



The Challenge of a Micro Bank in Urban Bangkok to Reach Sustainability

Internship Report

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Glossary

BMA	Bangkok Metropolitan Administration
GSB	Government Savings Bank
MFI	Microfinance institution
PA	Program Assistant
Step Ahead ICD	Step Ahead Integrated Community Development (the umbrella organisation)
Step Ahead MED	Step Ahead Micro enterprise Development (the microfinance branch of Step Ahead Integrated Community Development)
THB	Thai Baht (USD 1 = 40.3 baht)
WVFT	World Vision Foundation of Thailand
YWAM	Youth With A Mission
Service contribution = Interest Rate	

1. Introduction

MEXICO CITY (Dow Jones)--A charity run by Mexican billionaire Carlos Slim and the international arm of Bangladesh's Grameen Bank said Thursday they have launched a microfinance company aimed at reducing poverty in Mexico.

"Grameen Carso hopes to make more than 100,000 loans during its first five years of operations," its shareholders Fundacion Carlos Slim and Grameen Trust said in a joint press release. (Parks, 2009)

Every now and then, the newspapers and agencies announce activities like the one above or tell us stories similar to that of Asmitha, an Indian MFI: Founded in 2002, it is one of the top-five MFIs in India with regard to loan-portfolio, and it has over 1.16 million clients (Maggio, 2009). The microfinance sector is vibrant – there are conferences, new participants, and investments as well as literature appearing with fresh insights on a regular basis. The industry is young and there's money to make, but somehow the situation in Thailand is different.

Is there a need for microfinance in Thailand? Why didn't the major private MFI in Bangkok, Step Ahead MED, have their own success story like so many others in the industry? We want to take a look at Bangkok, its population, the opportunities of micro loans in Thailand and at Step Ahead MED; we also want to look at Step Ahead's history, their operation methods, their products, and their financial situation. In the last chapter we will make a statement as to whether opportunities exist for major developments of Step Ahead MED towards sustainability.

2. The Necessity of a Micro Bank in Urban Bangkok

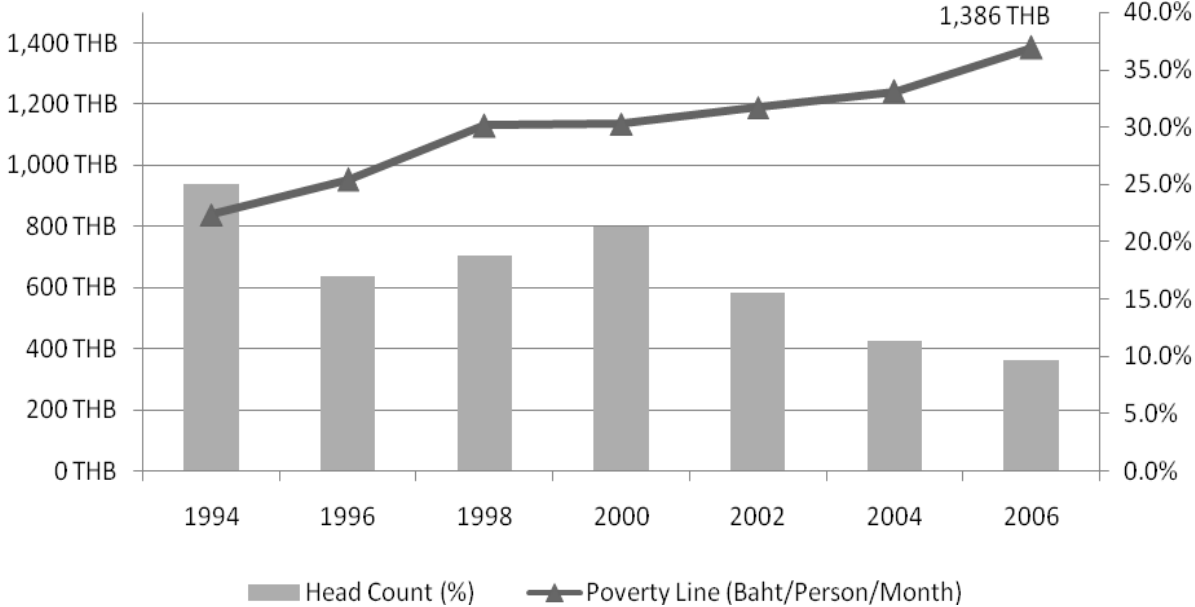
Understanding the country – understanding the people, their work, their income situation – will help us to take a closer look at the work of the MFIs in Thailand and especially Step Ahead MED. Therefore we look into poverty in Thailand; we explore urbanization, the informal sector, and the importance of alleviating poverty through street vending; and finally, we analyze the financial services for the poor.

