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Microfinance Association Planning Guide

2011

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Microfinance Association Planning Guide

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The mission of the Citi Network Strengthening Program, the largest global grant program to be implemented in support of the Citi Foundation's microfinance strategy, is to increase the capacity and scale of the microfinance sector by strengthening the operational, technical, and financial capacity of twelve national and regional microfinance associations.

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Introduction to Microfinance Association Planning

Microfinance associations play an important role in promoting financial inclusion. As member-based organizations, they offer an opportunity to harness the leadership of local institutions that are capable of translating the needs of the sector into concrete development efforts. This may include policy advocacy, training, technical assistance, industry research, and the promotion of professional standards, among other initiatives. However, the effectiveness of an association in any one of these areas is directly related to fundamental organizational capacities, one of the most important of which is planning.

Every association can benefit from a well-managed planning process, regardless of its stage of development. Such a process allows organizations to translate a broad vision and mission into specific goals and objectives and ensures that it is well positioned in the market by offering products and services, which meet existing gaps and propel the development of the sector forward. It helps associations prioritize scarce resources and reconcile the competing needs of its members. Effective planning can ensure that an association's products and services are aligned with its organizational objectives and that appropriate targets are established to successfully manage performance. Finally, clear and comprehensive plans substantially contribute to an association's internal and external communication strategies. Consistent messages with respect to organizational goals and strategic orientation can help solidify an association's identity, as well as increase member involvement and staff commitment.

This association planning guide has been developed to help microfinance associations better understand how essential planning is to organizational success, and to provide step-by-step guidance for the planning process. This guide should be used in conjunction with The SEEP Network's Suite of Tools for Microfinance Association Professionals for more in-depth guidance in key areas.

1.1 Principles of Association Planning

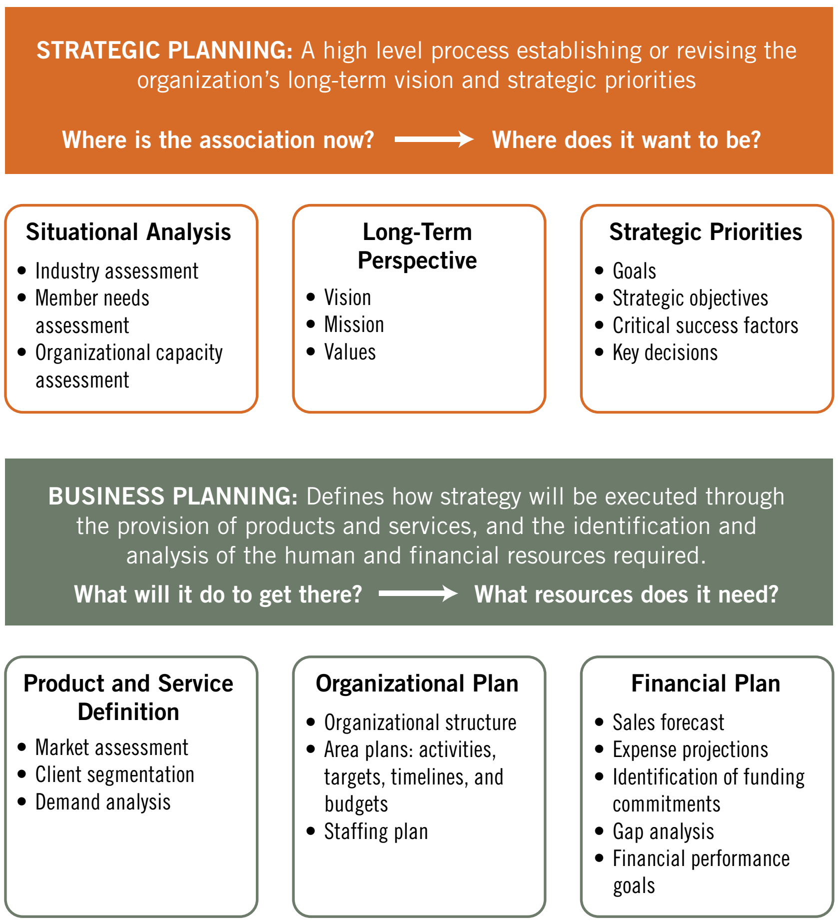
Ultimately, a good plan is one that can be effectively executed. For association planning, this quality is most often associated with adherence to the following principles:

- ***Alignment:*** Planning should be seen as opportunity to align the organization. A comprehensive approach involves both strategic and business planning that ensures logical coherence through mutually reinforcing goals, objectives, and activities. For example, every individual, department, and program should support the long-term strategic goals. Likewise, organizational goals should be tangibly expressed in an association's products and services. A disconnect on any one of these levels can seriously diminish an organization's potential.
- ***Market responsiveness:*** As representatives of the microfinance industry, associations must develop a keen ability to detect trends, identify opportunities, and adapt to an ever-changing environment. Successful associations evolve with the market. Quality plans are those that reflect a practical response to these needs and demands.
- ***Sustainability:*** As non-profit organizations, associations often underestimate the importance of sustainability planning. However, as donor funding diminishes and emphasis on sustainable models of service delivery increases, associations should develop a business model that will secure the association's future through its own financial strength. Traditional forms of budgeting and program management are insufficient. Associations need to integrate financial performance analysis and long-term financial planning into their basic processes.
- ***Measurement:*** Planning for success also means knowing how to measure it. Quality plans are those that incorporate relevant measures at the strategic and business planning levels. These measurements allow associations to evaluate the effectiveness of their strategies, make adjustments when necessary, and engender a strong ethic of accountability within the organization.

