where the institution maps out the proposed strategy in each area of implementation. The analysis of *markets and clients* indicates what *products and services* to offer and where (in which markets) to offer them. The analysis of the *environment* provides more information on where to provide services, identifying external factors that will affect the choice of appropriate *marketing channels*. The *institutional assessment* provides information on how best to provide the services, as reflected in *institutional resources and capacity*, *financing*, and *analysis of financial projections*.

Through financial modeling, a microfinance institution can determine how realistic its proposed strategy is and what strategic and operational changes it needs to make to achieve its goals of outreach and profitability. If an element of the strategy seems unachievable, either the strategy needs to be reevaluated or the operational plan needs to be reworked. For example, if the targeted expansion cannot be achieved in the time and at the level of expenditures and funding projected, the strategy could be changed by pursuing expansion more slowly, or the operational plan could be changed by seeking increased funding to cover the expected costs of more rapid expansion. In either case the business plan serves as an important management tool.

1.2 Learning to use the model

The handbook demonstrates the Microfin model using data from the case study of a fictitious microfinance institution, the Freedonia Enterprise Development Association (FEDA). The institution's strategic plan is presented at the end of

FIGURE 1.1
The flow of strategic and operational planning



Note: The vertical flow of the figure reflects the sequence of the planning process, with strategic planning preceding the other processes, and operational planning and financial modeling pursued in tandem. The horizontal flow reflects links between key topics.

chapter 2; the main elements of its operational plan are covered in the following chapters. Case study boxes describe how FEDA prepared its operational plan based on its strategic analysis. And “screen clips” show sections of the model where users enter information. Except where otherwise indicated, these screen clips contain information from the FEDA case study.

Readers can practice working with the model by inputting the information in the case study boxes. (Before inputting the information from each case study box, readers are advised to finish reading the related section of the text in order to familiarize themselves with the issues addressed in that section.) Annex 2, which contains printouts of the main elements of the model with case study data filled in, can serve as a resource for readers as they complete the case study exercise. The model allows users to experiment, adjusting variables to arrive at an optimal scenario. The effects of such changes can be quickly viewed in the graphs that the model generates.

Chapters and sections in part 2 relate to distinct parts of the model. Features of the model are highlighted in the text. The main text provides essential information, and it is recommended that all of it be read. FAQ boxes address “frequently asked questions” about the model, explaining how to find information that an institution might lack or how to model an activity that Microfin does not directly address.

Once familiar with the model, readers are encouraged to use it to develop detailed five-year projections for their own institution. The process of preparing projections often gives managers important new insights into the dynamics of their institution’s operations. And the projections can serve as a benchmark against which to measure the institution’s performance. Both these functions are best served when the management team prepares the projections, rather than just the executive director or an outside consultant.

1.3 Intended audience

The handbook and spreadsheet are intended primarily for senior managers of microfinance institutions who lead the planning process. The handbook can also serve as a resource on planning for other stakeholders of the institution, including other staff, board members, advisers, and funders.

The handbook and model are designed to be broadly inclusive, relevant for all microfinance institutions regardless of their stage of development, institutional form, lending methodology, or range of services. While the content of each plan will vary depending on all these factors, the framework for the planning process will be much the same for all microfinance institutions.¹

Note

1. Readers of the handbook and users of the financial model are assumed to have a basic understanding of and experience in several key areas, including credit methodolo-

gies, financial management, and working with spreadsheet software. Throughout the text, notes refer to relevant introductory and advanced texts related to the topics covered, so that readers can pursue topics of interest to them in greater depth.