2.1. Poverty in Thailand

The reduction of poverty in Thailand has made impressive developments throughout the last 20 years. The national poverty line declined from "42 percent headcount ratio in 1988 and its recent peak of 21 percent in 2000 (as a result of the 1997 Asian crisis) to 8.5 percent in 2007" (World Bank Office - Bangkok, 2008, p. 15). This development was mainly driven by the high annual growth of the domestic economy. One of the main characteristics of poverty in Thailand is the fact that 88% of the 5.4 million poor live in rural areas. As a result only 3.3% of the urban population is poor compared to 11% of the rural population. In the city of Bangkok, only 1.1% of the population lives under the na-

tional poverty line (World Bank Office - Bangkok, 2008, p. 16). The national poverty line in Thailand is set by the National Economic and Social Development Board based on a calculation method which was developed throughout the last few years. According to the National Statistical Office, the poverty line was 1,386 THB per person per month for the year 2006 (Figure 1). The minimum wage for Bangkok in 2008 was 203 THB per day, which is approximately 6000 THB per month (Thailand Board of Investment, 2009).

Figure 1: Poverty Line & Head Count Index 1994 - 2006



Source: National Statistical Office of the National Economic and Social Development Board, 2008

2.2. Urbanization

According to the Statistical Profile of BMA (Bangkok Metropolitan Administration, 2007, p. 6), the Bangkok Metropolitan Region (Bangkok and its vicinity) had 10 million inhabitants in 2007, which represents 15.97% of the total population (63 million people). The Human Development Report 2007/2008 (UNDP, 2007/2008, p. 244) says that 32.3% of Thailand’s population lived 2005 in urban areas and projects that the number will increase 3.9% by 2015. With a projected population of 66.8 million in 2015, we can expect another 2.6 million urban inhabitants. It is assumed that more than half of those people will live in Bangkok.

The BMA is divided into 50 districts; approximately 80% of the Step Ahead MED members live in the Klong Toey District, which, according to the BMA, has 119,909 inhabitants (Bangkok Metropolitan Administration, 2007, p. 1). As for the population, Klong Toey is the second biggest slum in Bangkok with 96,011 people living in so called Sub-Standard Housing (Slum), representing 22,538 families (Bangkok Metropolitan Administration, 2007, p. 29).

2.3. Informal Sector & Street Vending in Bangkok

Officially there are 3.99 million employees in the Bangkok Metropolis; 32% of them are part of the informal sector (National Statistical Office of Thailand, 2007). As this is an official statistic, we have to assume that there are more workers in the informal sector than quoted on the report. Most of Step Ahead MED members work informally as street vendors. Street vending, which primarily comprises the sale of fresh-cooked dishes as well as fruits from carts, has a big impact on the Thai economy, especially Bangkok.

The history of street food vending in Thailand goes back to the mid 19th century, when it was a Chinese-dominated business sector (Int. Labour Organisation, 2006, p. 13). Street vending became “part of the traditional economic and social life of Bangkok people [...] [and] has come to be viewed as a marginal occupation aimed to alleviate poverty” (Int. Labour Organisation, 2006, p. 17). Economic downturns have a high impact on people entering the street vending business, as the 1997 crises and its aftermath show: “The Labour Force Survey of 2000 showed that there were 390,600 workers under the category of ‘hawkers, peddlers and newsboys’ as compared to 310,500 workers in this sector in 1997” (Int. Labour Organisation, 2006, pp. 15-16).

