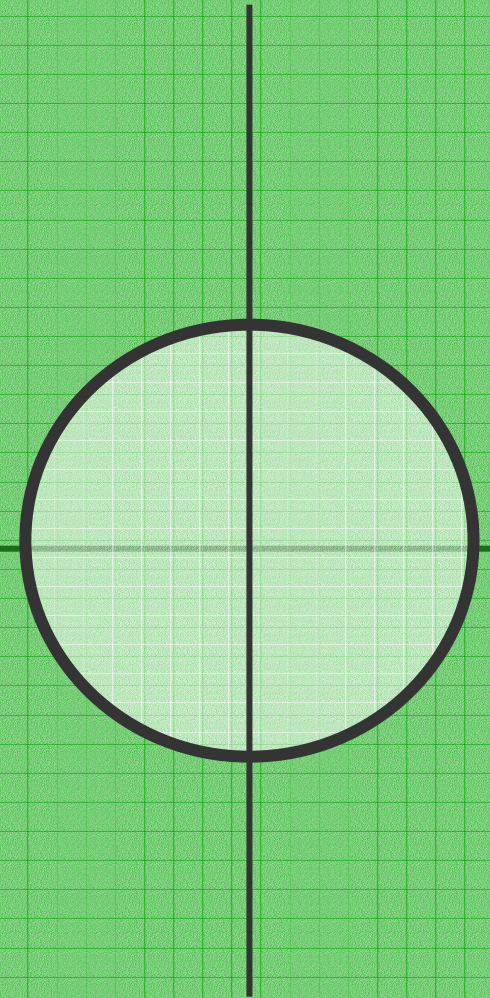


P E S O

EFFICIENCY  
MATTERS

*“Microfinance Services at the  
Least Cost”*



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MATTERS

“Microfinance Services at the Least cost”

# Module Overview

**Section 1: What Efficiency all about?**

**Section 2 : Why is Efficiency is important?**

**Section 3 : Some Best Practices on Efficient MF operation**

**Section 4 : Assessing your current level of Efficiency**

**Section 5 : Formulating Steps and Action to Improving Efficiency**

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## Section 1: What Efficiency is all about?

**Efficiency = measures whether an institution is serving as many people as possible at the lowest possible cost**

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## Section 1: What Efficiency is all about?

# Efficiency Indicators

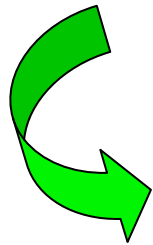
*Number of Active Loans per Loan Officer*

*Outstanding Portfolio per Account Officer*

*Yield on Portfolio*

*Administrative Efficiency*

*Operating Efficiency*



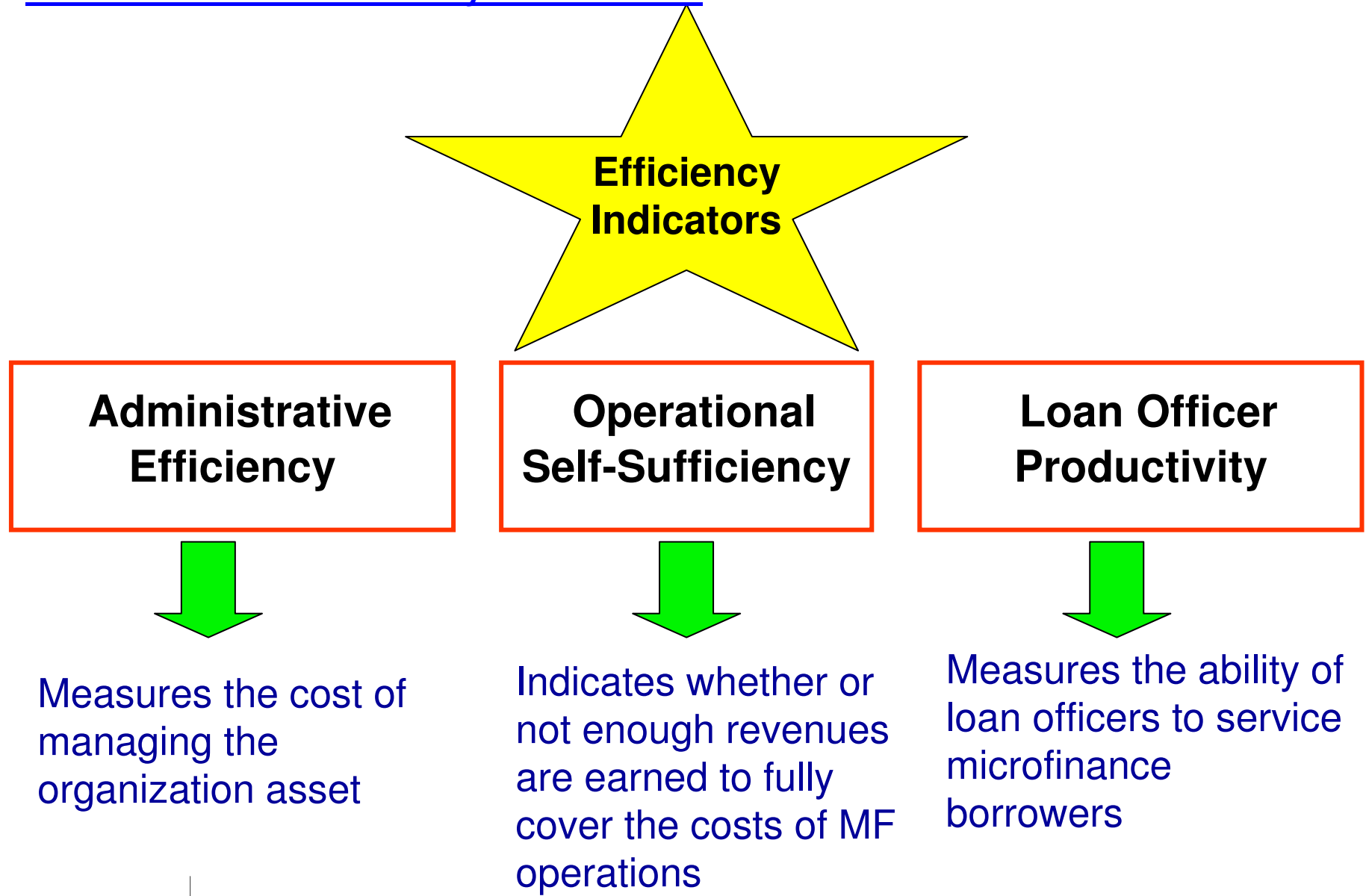
• **Show whether the MFI is able to deliver microfinance services at the least cost to the institution.**