1.2 The Association Planning Model

SEEP's association planning model integrates the principles of *alignment, market responsiveness, sustainability,* and *measurement*. It demonstrates the logical and mutually reinforcing relationship between strategic and business planning and provides a sequential framework for analysis and decisionmaking (figure 1). The model is centered on four essential questions: where is the association now; where does it want to be; what will it do to get there; and what resources does it need? It moves from a comprehensive analysis of internal and external environmental factors to the definition of strategic goals and objectives, products and services, organizational requirements, and ultimately to the specification of financial targets.

Figure 1. SEEP's Association Planning Model

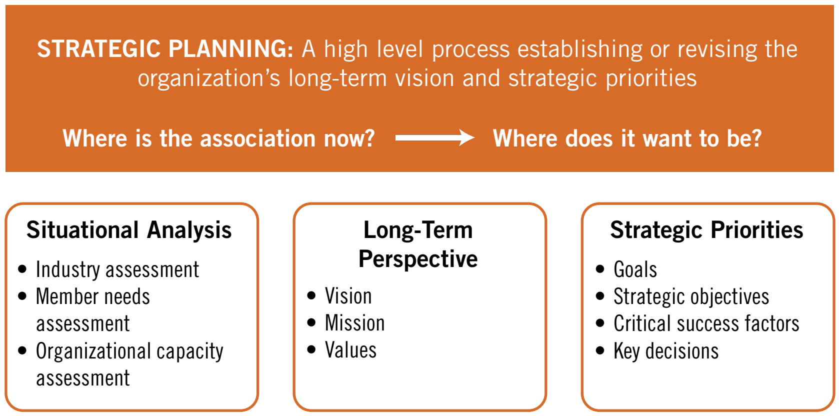


1.3 The Strategic Planning Process

Strategic planning is a high-level process establishing or revising the vision and mission of the association, the values, key objectives, and areas of focus. It documents key strengths, weaknesses, opportunities and threats, and areas for decisionmaking in the near and long term. This process helps answers two of the essential questions: where is the organization currently; and where does it want to be in the future? The outputs from this process form the basis for all subsequent planning phases.

The strategic plan is a time-limited document, generally covering three to five years, and should be regularly updated to reflect an institution's growth and development, and important changes in the operating environment. Strategic planning involves the following three related steps: 1) performing a situational analysis, 2) establishing the long-term perspective, and 3) identifying strategic priorities (figure 1a).

Figure 1a. Strategic Planning Process



1.3.1 Situational analysis

An association embarking on a strategic planning process will first need to perform a situational analysis to assess the status of the industry (industry assessment), the needs of its members (member needs assessment), and how well it is positioned to meet these market gaps (organizational capacity assessment).

An *industry assessment,* or state of the sector review, that details important trends, challenges, and opportunities in the local or regional industry will answer the question: where is the industry now? It also will be instrumental in informing the association's strategic priorities moving forward. This type of research is particularly important for new or emerging associations. The analysis should be both descriptive (what is happening in the market) and analytical (what does it mean for the association and its members), and provide an outlook on the sector that is useful to a broad audience, including practitioners, donors, relevant government agencies, and support organizations. It will consider a range of external factors (e.g., economic, financial, political, and social) that can influence the direction and goals of the association. Associations may refer to The SEEP Network's "Performing a State of the Sector Analysis Guide" for a step-by-step guide to this process.

The second component of a situational analysis is a comprehensive *member needs assessment***.** Such an assessment should measure member satisfaction with the association's activities, products, and services, and evaluate important aspects of member participation. An association can solicit member feedback on the development of new products and services, and suggestions for adapting existing service offerings to meet evolving challenges and opportunities. The results of this assessment provide the basis for prioritizing services and resources in the future. There are multiple means of administering member assessments, such as focus groups, one-on-one interviews, phone interviews, and online surveys. SEEP's Network Member Feedback Tool is an online tool designed specifically for this purpose, which can be used by SEEP member associations to track and analyze this data. Regardless of the method an association uses, understanding member needs is essential to effective planning.

The final component is to examine the association's existing organizational capacity through an *organizational capacity assessment.* An external evaluation of the association's strengths and weaknesses will help the leadership determine which of the key priorities the association can realistically address during the strategic planning phase and the business planning process. It will also help identify gaps in institutional capacity needed to fulfill the strategic and business planning priorities. SEEP has identified six key capacity areas that are important for any internal assessment of an association, recognizing its unique characteristics and nature as a member-based institution. Table 1 summarizes these areas, along with standards of excellence that reflect the optimal state of operations, which should be taken into account by the external evaluator. Associations may also contact The SEEP Network directly if they are interested in using the Capacity Assessment Tool for Microfinance Associations, NCAT 5.0.