An ILO report (Int. Labour Organisation, 2006) surveyed 741 vendors (236 mobile vendors, 505 fixed vendors) in Klong Toey District, an area containing 80% of Step Ahead MED members, and Din Daeng District. The findings of the ILO report reflect Step Ahead MED’s daily experience with regard to the financial situation and income of their members. The research reveals that 70% of mobile vendors average approximately 500 THB profit per day, but 21.4% are below the minimum wage. In a second step, it is interesting to take a closer look at the ‘level of success’ and how vendors fund their businesses. The ILO research found that no more than half of vendors make it beyond the subsistence level and only a small part of those who have savings are considering expanding their operations. The fact that only 56% of the vendors reach subsistence level makes them vulnerable to spending requirements that go beyond their daily cost of living, such as illness or tuition fees for their kids.

2.4. Financial Services for the Poor

The microfinance market in Thailand is relatively small compared to other countries in Asia. Microfinance Thailand (2009) and The Mix Market (2005) report only 11 programs supporting micro enterprise development in Thailand. We have to remark that there are no major private MFIs that are broadly known in Thailand and/or internationally. Still, money for micro enterprise activities is broadly available. The following is an explanation of the five different ways for people in the communities we serve to access capital: The Peoples Bank by the GSB, cooperatives and funds either organized through government authorities or local NGOs, money lenders, and finally Step Ahead MED.

2.4.1. The Peoples Bank by the GSB

This program, run by the government, is financed through the GSB and was established in 2001 (Int. Labour Organisation, 2006, p. 23). The loans “are extended to individual customers who are required to form a group of 3 members with two of them guaranteeing the third one” (Kamewe & Koning, 2004, p. 62). At the program’s inception, the maximum loan amount for first time borrowers was 15,000 THB with a 12-month loan term and a 1% monthly interest rate. Second time borrowers were allowed to increase the loan amount to 30,000 THB with a 24-month repayment period. In February 2002, the GSB adjusted its products by increasing the loan amounts and repayment periods (Kamewe & Koning, 2004, p. 62). All issued loans by The Peoples Bank include a 1-month grace period for the borrowers. Besides offering micro credit, The Peoples Bank also offers saving services. They operate in rural and urban areas of Thailand and could be seen as one of Step Ahead MED’s big competitors. Currently there is no information about the project on the English GSB website, but as of the end of 2002, The Peoples Bank had over half a million clients (Kamewe & Koning, 2004, p. 62), but Step Ahead MED employees assured that the program is still running.

2.4.2. Economic Development on a Community Level

All around Thailand there are saving groups, funds, and microfinance programs that focus on specific aspects within the community; this diversity in offerings makes it difficult to make generalizations about the industry.

First, there are NGOs that do not focus on micro enterprise development, but instead offer their members and program participants financial services. These services range from administrative support for saving groups to small-scale microfinance. For example, within the Klong Toey District the NGO Mercy takes care of at-risk children and their families as well as HIV positive individuals. Complimenting their human development projects, they also support saving groups. Probably the biggest provider within Thailand of microfinance is World Vision Foundation of Thailand, a Christian relief and development organisation that focuses on children. According to Step Ahead ICD CEO John H. Quinley, WVFT lends out money to 40,000 members in addition to the normal activities of the organisation; however, WVFT’s website gives no detailed information about the microfinance program in Thailand. Most microfinance activities by WVFT take place in rural areas; thus, their Bangkok program operates on a very low level.

Another money source for micro entrepreneurs are programs set up by the local government authorities within the communities. These programs are highly dependent on the local leader and how much effort he or she puts into it.