• **Indicate the ability of the institution to generate sufficient income to cover the expenses related to the microfinance operations**

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## Section 1: What Efficiency is all about?



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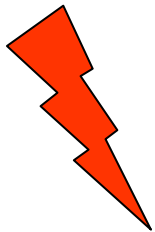
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## Section 2: Why Efficiency is Important

# Administrative Efficiency

**STANDARD: 10% and below**

**Administrative Costs\* (direct and indirect costs)  
Average Gross Loan Portfolio\*\***



\*Administrative cost should include among others, salaries and benefits, rent, office supplies, publications and publicity, transportation, travel and training of staff, telephone and postage, insurance, utilities, repairs and maintenance, legal, audit and consultant fees, bank charges, taxes, and depreciation including loan loss provision expense

\*\* $(\text{Beginning Gross Loan Portfolio} + \text{Ending Gross Loan Portfolio})/2$

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## Section 2: Why Efficiency is Important

# Chart of Operating Expenses

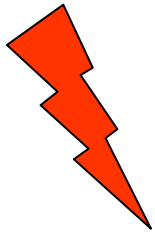
<b>Operating Expenses</b>	
Interest and Fee Expense	Interest and fee expenses for all MF loans, deposits, or other borrowing funding the financial service operations
Loan Loss Provision Expense	Cost of creating/maintaining the loan loss reserve based on PAR, restructured, and refinanced MF loans
Personnel Expense	Employees salaries and benefits, professional and directors' fees, supervision fees.
Other Administrative Expense	Other expenses related to MF operations to include rent, transportation, travel, supplies, repairs, fuel, depreciation, fees, etc.

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## Section 2: Why Efficiency is Important

Indirect Costs – is allocated to the number of personnel directly dedicated to each cost center



$$\frac{\text{Number of MF Full Time Staff}^*}{\text{Total Number of Full Time Staff}} \times \text{Total Indirect Costs}^{**}$$

\***Full time MF staff** refers to employees working full time in the MF operations regardless of employment status (contractual or regular

\*\***Total Indirect Costs** refers to costs shared by both the MF and non-MF operations. Refer to composition of Administrative Cost to determine Indirect Costs

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## Section 2: Why Efficiency is Important

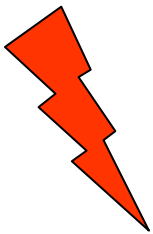
# Operational Self-Sufficiency

**STANDARD: Greater than 120%**

**Interest Income from Loans + Service Fees + Filing Fees + Fines,  
Penalties , Surcharges**  

---

**Financing Costs + Administrative Costs (direct & indirect Costs)\***



\*Administrative cost should include among others, salaries and benefits, rent, office supplies, publications and publicity, transportation, travel and training of staff, telephone and postage, insurance, utilities, repairs and maintenance, legal, audit and consultant fees, bank charges, taxes, and depreciation including loan loss provision expense