Table 1. Key Capacity Areas with Related Standards of Excellence

Key capacity area	Standards of excellence	Description
GOVERNANCE	*Membership*	Association membership is representative of the market and is defined and held accountable by common standards of performance and practice.
	Democratic participation	The association has a participatory decisionmaking process supported by transparent and consensus-oriented systems.
	Board	The board of directors is accountable to the membership and provides effective leadership in fulfilling the association's mission.
OPERATIONS	*Planning*	The association utilizes a comprehensive and participatory system of planning to define its priorities and organize activities in the short and long term.
	Systems	Systems are in place to ensure efficient flow of information, compliance, and transparency.
	Monitoring and evaluation	The association monitors and evaluates its performance on a regular basis and utilizes information gathered to make improvements and ensure accountability.
FINANCIAL VIABILITY	*Financial planning*	Financial planning is an integral part of short- and long-term organizational plans, and appropriate financial performance measures are used to set goals and monitor performance.
	Financial performance	Financial performance measures—associated with earned income, the development of operating reserves, and operational efficiency—are strong and show positive trends.
	Financial administration	Financial administration processes are transparent and provide the necessary level of control to ensure that resources are used efficiently and for their intended purpose.
HUMAN RESOURCES	*Leadership*	Association leaders consistently demonstrate success in carrying out the mission of the organization and are influential in shaping the future of the sector.
	Personnel management	Personnel management policies and processes are clearly documented and communicated, and adequately meet the needs of the association in its present stage of development.
	Professional development	The association prioritizes the professional development of its staff.
	Organizational culture	The association has a dynamic and open organizational culture.
EXTERNAL RELATIONS	*Contacts*	The association successfully draws guidance and information from its close contacts with a diverse range of microfinance industry stakeholders to achieve its organizational objectives.
	External communications	The association has a clear communications strategy that effectively targets a diverse range of microfinance stakeholders.
	Credibility	The association is recognized as an important and capable representative of the microfinance sector, and effectively advocates on behalf of its members.
SERVICE DELIVERY	*Market responsiveness*	The association is market oriented and responsive to changing conditions.
	Service mix	The association's core services are well designed and reflect its comparative advantage.
	Member focus	The association is driven by the needs and demands of its members.

1.3.2 Establishing the long-term perspective

Once the situational analysis is complete, the next step in the strategic planning process is to articulate the long-term perspective of the organization. To this end, the association's mission, vision, and core institutional values will answer the question: where do we want to go from here? While many established associations already have this long-term perspective, it is extremely useful to review these statements in each planning period. Revisions may be required to reflect how a maturing organization understands the market, the changing demands of members, and/or an increased emphasis on certain development objectives. Key elements to be included are the organization's *vision, mission,* and *values.*

The *vision* of the association describes what the organization will be in the future. A vision is not a statement of "who you are" or "what you do," but is a common idea of what the association will become. The vision begins to define the direction of the association. The organizational *mission,* on the other hand, is a concise statement defining the overall purpose and scope of responsibility. It explains the reason the association exists. Finally, the organization's values are commonly held beliefs to which it commits itself. Ultimately and ideally, an association's values should guide the behavior of every individual within the organization.

1.3.3 Identifying strategic priorities

With a long-term perspective in place, an association can begin to develop its strategic priorities. These priorities should be a clear articulation of the means by which the association intends to bridge the gap between the current situation and its long-term perspective; in other words, they lay out how the organization will achieve its mission. They should include *goals, strategic objectives, critical success factors,* and *key decisions*.

Goals are the long-term targets, such as growth, sustainability, or market leadership, that guide and characterize the association's work. A goal is usually enduring and timeless, and can be developed to recognize important constituent groups, such as members, microfinance clients, or important industry actors. *Strategic objectives* are the specific statements of what the association wants to achieve during the period of the plan. The achievement of strategic objectives is considered fundamental to achieving the longer-term goal to which it is associated.

Critical success factors are issues deemed important to the organization with respect to its present and future performance. Success factors can help focus the planning exercise by forcing individuals to articulate what they may know intuitively, but have not explicitly defined. Developing a consensus around critical success factors is important, as the management of these issues will be fundamental to the accomplishment of the association's mission and strategic objectives.

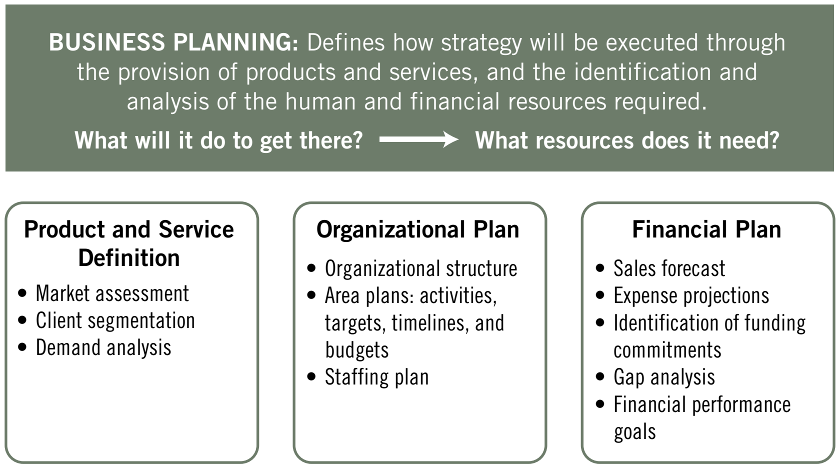
Finally, *key decisions* are statements that outline how the association will address specific critical success factors to ensure they are resolved and do not delay implementation of the plan. Generally each success factor will have at least one key decision associated with it, and maybe more. These are usually high-level decisions that impact organizational policy and practices, such as membership criteria, changes in the legal structure of the organization, or relationships with key stakeholders.

1.4 The Business Planning Process

Using the strategic plan as a foundation, the next step in the planning process is to develop a business plan. A business plan defines how strategy will be executed through the provision of products and services, and the identification and analysis of the human and financial resources required. Associations commonly develop business plans for both internal and external reasons. Internally, the business plan helps managers monitor and evaluate performance at multiple levels, including the provision of products and services, the performance of individual departments, and the contribution of these activities to the association's financial performance. Externally, the business plan is used to approach donors and other stakeholders who can materially contribute to the achievement of strategic objectives. Since the business plan is a dynamic document, it only has value if it is actually used to guide the association's activities. Monitoring results and revisiting the business plan periodically will help keep it current and relevant.

The phases associated with the business planning process include 1) product and service definitions, 2) the organizational plan, and 3) the financial plan.