2.4.3. Money Lenders

The common way to fund a business for the poor is to take out loans from money lenders. Most of the poor lack substantial collateral; as a result, most of the credit options mentioned above deny them financial resources, so the money lender is their only source. The ILO paper reports money lenders charging a 20% monthly interest rate (Int. Labour Organisation, 2006, p. 48) and Step Ahead MED members report money lenders charging 15% to 20% monthly interest rates, compared to a commercial rate of 7% p.a. Due to these high fees, the money lender is able to bind his clients with long-term loans. Another important fact is that money lenders oppress their clients if they do not repay their loans in time, ignoring business and family situations that are causing the repayment delays.

2.4.4. Step Ahead MED

As far as we know, Step Ahead MED is the only organisation which presents them as a full scale MFI in urban Bangkok. The MFI offers lending and saving services to their members. The rates are moderate and the entry barriers are kept low to give people a chance to enter the program. All members must own a running business and need a guarantor with a monthly income. Step Ahead MED works with the individuals and not with groups. The aim of Step Ahead MED goes beyond the financial services provided by an MFI and uses a mentoring approach.

2.4.5. Analyzing the Situation

Ultimately, we determined that there are opportunities for the poorer population in Bangkok to have access to financial services. Still, there are limits for certain groups within society. In particular, programs that are supported through the government demand high collateral, which most Step Ahead MED members do not have, which deems them unqualified as recipients of loans. Another issue we have to take into account is that most of the people need their daily income to finance their business activities; consequently, it is very challenging for them to participate in saving groups.

To put it in a nutshell we can say that Step Ahead MED is serving a niche and competing with the money lenders. They serve those who do not fulfil the criteria of the other organisations or institutions. These people are above the poorest of poor and their daily income keeps them self-sustainable, but as soon as they are hit by an emergency, their financial resources are not sufficient to overcome the situation.

3. Step Ahead as Organisation

After we took a look at the general situation and framework for our members in Bangkok, we will move on to Step Ahead – looking back into its foundation and development; analyzing their products and how they work; and identifying their mission and goals.

3.1. Foundation & the Development over the Years

The Story of Step Ahead MED began in 1999. During that time, the founder and CEO of Step Ahead ICD moved to Thailand with the mission of creating a MFI for the Christian mission organisation YWAM. The idea in the beginning was to be an implementing partner with Opportunity's International, but "unfortunately, Step Ahead was ultimately unable to do so because of Opportunity's reorganisation and changed priorities" (Quinley, 2009, p. 1). As a result, an independent MFI under the roof of YWAM Relief & Development was founded in 2002: Step Ahead Micro Enterprise Development.

The further development of Step Ahead MED is described below. Over the last five years, Step Ahead ICD has developed itself into the organisation it is today. Up to this point "they have developed four aspects of their ministry outreach: MED, Women and Children at Risk, Community Economic Development and Capacity Developing" (Stodghill, 2009, p. 3) and serve in different communities around the country.

3.2. Motivation & Mission

Starting off as Step Ahead MED, their motivation was to provide more than micro loans; beyond this, they hoped "to assist poor individuals, especially women, and families in both Bangkok and rural Thailand through providing income-generating opportunities via micro-loans, training, and mentoring in an atmosphere that empowers, and encourages holistic growth and development" (Quinley, 2009, p. 1). The majority of MFIs around the world only provide financial services – this is the so called 'minimalist' approach. The idea of Step Ahead MED is to go beyond and to see the people and their families as a whole.

For Step Ahead ICD we can assume that the goals haven't changed drastically. Their aim is still to serve the community and have an impact on the life of each person who is part of a Step Ahead ICD program. John H. Quinley, the Step Ahead CEO, defined the current Step Ahead ICD mission as follows: "To amalgamate microfinance, mentoring, community economic development, and capacity building into an integrated service that powerfully displays the love of God while actively developing and empowering the poor, the vulnerable, and the marginalized" (Quinley, 2009, p. 4). Therefore, currently, the leadership judges the impact of their work above and beyond the mere sustainability of their programs. Even though the NGO is moving towards sustainability, they keep their focus on

the individuals and on transforming people's lives; this emphasis creates opportunities that personally affect the growth of their members.