\*\* $(\text{Beginning Gross Loan Portfolio} + \text{Ending Gross Loan Portfolio})/2$

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## Section 2: Why Efficiency is Important

# Loan Officer Productivity

### **STANDARD:**

**Group: Greater than or equal to 300**

**Individual: Greater than or equal to 150**

**Number of Active Borrowers**  
**Number of Account Officers**

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## Section 2: Why Efficiency is Important

# Loan Officer Productivity

### **STANDARD:**

**Group: Greater than or equal to 300**

**Individual: Greater than or equal to 150**

**Number of Active Borrowers**  
**Number of Account Officers**

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## Section 3 : Some Best Practices on Efficient MF Operations

- ✓ Address efficiency in terms of average outstanding loan portfolio, the single biggest asset of the MFI that generates income for the institution
- ✓ Review periodically the staff productivity and staff costs, considered by many as the single biggest cost of an MFI
- ✓ Take immediate and appropriate actions to improve efficiency

**Three Ways to Improve Efficiency:**

1. Increase productivity of account officers
2. Manage cost structure of the MFI
3. Increase average loan sizes naturally as a higher proportion of clients move into later stages

## Section 4: Assessing MFIs current Level of Efficiency

# EFFICIENCY indicators...

### 1. Administrative Efficiency

$$\frac{\text{Administrative Costs (direct \& indirect costs)}}{\text{Ave.Gross Loan Portfolio}}$$

### 2. Operational Self-sufficiency

$$\frac{\text{Interest Income from Loans + Service Fees + Filing Fees + Fines, Penalties, Surcharges}}{\text{Financing Costs + Administrative Costs (direct and indirect costs)}[1]}$$

### 3. Loan Officer Productivity

$$\frac{\text{Number of Active Borrowers}}{\text{Number of Account Officers}}$$

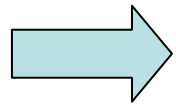
[1] Same as Administrative Cost used for computing Administrative Efficiency.

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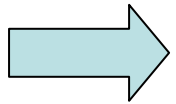
“Microfinance Services at the Least cost”

## Section 4: Assessing MFIs current Level of Efficiency

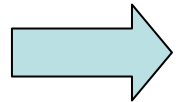
### Why measure your Efficiency?



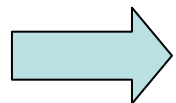
***Strikes a balance on the total costs to operate the MFU in relation to the income generated***



***How much of costs have been allocated to manage the organization's assets (MF Loan Portfolio)***



***How high or low can loan pricing be set by the organization to cover for costs to maintain the MF operations and leave enough spread to cover for net revenue***



***How much revenue earned to cover for direct and indirect costs and maintain the value of assets (MF Loan Portfolio) for sustainability***

**EFFICIENCY  
MATTERS**

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“Microfinance Services at the Least cost”

## Section 4: Assessing MFIs current Level of Efficiency

### Why measure your Administrative Efficiency?

- ➡ ***How the organization is able to deliver microfinance services at the very least cost.***
- ➡ ***How higher loan loss provisioning due to high PAR can significantly and uncontrollably pull down administrative efficiency***
- ➡ ***How additional but unnecessary manpower complement can affect the administrative cost (salaries, benefits, training, travel allowances, etc.)***
- ➡ ***How loan size can affect revenue to cover for costs***

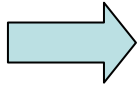
**EFFICIENCY  
MATTERS**

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“Microfinance Services at the Least cost”

## Section 4: Assessing MFIs current Level of Efficiency

### 1. Administrative Efficiency



Administrative Costs (direct & indirect costs)  
Ave. Gross Loan Portfolio

2005	
<u>Administrative Costs</u>	
Ave. Gross Loan Portfolio	

SCORE- Administrative Efficiency



EFFICIENCY  
MATTERS

“Microfinance Services at the Least cost”

## Section 4: Assessing MFIs current Level of Efficiency

### Why measure your Operational Self-Sufficiency?

- ➡ ***How the MFI can be able to earn enough revenues to cover for total costs related to the MF operations***
- ➡ ***How the MFI can be able to improve its income level to cover for costs by reviewing its loan pricing and levels of service charges and other fees to cover for costs***
- ➡ ***How total costs can be managed to attain certain level of operational sufficiency***
- ➡ ***How deposits and borrowing can be managed in order to fund the MF loan portfolio***