Figure 1b. Business Planning Process



1.4.1 Product and service definition

Microfinance association products generally fall under four basic service components: capacity building, information dissemination and exchange, industry research and transparency, and advocacy. Specific product offerings will differ from association to association depending on the market, organizational capacity, and the availability of alternative service providers. However, they should always align with the association's strategic objectives and reflect the needs identified through industry assessments, market studies, and member feedback tools and/or performance monitoring reports of members. See SEEP's Product Costing and Performance Analysis: A Toolkit for Analyzing an Association's Services Offerings (2010) for more guidance on product identification.

While much of this research will have been conducted during the strategic planning exercise, associations may have to supplement their previous research with a more thorough *market assessment*. This will not only be useful for the business planning process but it can also add value to members. By *segmenting the market* according to different user groups, associations can better determine the exact mix of products and services that will best meet market demand and undertake a more thorough *demand analysis* among its members and key stakeholders. (Table 2 is an example of product and service definition based on such an exercise.)

Key considerations when assessing the market include identifying these elements:

- Who are the final users of the association's services, including members, non-members, and other industry stakeholders?
- What needs do they have in terms of products and services, including the ability or willingness to pay for services, price sensitivity, etc.?
- What type of volume can be estimated in terms of demand for different products and services?
- Who else may be offering the same or similar products and services in the market?
- What is the association's competitive advantage in offering these services? What is the association good at and what can it offer in a cost effective way and at competitive prices?

Table 2. Example of an Association's Product and Service Definition

Market need	Service line	Market segment	Products	Sources of revenue
MFI institutional capacity gaps and an underdeveloped training infrastructure	Capacity building	Members, non-member MFIs, regulators, auditing companies, etc.	• Training of MFI loan officers, middle management, senior executives • Training of trainers • Specialized courses for regulators and other industry stakeholders	Tuition, fees, membership dues
Limited information on market trends, industry challenges, and opportunities for growth and development	Information dissemination and exchange	Members, non-members, donors, government officials, investors	• National and regional conferences • Exchange visits	Membership dues, grants, fees, sponsorships
Lack of industry standardization, uneven use of good practices, limited market data	Transparency and research	Members, donors	• Industry surveys • Benchmarking • Market forecast • Technical papers • Social performance reporting • Consumer protection research	Membership dues, grants, fees
Restrictive regulatory environment, lack of government awareness of the role of microfinance	Advocacy	Members, government agencies, donors	• Representation • Research • Monitoring	Membership dues, donor grants

1.4.2 Organizational plan

The second step in the business planning process is the development of an organizational plan that will focus on the *organizational structure, area plans,* and *staffing plans* required for the association to implement its strategic priorities (figure 2). Major inputs into this analysis include organizational charts, job descriptions, human resource manuals, and personnel evaluations.

The association's *organizational structure* defines the lines of responsibility, authority, and channels of communication within an association. Management should focus its analysis on the adequacy of the association's current structure to achieve its goals and fulfill its mission, and eliminate, create, or adjust staff and management positions where necessary. An organizational structure based primarily around core service lines, rather than on project management functions, will most often provide more stable support to the association's activities in the long term.

Figure 2. Sample Organizational Chart

Based on the service lines identified during the market analysis phase, the relevant staff (i.e., program managers) should develop their own individual *area plans*. These plans should provide a description of the key activities associated with the provision of products and services, as well as the necessary improvements in internal processes. Performance targets, financial projections, and development or fundraising goals should be integrated into area plans. (See subsection 1.4.3 on financial planning for a detailed discussion on the steps and tools involved.)

Once the individual area plans have been developed, it will be possible to design an organizational *staffing plan* to address specific human resource and professional development gaps. The plan should be based on an assessment of staff capabilities, taking into consideration the number of employees and relevant skill base needed to successfully execute the business plan. Often this will require revising job descriptions to more accurately reflect the needs of the organization in the new planning period. For an internally focused business plan, a staffing plan that corresponds with organizational goals and objectives may be helpful in describing "who does what." The number of employees and their skills can be projected (full-time salaried staff, as well as part-time or contract staff or consultants), including the training and/or professional development required. A business plan for external use may incorporate a much briefer description.

Table 3 provides a summary of the type of analysis required. It includes a list of key staff positions (both new and existing), a description of responsibilities, skills required, related training and/or professional development, plus budget estimates.

Table 3. Sample Staffing Plan for a Training Department

Staff person	Responsibilities	Skills required	Training or professional development	Budget
Training and capacity building manager	Identifies needs of members, designs and implements courses, oversees quality control, hires and supervises training staff and consultants, and manages relationships with external service providers	Knowledge of program management and use of survey techniques, experience with curriculum development and marketing	Training needs assessments, increased exposure to microfinance operations	$1,750
Training officer (New)	Manages logistical planning, administration, and contracts for courses; conducts course evaluations; and handles promotion and marketing	Event planning and program administration	To be determined	$400

1.4.3 Financial plan

The final step in the business planning process is the development of a financial plan. The financial plan should include projections of the association's anticipated growth and the resources necessary to achieve its goals, as well as financial performance targets that the association sets for itself. Given that activities are expected to shift over time, depending on the availability of resources and market conditions, the figures should be seen as estimates. However, it is still extremely important that all assumptions are clearly stated upfront, namely, the number of new members per year; annual percentage increase in provision of each service line, annual percentage increase in expenditures, and current committed donations. This will help ensure that the plan is realistic and flexible enough to make adjustments when and if assumptions prove to be inaccurate. If assumptions change significantly, the projections need to be revised accordingly.

The SEEP Network's Product Costing and Financial Performance Ratio Analysis Tool can be used to develop financial projections. This tool allows associations to use their historical financial information (balance sheet and income statement data) to generate financial performance reports, as well as product costing information. The information can then be used to forecast revenue and expenses, identify funding commitments, analyze funding gaps, and set financial performance goals.

