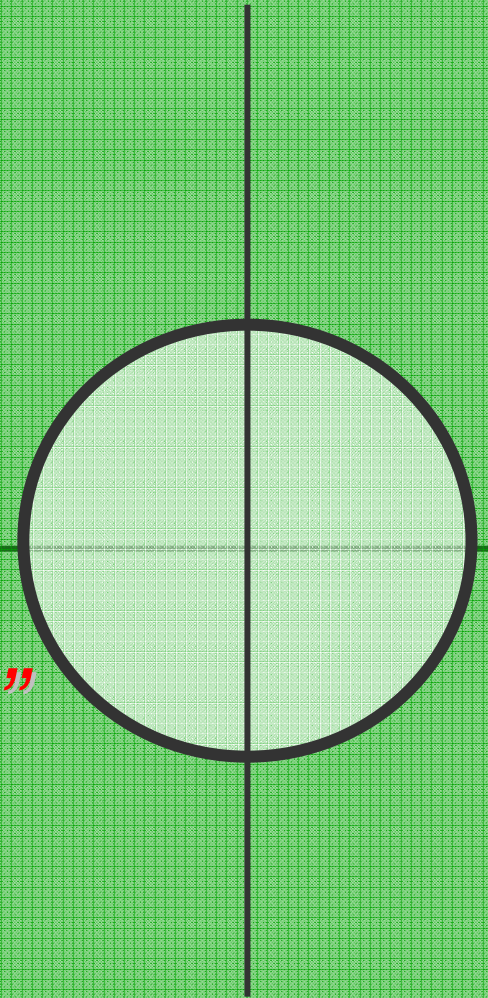


P E S O

SUSTAINABILITY

BOTTOMLINE

“Ensuring Long-term Survival”



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Module Overview

Section 1: What Sustainability all about?

Section 2 : Why is Sustainability important?

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

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

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

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Section 1: What Sustainability is all about?

Sustainability = measures the ability of the MFI to continuously finance its microfinance operations from internally generated funds in the long run without any subsidy

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Section 1: What Sustainability is all about?

Sustainability...

=

Coverage of Administrative cost + Loan loss
+ Cost of funds, + Inflation + Capitalization

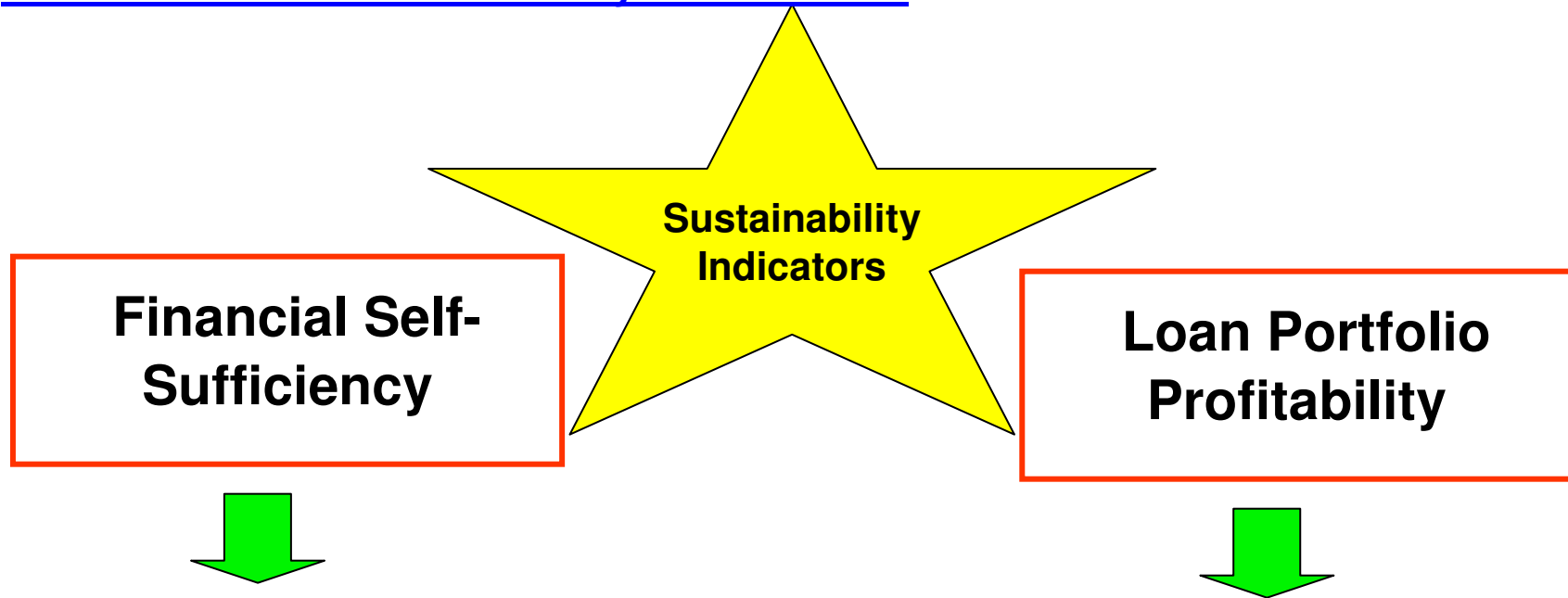
For Growth

From Operating Income

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Section 1: What Sustainability is all about?



Indicates whether the MFI is earning enough revenue to sufficiently cover in the long run all operating costs and at the same time maintain value of its capital and assets.

Measures the proportion of net revenues generated from the MF lending operations to the MF loan portfolio.

Also indicates if earnings can sufficiently cover the annual depreciation of the peso.

