

Financial Analysis

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Distance Learning Course

MFTOT 6

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The Numbers!!

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What do they mean???.....

Why are they important???.....

The Numbers??

Why should I learn
about the
NUMBERS???......



My work is with
customers and the
organization!!

Exactly the Reason to Understand the Numbers!!

The numbers reflect

1. How customers view and value the services of the MFI. They tell us a lot about whether the products are appropriate and valued.
2. Management and ownership decisions. They tell us how the MFI is managed and what is important.
3. Transparency –What do the numbers really say?
4. Trends – What is the MFI's performance over time?
5. Benchmarking – How does the MFI compare to others with similar operations (country & globally)?

The Value of Financial Analysis

Financial analysis provides a more reliable picture of the MFI than general impressions, or taking for granted mission statements and activity descriptions

Financial information produces multiple indicators. When they are analyzed together, they tell a story about the MFI's performance.

Financial Analysis Lessons in the Course

1. Income Statements & Balance Sheets: the basics
2. Delinquency: Costs of delinquency and how to measure it
3. Financial Factors – that lead to growth and projections
4. Interest Rates: how to calculate them, the difference between a flat rate and a declining balance. What are the effects of fees, mandatory savings.
5. Adjustments – adjusting financial statements for the costs of inflation and the presence of subsidies

Income Statements & Balance Sheets

What does comparing income statements and balance sheets tell us about management decisions?

Use of assets

Expenses and income

The bottom line

The “double bottom line”

Delinquency: What does delinquency say about an MFI?

A Borrower Perspective

From the customer perspective it says the MFI loan products are:

- not important to me or not as important as others. I do not value them
- not appropriate for me. I can't meet the requirements (repayment capacity) or the product is not appropriate for my business or household cash flow
- I don't believe the MFI will collect, because the MFI doesn't seem to care, why should I?

It there is high delinquency in a portfolio, something is wrong.

Delinquency: What does delinquency say about an MFI?

Management Perspective

From the MFI management perspective:

- Attitude about collection: We see ourselves more as a charity than a bank
- Staff: We can't collect, because we are not staffed to do so
- Our staff is not trained well enough to communicate with borrowers
- System: The information system is flawed, indicates low priority. Incentive systems may not promote quality.
- Products may be inappropriate for customers
 - Poor loan analysis
 - Inappropriate products.

Old saying: "There are no bad borrowers, just bad loans."

Delinquency: Some Tips and Cautions

- Always look at the write off ratio and Portfolio at Risk (PAR) together!!
- Management should establish a write off policy, and write off the loans when they are deemed uncollectible. This does not mean they are forgotten.
- No clearly established policy and system to track the quality of the portfolio (PAR and write-off) means that management does not know the income generating capacity of the portfolio. The portfolio is generally the largest asset of the organization.

Delinquency: Some Tips and Cautions - 2

If an MFI consistently has:

- (PAR) greater than 30 days > 10 %,
- or an annual write-off ratio of more than 5%,
- or a large number or percentage of renegotiated loans

Then: The MFI has a poor chance of becoming sustainable.

Interest Rates: Going Beyond the Controversy

Pricing of loan products: What is high?

- Inflation: Management needs to prevent portfolio erosion due to inflation
- Flat rate or declining balance rate: Management needs to have transparent pricing policies.
- High rate? Why?
 - Reasonable costs, or inefficiencies
 - Poor physical and human infrastructure
 - No competition

Adjustments: Just a word

Adjustments for inflation & subsidies

Why?

- Understand the effects of inflation on pricing policy and sustainability.
- Understand if MFI could become independent of subsidies and operate on a commercial basis

Summary: Financial Analysis

The numbers revealed where the organization was working effectively with clients, and where it wasn't.

- how well the MFI reached its customers with products and services and how the MFI was viewed & valued by customers
- how well the MFI was managed – how efficient it was, how closely management paid attention to costs, and balanced income with expenses
- Whether the MFI was really sustainable and where it had to focus to reach its own goals of sustainability and outreach.
- Whether the MFI was positioned to become an organization that contributed to society, or would fail when subsidies were no longer available.

The Numbers!!

I appreciate
the numbers.....



My work is with
customers and the
organization!!

Thank you!
Questions & Comments