**EFFICIENCY  
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“Microfinance Services at the Least cost”

## Section 4: Assessing MFIs current Level of Efficiency

### 2. Operational Self-sufficiency

$$\frac{\text{Interest Income from Loans} + \text{Service Fees} + \text{Filing Fees} + \text{Fines, Penalties, Surcharges}}{\text{Financing Costs} + \text{Administrative Costs (direct and indirect costs)}} [1]$$

2005	
<u>Interest Income from Loans</u>	
<u>Service fees</u>	
<u>Filing Fees</u>	
<u>Fine, Penalties, Surcharges</u>	
<u>TOTAL</u>	
Financing Costs	
Administrative Costs	
TOTAL	

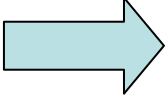
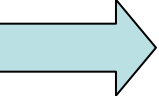
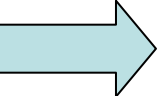
**SCORE- Operational Self-sufficiency**

**EFFICIENCY  
MATTERS**

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## Section 4: Assessing MFIs current Level of Efficiency

### Why measure your Loan Officer Productivity?

-  ***How ratio of number of microfinance borrowers per account officer can guide the MFI to attain optimum level for individual and group lending methodologies***
-  ***How borrowers per account officer can assist the MFI when to add account officer/s in relation to potential growth in outreach***
-  ***How the MFI can adequately plan to increase account officer productivity by reviewing proximity of borrowers***

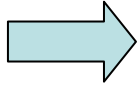
**EFFICIENCY  
MATTERS**

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“Microfinance Services at the Least cost”

## Section 4: Assessing MFIs current Level of Efficiency

### 3. Loan Officer Productivity



$$\frac{\text{Number of Active Borrowers}}{\text{Number of Account Officers}}$$

2005	
<u>Number of Active Borrowers</u>	
Number of Account Officers	

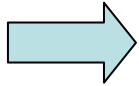
SCORE- Loan Officer Productivity

**EFFICIENCY  
MATTERS**

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## Section 5: Steps and Actions to improve efficiency

### *1. Administrative Efficiency*



2005	
<u>Actual Performance</u>	
<u>Standard</u>	10%&below

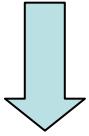
**EQUIVALENT POINTS**

**EFFICIENCY  
MATTERS**

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## Section 5: Steps and Actions to improve efficiency

### *1. Administrative Efficiency*



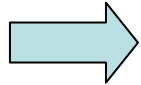
Activity	Person/s Responsible	Implementation Dates	Resources Needed	Expected Outputs

**EFFICIENCY  
MATTERS**

“Microfinance Services at the Least cost”

## Section 5: Steps and Actions to improve efficiency

### *1. Administrative Efficiency*



**What are the factors affecting your current level of ADMINISTRATIVE EFFICIENCY?**

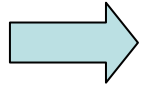
HINDERING	ENABLING

**EFFICIENCY  
MATTERS**

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## Section 5: Steps and Actions to improve efficiency

### *2. Operational Self-sufficiency*



2005	
<u>Actual Performance</u>	
<u>Standard</u>	>120%

**EQUIVALENT POINTS**

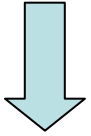


**EFFICIENCY  
MATTERS**

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## Section 5: Steps and Actions to improve efficiency

### *2. Operational Self-sufficiency*



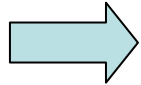
Activity	Person/s Responsible	Implementation Dates	Resources Needed	Expected Outputs

**EFFICIENCY  
MATTERS**

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## Section 5: Steps and Actions to improve efficiency

### *2. Operational Self-sufficiency*



**What are the factors affecting your current level of OPERATIONAL SELF-SUFFICIENCY?**

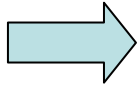
HINDERING	ENABLING

**EFFICIENCY  
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## Section 5: Steps and Actions to improve efficiency

### *3. Loan Officer Productivity*



2005	
<b><u>Actual Performance</u></b>	
<b><u>Standard</u></b>	Grp. $\geq$ 300 Indv. $\geq$ 150

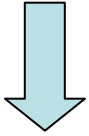
**EQUIVALENT POINTS**

**EFFICIENCY  
MATTERS**

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## Section 5: Steps and Actions to improve efficiency

### *3. Loan Officer Productivity*



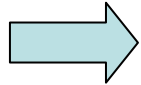
Activity	Person/s Responsible	Implementation Dates	Resources Needed	Expected Outputs

**EFFICIENCY  
MATTERS**

“Microfinance Services at the Least cost”

Section 5: Steps and Actions to improve efficiency

*3. Loan Officer Productivity*



**What are the factors affecting your current level of LOAN OFFICER PRODUCTIVITY?**

HINDERING	ENABLING

**EFFICIENCY  
MATTERS**

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