4. Step Ahead MED – The Microfinance Institution

4.1. The Development of Step Ahead MED

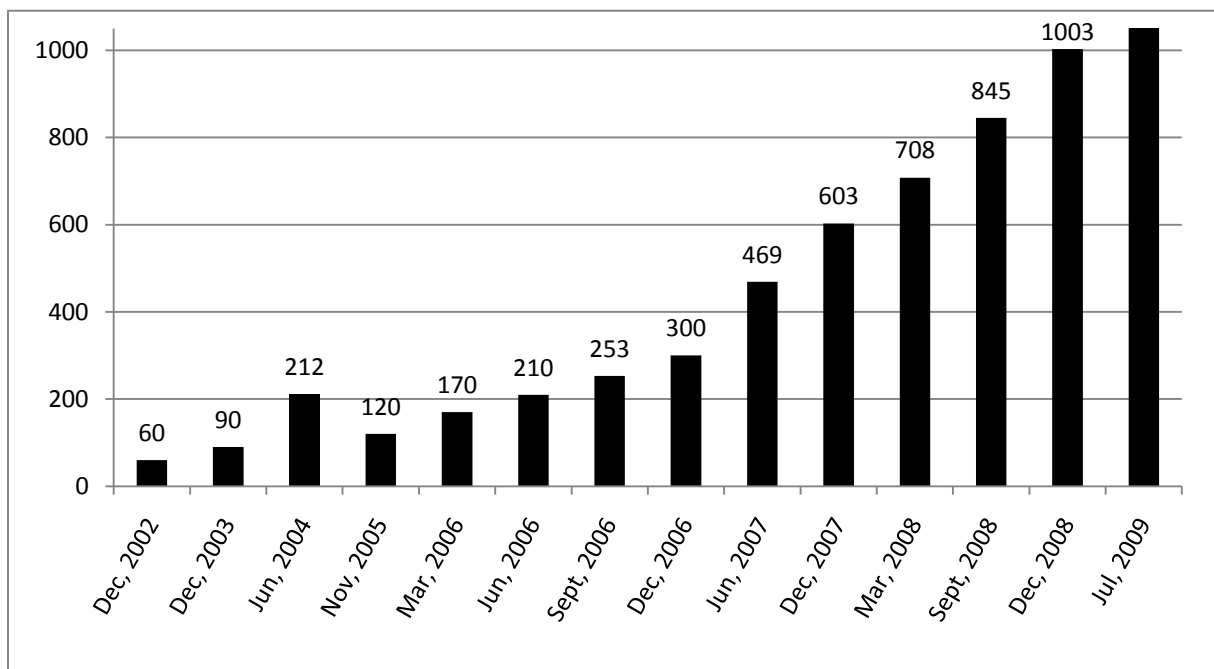
4.1.1. Development Over Time

Step Ahead MED started its operation in Klong Toey in the year 2002. Prior to opening the MFI, they underwent a process of development, consultancy, and fundraising. Since then the development wasn't straight forward and as dynamic as it is known from other MFI. Over the last 7 years, Step Ahead MED has had inconsistent forward progress.

First, Step Ahead MED struggled with the local leadership and staff in the first years and failed to aggressively promote microfinance to the community. Second, the repayment crises in 2005 significantly impacted development. A third reason is the different environment in Thailand: the number of poor people is smaller than in other countries around the region, most of the people can access money, and Step Ahead MED is not the sole lender in the community (Chapter 2.4). Overall Step Ahead ICD CEO John H. Quinley says that Thailand has a very difficult market for microfinance compared to other countries in the region. In his judgment the poor can easily access to money funds, even if they are linked to high costs. Regarding the economy of Thailand with its strong informal sector and the low unemployment, it is clear that the situation is different from countries like Bangladesh or the Philippines; this picture gets clearer when we take a look at the Human Poverty Index (UNDP, 2007/2008, p. 240), where Thailand is ranked 24th and is near the top in the region behind Singapore and Malaysia.