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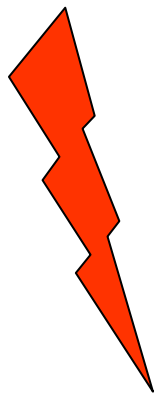
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Section 2: Why sustainability is Important

Financial Self-Sufficiency

STANDARD: Greater than 100%

$$\frac{\text{Operating Revenue}}{\text{Financial Expense} + \text{Loan Loss Provision Expense} + \text{Adjusted Expenses}^*}$$



*Adjusted Expenses = Total Operating Expense + [(Average Equity – Average Fixed Asset x Inflation Rate)] + [(Market Interest Rate x Average Total Liabilities) – Actual Interest Expense] + Other Implicit Costs.

Other Implicit Costs include those costs relevant to the conduct of its business such as grants, rent free building, donor paid technical advisor, or other subsidized expenses

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Section 2: Why Sustainability is Important

Loan Portfolio Profitability

STANDARD: Greater than the inflation rate during the period

Net Operating Income
Average Net MF Loan Portfolio

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Section 3 : Some Best Practices on Sustainability

- ✓ Set pricing of loans:
 - to cover for costs and;
 - to determine enough spread to cover for net revenue
- ✓ Review cost and revenue structures to ensure that expenses are within acceptable limits and that pricing is high enough to guarantee profitability of MF operations
- ✓ Maintain a level of net revenue over loan portfolio level to ensure sustainability

Section 4: Assessing MFIs current Level of Sustainability

SUSTAINABILITY indicators...

1. Financial Self-sufficiency

$$\frac{\text{Operating Revenue}}{\text{Financial Expense} + \text{Loan Loss Provision Expense} + \text{Adjusted Expenses}}$$

2. Loan Portfolio Profitability

$$\frac{\text{Net Operating Income}}{\text{Average Net MF Loan Portfolio}}$$

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Section 4: Assessing MFIs current Level of Sustainability

Why measure your Sustainability?

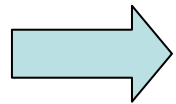
- ➡ ***Strikes a balance on the total costs to operate the MFU in relation to the income generated***
- ➡ ***How much of costs have been allocated to manage the organization's assets (MF Loan Portfolio)***
- ➡ ***How high or low can loan pricing be set by the organization to cover for costs to maintain 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***

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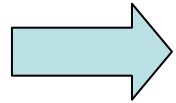
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Section 4: Assessing MFIs current Level of Sustainability

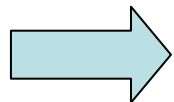
Why measure your Financial Self-Sufficiency?



How much revenue earned by the MFI not only to sufficiently cover for its operations costs but also to maintain the value of its capital base and assets (fixed assets and MF loan portfolio)



How sufficient is revenue generated to meet not only the current operations but also its capability to sustain earnings flowed back to capital for future operations



How sufficient is revenue generated to absorbed all current and future MF operations without relying on subsidy

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Section 4: Assessing MFIs current Level of Sustainability

1. Financial Self-sufficiency

→
$$\text{Financial Expense} + \text{Loan Loss Provision Expense} + \text{Adjusted Expenses} = \text{Operating Revenue}$$

2005	
<u>Operating Revenue</u>	
Financial Expense	
Loan Loss Provision Expense	
Adjusted Expense	
TOTAL	

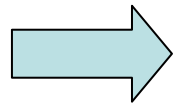
SCORE- Financial Self-Sufficiency

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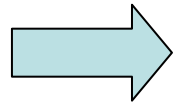
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Section 4: Assessing MFIs current Level of Sustainability

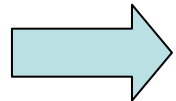
Why measure your Loan Portfolio Profitability?



How much can net income over net assets (MF Net Loan Portfolio) can sufficiently cover the annual depreciation of the Philippine Peso.



The ratio shall reflect if profitability is lower or higher than the inflation rate



If profitability is higher than inflation rate, the value of your net revenue is stronger and has more purchasing power in terms in portfolio investment or additional funds for loan capital

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Section 4: Assessing MFIs current Level of Sustainability

2. Loan Portfolio Profitability

Net Operating Income
Average Net MF Loan Portfolio

2005	
<u>Net Operating Income</u>	
Average Net MF Loan Portfolio	

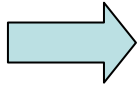
SCORE- Loan Portfolio Profitability

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Section 5: Steps and Actions to improve Sustainability

1. Financial Self-sufficiency



2005	
<u>Actual Performance</u>	
<u>Standard</u>	>100%

EQUIVALENT POINTS

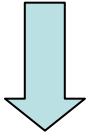


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Section 5: Steps and Actions to improve Sustainability

1. Financial Self-Sufficiency



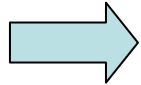
Activity	Person/s Responsible	Implementation Dates	Resources Needed	Expected Outputs

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Section 5: Steps and Actions to improve Sustainability

1. Financial Self-sufficiency



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

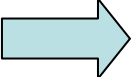
HINDERING	ENABLING

**SUSTAINABILITY
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Section 5: Steps and Actions to improve Sustainability

2. Loan Portfolio Profitability



2005	
<u>Actual Performance</u>	
<u>Standard</u>	>inflation rate

EQUIVALENT POINTS

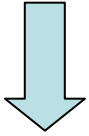


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Section 5: Steps and Actions to improve Sustainability

2. Loan Portfolio Profitability



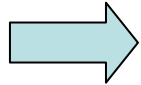
Activity	Person/s Responsible	Implementation Dates	Resources Needed	Expected Outputs

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Section 5: Steps and Actions to improve Sustainability

2. Loan Portfolio Profitability



What are the factors affecting your current level of LOAN PORTFOLIO PROFITABILITY

HINDERING	ENABLING

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