Whether an association chooses to use the SEEP tool or its own system for financial planning, certain guidelines should be followed. Financial projections should begin with historical data for the past two years, with the end date corresponding to the number of years covered by the business plan. *Sales forecasting* should be done by individual product line and over a multi-year period (table 4). The most straightforward method to forecast sales is to use annual percentage growth rates, based on historical performance and any new products or services reflected in the area plans.

Next, associations should identify all existing *funding commitments* (table 4). These include both restricted donations (i.e., program grants) that are earmarked to support specific products and service lines, and any unrestricted donations that can be used by the association to cover operating costs. The same historical data should be mapped out for *expense projections.* (See table 4 for an example.) In this case, annual percentage growth rates should at least keep up with the national rate of inflation and be adjusted to reflect new products and services introduced during the business planning period.

The following two tables were derived from the SEEP Product Costing and Financial Performance Ratio Analysis Tool noted above.

Table 4. Projected Revenues and Expenditures, 2010–2012

	2010	2011		2012		2013		2014	
REVENUES	$	$	% Growth	$	% Growth	$	% Growth	$	% Growth
EARNED INCOME	352,500	423,000	20%	507,600	20%				
Core Activities	335,500	402,600	20%	483,120	20%				
Membership	102,500	123,000	20%	147,600	20%				
Interest/Investment Income	13,000	15,600	20%	18,720	20%				
Capacity Building	45,000	54,000	20%	64,800	20%				
Conferences	150,000	180,000	20%	216,000	20%				
Transparency	25,000	30,000	20%	36,000	20%				
Non - Core Activities	17,000	20,400	20%	24,480	20%				
Advocacy	17,000	20,400	20%	24,480	20%				
CONTRIBUTED INCOME	341,450	205,000	-40%	125,000	-39%				
Program Grants	250,000	155,000	-38%	100,000	-35%				
Capacity Building	120,000	75,000	-38%	50,000	-33%				
Conferences	100,000	50,000	-50%	50,000	0%				
Transparency	15,000	15,000	0%	-	-100%				
Advocacy	15,000	15,000	0%	-	-100%				
Operating Grants	91,450	50,000	-45%	25,000	-50%				
Operating Grants	91,450	50,000	-45%	25,000	-50%				
TOTAL REVENUES	693,950	628,000	-10%	632,600	1%				
EXPENDITURES	$	$	% Growth	$	% Growth	$	% Growth	$	% Growth
OPERATING EXPENSES	372,500	447,000	20%	536,400	20%				
Operating Core (Program) Expenses	339,500	407,400	20%	488,880	20%				
Capacity Building	132,500	159,000	20%	190,800	20%				
Conferences	160,000	192,000	20%	230,400	20%				
Transparency	47,000	56,400	20%	67,680	20%				
Operating Non-Core (Program) Expenses	33,000	39,600	20%	47,520	20%				
Advocacy	33,000	39,600	20%	47,520	20%				
TOTAL OVERHEAD	217,600	250,240	15%	287,776	15%				
Overhead	217,600	250,240	15%	287,776	15%				
Salaries & Benefits	165,000	189,750	15%	218,213	15%				
Rent	25,000	28,750	15%	33,063	15%				
Utilities	8,500	9,775	15%	11,241	15%				
Communication	6,600	7,590	15%	8,729	15%				
Supplies and Other Office Expenses	7,500	8,625	15%	9,919	15%				
Travel	5,000	5,750	15%	6,613	15%				
TOTAL EXPENDITURES	590,100	697,240	18%	824,176	18%				
NET REVENUES/ (FUNDING GAP)	103,850	(69,240)	-167%	(191,576)	-177%				

* Numbers may not add up due to rounding

Once growth rates for the income and expenditure data have been set for the business planning period, the association will have a clear picture of the additional resources needed—the *funding gap*—in order to fund its business plan. Based on this information (table 5), associations should examine the structure of their funding needs and build fundraising strategies into each of the area plans. While associations should seek to increasingly cover their core costs with earned revenue, many will continue to require external funding to support direct programming efforts. Therefore, area plans should include activities to promote the work of the association in order to generate greater financial support among its constituency, such as:

- identifying donors with a strategic interest in one or more of the network's key service areas;
- drafting concept notes to fit identified funding opportunities that include statement of opportunity, financial data (costs, other funds available, and amount requested, etc.) and expected outcomes and impact; and
- working with senior management to develop project proposals that support key service lines and solicit donors based on their expressed area of interest.

Table 5. Direct Revenue and Expense Projections by Product, 2010–2012

	2010	2011		2012		2013		2014	
	$	$	% Growth	$	% Growth	$	% Growth	$	% Growth
Direct Revenue and Expense per Product									
Capacity Building									
Earned Income	45,000	54,000	20%	64,800	20%	-		-	
Program Grants	120,000	75,000	-38%	50,000	-33%	-		-	
Operating Expenses	132,500	159,000	20%	190,800	20%	-		-	
NET REVENUE / (FUNDING GAP)	**32,500**	(30,000)	-192%	(76,000)	-153%	-		-	
Conferences									
Earned Income	150,000	180,000	20%	216,000	20%	-		-	
Program Grants	100,000	50,000	-50%	50,000	0%	-		-	
Operating Expenses	160,000	192,000	20%	230,400	20%	-		-	
NET REVENUE / (FUNDING GAP)	**90,000**	**38,000**	-58%	**35,600**	-6%	-		-	
Transparency									
Earned Income	25,000	30,000	20%	36,000	20%	-		-	
Program Grants	15,000	15,000	0%	-	-100%	-		-	
Operating Expenses	47,000	56,400	20%	67,680	20%	-		-	
NET REVENUE / (FUNDING GAP)	(7,000)	(11,400)	-63%	(31,680)	-178%	-		-	
Advocacy									
Earned Income	17,000	20,400	20%	24,480	20%	-		-	
Program Grants	15,000	15,000	0%	-	-100%	-		-	
Operating Expenses	33,000	39,600	20%	47,520	20%	-		-	
NET REVENUE / (FUNDING GAP)	(1,000)	(4,200)	-320%	(23,040)	-449%	-		-	
Indirect Revenue and Expense Institutional									
Indirect Earned Income	115,500	138,600	20%	166,320	20%	-		-	
Operating Grants	91,450	50,000	-45%	25,000	-50%				
Overhead Expenses	217,600	250,240	15%	287,776	15%				
NET REVENUE / (FUNDING GAP)	(10,650)	(61,640)	-479%	(96,456)	-56%	-		-	
TOTAL FUNDING GAP	**103,850**	**(69,240)**	-167%	**(191,576)**	-177%	-		-	