The chart shows how slowly Step Ahead MED grew during the first years and how high the impact of the repayment crisis was. The program began with 60 members in 2002, added another 30 in the following year and finally reached an initial peak with 212 members. Falling to 120 members due to the repayment crises, it took Step Ahead MED over a year to readjust and start growing on a regular basis. After the MFI had achieved 603 members in 2007, they set the goal to add another 400 in 2008. This goal was fulfilled at the end of 2008 when Step Ahead MED had 1003 members.

Figure 2: Number of active members 2002 – 2009



Source: Step Ahead MED, 2009

After Step Ahead MED reached its 2008 goal, they set their new target for the current year at 2000 members. In relation to the December 2008 member base, Step Ahead MED hopes to double the number of their members within one year. In contrast to the former development, this number seems to be unrealistic. Taking into account that the loan officers gained experience over the last years, the processing of new members should work out to be faster and more dynamic. Beside that factor, a big question behind the growth is the demand for micro loans issued by Step Ahead MED. At the current moment they've got 1209 members, another 791 to be added in the upcoming six months (as of July 2009).

The future development of Step Ahead MED could be described as threefold: first of all, the MFI wants to reach out to more communities in Bangkok; second, they want to open a new branch in Pattaya, a city south of Bangkok; and currently, Step Ahead MED is involved to set up a village banking project in the north of Thailand near by the Burmese border.

4.1.2. Repayment Crisis

After Step Ahead MED set up a solid client base in the first two years, the MFI was faced with a major repayment crisis in November 2005. Looking back to this period, CEO John H. Quinley mentions several factors that affected that situation (Quinley, 2009, p. 3).

One major reason could be found within the leadership. On the one side, the original program manager never overcame the cultural barriers between her personal background and the slum situation. In John H. Quinley's words, "[she] struggled regularly to relate well and connect with our members."

On the other side, John H. Quinley focused on the new projects that came up during the 2004 tsunami aftermath. Facing the challenge of a repayment crisis finally resulted in a resignation of the original program manager and led to a re-launch of the program in 2006.

Another fact was the launch of a government program by the former PM Taksin. With his populist politics, he focused especially the poor population in Thailand. His politics also included a microfinance program with very small required interest payments, which also demanded few guaranties by the lenders. The loans offered by Step Ahead MED stood juxtaposed to such relaxed requirements and demanded “responsibility, hard work and stepping ahead together” (Quinley, 2009, p. 3).

4.2. Operation methods

Step Ahead MED is a member-based MFI in urban Bangkok working with individuals throughout different communities. Each member is obligated to have a guarantor with a salary income. The following gives a picture of the daily work at Step Ahead MED. At the outset, we will describe the general structure in the Step Ahead MED Bangkok office; subsequently, we will look at the process employed by Step Ahead MED for acquiring new members and processing them and their payments.

4.2.1. Step Ahead MED Structure

The founder of Step Ahead, John H. Quinley, is also the CEO of Step Ahead ICD and he supervises the work of the MFI in general. As Step Ahead MED is one branch of Step Ahead ICD, he can only spend a limited amount of time on the MFI. Therefore he has chosen a program manager – currently Khun Say, who is highly renowned in Klong Toey. She leads the daily business of Step Ahead MED and advances the work in consultancy with the CEO. Currently the MFI has four Program Assistants – all women; their responsibility includes the following: promotion, member acquisition, managing the incoming payments, loan tracking, house visits, relationship building and member training. Besides these activities, Step Ahead MED has one accountant who also fulfils the tasks of a PA. From time to time, Step Ahead MED has interns coming from all over the world. Their work is focused on supporting the management while they fulfil tasks that go beyond the capabilities of the local staff.