* Numbers may not add up due to rounding

Inputs are in White Cells
Cells with Formulas are Highlighted in Light Gray

Monitoring and Evaluation

Identifying relevant measures of success is essential at each stage of the planning process, from measuring the effectiveness of long-term strategies and the ability of the association to achieve its mission to monitoring the progress of individual work plans and the accomplishment of specific tasks within a department. These measures form the basis of the monitoring and evaluation processes necessary to ensure accountability.

2.1 Strategic Performance Measures

At a strategic level, associations should incorporate measurements for their long-term goals and strategic objectives that meet these criteria:[1]

- Provide a means to determine if a strategy is working.
- Allow measurement of accomplishments, not just the work that is performed.
- Provide a common language for communication.
- Be explicit: define units of measure, collection frequency, and expected targets.
- Ensure measures are relevant to the goal or objective to which it is associated.
- Double check that data (measurements) are verifiable to ensure accuracy of data collection.

Strategic plans will obviously differ among microfinance associations. Different operating environments, member characteristics, and organizational capacities will dictate the need for unique approaches. Despite these distinctions, most

1. Adapted from Balanced Scorecard Institute website, " BSC Resources: Performance Measurement," http://www.balancedscorecard.org/BSCResources/PerformanceMeasurement/tabid/59/Default.aspx.

plans address how the association intends to promote an inclusive and vibrant pro-poor financial sector in the country or region where it operates. The SEEP Network has defined a common set of indicators for microfinance associations (table 6) to measure the effectiveness with which they are meeting this larger development objective by improving their member results, promoting overall industry quality, and insuring their own sustainable performance.

Table 6. Microfinance Association Success Indicators

Association performance	Member results	Industry quality
Member satisfaction results	No. of deposit-taking members	Interest rate disclosure
Member ratio (%)	Deposit-taking members (%)	Consumer protection
Member coverage	Gross deposits	Financial transparency
Core cost recovery ratio	Gross loan portfolio ($)	
Overhead ratio	% of members with PAR over 30 days <5%	
	Total assets ($)	
	% of members with positive ROA	
	Total equity ($)	
	No. of active borrowers	
	No. of active depositors	
	No. of active insured	
	% of women	
	Rural penetration	

Notes: PAR = portfolio at risk; ROA = return on assets.

These success measures are designed to focus attention on the long-term impact of an association's work and can be integrated into performance monitoring frameworks of an association's strategic plan. See SEEP's "Building Vibrant and Inclusive Financial Sectors: Success Indicators for Microfinance Associations" for a complete discussion of evolving industry standards in this domain.

2.2 Operational Performance Measures

At an operational level, associations should set performance indicators (table 7) for measuring changes that resulted from the implementation of the individual area plans. These indicators should:

- be tied to operational objectives;
- be observable markers of progress toward a defined target;
- help measure change directly or indirectly; and
- be associated with specific time frames.

Table 7. Sample Chart of Operational Performance Measures

Capacity building	Information dissemination and exchange	Transparency and research	Advocacy
No. of MFI trainings given	Annual conference(s) held	No. of members reporting to bench-marking mechanisms	No. of public events organized around pressing industry issues
No. of training of trainers given	No. of national/regional conferences hosted	No. of technical papers written	Dissemination of policy related research
No. of specialized courses given to broader stakeholders, i.e. donors, regulators, etc.	No. of exchange visits organized	Industry information available, i.e., sector study	
Course evaluation scores	Attendance level	Consumer protection diagnostics performed	

2.3 Financial Performance Measures

In many ways, financial performance underlies an association's ability to achieve its objectives. Financial performance measures should therefore be an integral part of the monitoring and evaluation process. SEEP has developed a standard set of financial performance ratios (table 8) to assess association performance in three key areas: operational efficiency, cost recovery, and overall financial sustainability. An association should establish targets based on historic performance and evolving benchmarks for the industry. The chart below summarizes these measures, explains their significance, and sets out benchmark targets for planning purposes. Please refer to SEEP's "Measuring Financial Performance: Practitioner Guide for Microfinance Associations," a more detailed discussion of these ratios, including sample graphs that can be produced with the use of the Product Costing and Financial Performance Ratio Analysis Tool.

Table 8. Standard Financial Ratios for Associations

Ratios	Description	Indicator	Significance	Target
Overhead ratio	Overhead costs/Total operating costs	%	Measures how efficiently the organization manages its resources	15–20%
Cost cost recovery ratio	Adjusted earned income/Core costs	%	Measures the ability of the association to cover core costs from earned revenue	Positive trend toward 100%
Earned income ratio	Gross earned income/Total income	%	Measures the contribution of earned income to the association's total revenue	40% with an increasing trend
Operating reserve ratio	[Average unrestricted net assets/ Core costs] x 12	No. of months	Measures the adequacy of operating reserves for covering an association's core costs	12 months

Financial targets, *or financial performance goals,* will depend greatly on the existing market conditions, and the level or maturity of the association and of its members. *However, all associations should have, as a long-term goal, achieving the basic performance benchmarks evolving for the sector*. For more mature associations that have been offering their products on a fee-for-service basis for some time, a goal of 100% financial sustainability (full recovery of core costs from adjusted earned revenue) by the end of its business plan period may be completely realistic and achievable. However, for emerging associations in more nascent markets, where the concept of cost recovery may not have taken root yet, more conservative annual growth targets (e.g., 20 percent per annum) may be in order. Similarly, associations that have been around for many years and have a solid funding base will likely find it easier to meet minimum reserve targets. Meanwhile, emerging associations may not have very robust reserves, since they may need to use more of their cash balances to cover programming expenses in order to adequately serve their members. These emerging organizations may also rely on attracting outside funding to cover program expenditures in the near term.

Regardless of the stage of development of the association and/or the market it serves, targets should be realistic and should be accompanied by a clear strategy for achieving them in the association's business planning documents.

2.4 Performance Monitoring Framework

The design and use of a performance monitoring framework can greatly enhance an association's ability to track and measure its success. Based on the definition of relevant measures and targets, a framework provides a clear and orderly presentation of the hierarchy of an organization's plan. It can play an important role in ensuring effective communication among staff, managers, and anyone directly or indirectly responsible for the association's performance.

Performance monitoring frameworks can take many forms, from relatively simple Excel files to more complex performance management systems. Regardless of their design, associations should strive to create a framework that is widely used and is easily understood (figure 3).

Figure 3. Example of Performance Monitoring Framework

STRATEGIC PERFORMANCE

GOAL 1	METRIC	TARGET	% ACHIEVED
Strategic Objective #1			
Strategic Objective #2			
GOAL 2	**METRIC**	**TARGET**	**% ACHIEVED**
Strategic Objective #1			
Strategic Objective #2			
Strategic Objective #3			
GOAL 3	**METRIC**	**TARGET**	**% ACHIEVED**
Strategic Objective #1			
Strategic Objective #2			

OPERATIONAL PERFORMANCE

SERVICE AREA	METRIC	TARGET	% ACHIEVED
Operational Objective #1			
Operational Objective #2			
SERVICE AREA	**METRIC**	**TARGET**	**% ACHIEVED**
Operational Objective #1			
Operational Objective #2			
Operational Objective #3			
SERVICE AREA	**METRIC**	**TARGET**	**% ACHIEVED**
Operational Objective #1			
Operational Objective #2			

FINANCIAL PERFORMANCE

	METRIC	TARGET	% ACHIEVED
Financial Objective #1			
Financial Objective #2			

Managing the Planning Process

Strategic and business planning should not be seen as isolated events that happen once every few years, but rather as ongoing organizational processes that are integral to the association's effective operation. In order to remain valid and relevant, plans should be updated regularly to test the validity of underlying assumptions, and associations should make any necessary changes based on external events, such as changing market trends or industry stakeholders.

Strategic and business planning processes may be effectively planned and facilitated internally, or may draw on specialized external assistance. Capacity constraints or a desire for professional input cause some associations to call on external technical assistance to conduct strategic planning exercises or retreats, or to develop an actual work plan. More mature associations with sufficient resources will likely be in a position to conduct full, comprehensive assessments using their own staff or hiring external consultants. Smaller associations in earlier stages of development may need to adapt the assessments according to their means and their needs. A neutral third party can be helpful when bringing together a range of key association stakeholders to give impartial opinions on strategic issues is needed. If an external facilitator is engaged, advance consideration may be needed to identify or find resources to cover the cost. Ultimately, the choice will depend on the level of planning taking place, and the human resources expertise and financial resources available.

3.1 Stakeholder Engagement

Associations are distinguished from other types of organizations by their large and diverse membership base and their relationship to them. Finding a means to promote meaningful participation of this constituency is a challenge but also an extraordinary opportunity. Staff, board of directors, and members, as well as industry stakeholders, can all provide valuable insight and direction in planning processes. Although the board must give final approval for the plans, maximizing input from a wide range of stakeholders, which are affected by the plan or involved in its implementation, will increase communal ownership and guarantee a wide range of opinions is represented.

One opportunity may be to organize a stakeholders meeting. During this meeting, the findings from initial planning stages can be reviewed with key stakeholders. For example, industry and member-needs assessment results and key findings may be distributed in advance so that participants can prepare. The stakeholders meeting should emphasize that the success of the microfinance industry, and the association that supports it, is a group effort. This will ensure that when future support is needed (e.g., to address a particular regulatory issue), stakeholders are familiar with the issues and feel connected to the association.

Additionally, a strategic planning task force may be established to manage and guide the entire strategic and business planning process from the initial stages to final board approval. This task force is ideally made up of a mix of association staff and board members, and is responsible for developing the scope and timeline of the plan, monitoring its progress, and reporting regularly to the board and management. Alternatively, the executive director, a designated staff member, or an external resource person can be charged with researching and drafting the business plan in close cooperation with the association staff and board.

3.2 Process and Timelines

After an association determines who will manage and direct the planning process, it should develop a work plan and timeline to keep the process on track. (See figure 4 for a sample calendar with completion dates for the steps of the plan.) The timeline of the planning process will vary, depending upon the resources of the association and the scope of the process. For associations interested in engaging in a full strategic and business planning process that includes broad member and stakeholder participation, this process may span six to eight months. However, for younger or time-constrained associations, it is possible to complete the strategic and business plans in a much shorter period.

The resulting plan should be presented to the board for final approval and then circulated to all association staff, members, and the important stakeholders who participated in the planning process.

Figure 4. Sample Planning Calendar

	Strategic Planning					Business Planning		
Planning Activities	May	June	July	Aug	Sep	Oct	Nov	Dec
Board authorizes a Strategic Planning Task Force								
Develop work plan and timeline								
Perform industry assessment research								
Perform member needs assessment								
Evaluation of organizational capacity								
Strategic planning workshop								
Stakeholders meeting								
Strategic Planning Task Force finalizes strategic plan								
Board reviews and approves strategic plan								
Market research for product and service definition								
Development of organizational plan								
Development of financial plan								
Board reviews and approves business plan								

Conclusion

Effective planning is the key to organizational success. Few organizations succeed without a clear road map to guide their efforts. The principals of *alignment, market responsiveness, sustainability,* and *measurement* form the basis of the association planning model presented here. This model has been derived from the experiences of a number of successful associations, ones that have managed to attain both organizational excellence and meaningful impact in the markets that they serve.

Annexes

Annex 1. Sample Strategic Plan

SEEP STRATEGIC PLAN 2009–2012

VISION

A sustainable income in every household

MISSION

Connecting microenterprise practitioners in a global learning community

VALUES

- Member-Driven
- Practitioner-Based
- Innovative
- Sustainable
- Transparent
- Inclusive

STAKEHOLDER GROUPS

- Practitioners– microfinance, enterprise development, associations, members and non-members
- Technical Support Organizations – training institutes, consulting companies, rating agencies
- Internal Stakeholders – staff, board, consultants
- Investors – donors, investors
- Microenterprises – clients, households

OPPORTUNITIES

- Chance to fill leadership gap in MED
- Economic downturn/recession creates interest in new financial practices
- Chance to educate public on MF/MED in recent publicity
- Investor driven model of work
- Administration change/USAID shift
- Create platform for PVO members to reach markets
- Potential to create products to generate revenue

THREATS

- Financial crisis
- Competition for leadership in the field
- Potential for competition with members and other stakeholders (on similar work – WG, global initiatives)
- Lack of SEEP generated revenue
- Fragmented fields (especially ED)
- External pressure from investors
- Lessening of MF/MED as donor investment priority

STRENGTHS

- Annual Conference
- Recognized name in industry
- Strong leadership
- Known as neutral voice/location for practitioner feedback
- Strong financial situation
- Good location in Washington
- Methodology strong, well recognized
- Longevity

WEAKNESSES

- Dissemination, communication and marketing strategies
- Unclear business model
- Institutional memory
- Quality inconsistent
- Remain primarily dependent on one donor for core costs
- Insufficient strategic focus and inability to react quickly

GOALS

1. SEEP advances industry effectiveness and practitioner leadership
2. SEEP engages strategic industry stakeholders
3. The SEEP Global Network is a model of institutional excellence

STRATEGIC OBJECTIVES

1.1 Practitioners share experiences and lessons learned at SEEP with one another

1.2 Learning captured by SEEP expands industry knowledge

1.3 The microenterprise industry increases capacity through knowledge disseminated by SEEP

1.4 SEEP is positioned to represent the practitioner voice

2.1 Microfinance associations/networks become effective representative entities to advance the industry

2.2 SEEP expands and facilitates the global enterprise development movement

3.1 SEEP meets the highest standards of quality in operations

3.2 SEEP staff have access to systems and tools that enhance communications, efficiency and job satisfaction

3.3 SEEP increases outreach and value-added services to members

KEY DECISIONS

- Reorganize SEEP's work under Communities of Practice for greater cohesion (quality control) and coordination (including with other learning initiatives in the industry)
- Revise membership criteria
- Globalize SEEP through networks/associations
- Pursue ED practitioners as a priority target audience
- Increase member dues
- Develop revenue-generating products and services

Annex 2. Sample Table of Contents for a Business Plan (for external use)

1. **Contact Information**
2. **Executive Summary**
3. **Description of the Association**
   - 3.1 History
   - 3.2 Management team
   - 3.3 Governance structure
   - 3.4 Membership
   - 3.5 Programs
   - 3.6 Accomplishments
   - 3.7 Mission, vision statement, and operating principles
4. **Microfinance Market**
   - 4.1 Industry analysis and projection of trends
   - 4.2 Market needs
   - 4.3 Client demand analysis
   - 4.4 Assessment of competition
5. **Goals and Objectives**
6. **Description of Services**
   - 6.1 Types of products
   - 6.2 Features and benefits of services
   - 6.3 Competitive advantages
   - 6.4 Targeted customers and client groups
7. **Staffing Plan and Training Needs**
8. **Operational Strategy**
   - 8.1 Sales forecasts
   - 8.2 Growth strategies
   - 8.3 Projected revenue
9. **Financial Sustainability Plan**
   - 9.1 Pricing strategy
   - 9.2 Fundraising strategy
   - 9.3 Performance targets
10. **Financial Plan**
    - 10.1 Income statement
    - 10.2 Balance sheet
    - 10.3 Projected financial statements
    - 10.4 Key financial performance indicators

About SEEP

The SEEP Network is a global network of microenterprise development practitioners. Its 80+ institutional members are active in 180 countries and reach over 35 million microentrepreneurs and their families. SEEP's mission is to connect these practitioners in a global learning environment so that they may reduce poverty through the power of enterprise. For 25 years, SEEP has engaged with practitioners from all over the globe to discuss challenges and innovative approaches to microenterprise development. As a member-driven organization, our members drive our agenda while SEEP provides the neutral platform to share their experiences and engage in new learning on innovative practices. The SEEP Network helps strengthen our members collective global efforts to improve the lives of the world's most vulnerable people.

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