4.2.2. Acquisition of New Members

The first step in the process of acquiring new members is exposure to the community. The prospective new member has to hear about the Step Ahead MED program, which can happen in several ways: word-of-mouth, promotion by Step Ahead MED staff, or the launch of a new community by the MFI. After the new member has heard about the program and made the decision to become part of it, he or she spends time with one of the Step Ahead MED staff to discuss his or her opportunities to get a loan from the MFI. During this time, the PA gathers personal and business information about the new member. First of all, they need to get a general picture of his or her life circumstances and to

figure out if he or she is capable of becoming part of the program. This also includes an extensive questionnaire containing questions about the family, the guarantor, the business, household expenses, the prospect's health, and whether or not they are borrowing money from anyone else. The whole process can take several days as the new member gathers all the data. Finally, he presents himself with his guarantor at the office, hands in the questionnaire, and submits copies of official documents. Based on this information, Step Ahead MED develops a credit plan. One important part of the process is the house and business visit, to verify the given information and to get a better picture of the new member.

The new member gets his or her loan as soon as he or she meets the upfront saving requirements (detailed description in 4.3). Along with the loan issue, the new member also gets a passbook.

4.2.3. Processing of the Members and their Repayments

The work of the PA is divided between office work and member care. The members themselves can choose to come to our office and repay there or they are visited by the PAs. Each PA goes two to three times a day on average visiting the community and its members, trying to get in touch with them, and collecting money. Strengthening relationships is a major task for the PAs and, which gives them the possibility to work with the people and transform their lives.

Each member has its passbook, and alongside Step Ahead MED, the PAs keep track with their ledgers and subsequently enter the data into a weekly summary on the computer. The current process of loan tracking is inefficient and inaccurate; regular reports are rare, and attempting to generate them results in a significant workload. But as each PA has a group of members and focuses on them, they get a good picture of the performance of their members. As a result, the repayment rate averages around 98% (Step Ahead ICD, 2009, S. 6). At present, Step Ahead MED is in the process of implementing Loan Performer, loan tracking software; this process should be done at the end of the year and will support the accuracy of their reporting.

4.3. Products

Step Ahead MED serves its members with three different types of products; they categorise the products into the three groups based on repayment cycles. The main product is the Weekly Product: members repay their loans once a week. The Monthly Product is repaid once a month by the members and the Daily Product is repaid on a daily basis. The following is an explanation of their structure. Since each product has specific target groups, each group will be explained below. In general, the interest rate of the members savings 9.6% p.a. or 4% for a 20-week period.

4.3.1. Weekly Product

The Weekly Product has an initial loan amount between 1,000 and 3,000 THB and the members repay their loans on a weekly basis. Over time, members can move up to a maximum loan amount of 10,000 THB. Step Ahead MED charges a 15% service contribution (interest rate) at the beginning of the lending period. Each period endures for 20 weeks. Each member is obligated to have 15% of the loan amount as savings on their account for the first loan and 30% for each following loan. The members save with every repayment 10 – 100 THB, depending on their loan size. Additionally, there is an alternative for this loan product in which members only repay every second week. This ultimately results in constant repayment rates, as they are able to balance their liquidity over time.

The Weekly Product is the basic product – it is meant for the average inhabitant of the slum areas we serve. This product is typically intended for people who want to run a small single-person business, such as street vending as described above. This product should enable the members to invest in their business and support their liquidity. As a result, most of the members keep their loan amount at a certain level and have no plans to expand it.

4.3.2. Monthly Product

The Monthly Product has an initial loan amount of 3,000 THB and the members repay their loans on a monthly basis. Like the Weekly Product, members can move up after they finish one cycle successfully. The rules are almost the same as for the Weekly Product in terms of period, service contribution, and upfront savings. Even the saving rates reflect the structure of the Weekly Product, as the members repay every four weeks on average. The rates are fourfold and range from 200 THB to 400 THB

The Monthly Product is for the members who are better off, most of whom have someone in their family with a regular income. Another possibility is that they run their business beside their regular daily work to generate additional income. The members also utilize the Monthly Product to increase their standard of living; for instance, many attempt to expand or renovate their houses.

4.3.3. Daily Product

The Daily Product has an initial amount of 1,000 THB and most of our members average around 2,000 to 3,000 THB. The regulations for the Daily Product are slightly different from the other products. The period is four weeks long; there is a 5% service contribution for this period, the members repay daily, they are required to save 20 to 50 THB per day, and they are required to keep 30% of the loan amount as their savings.

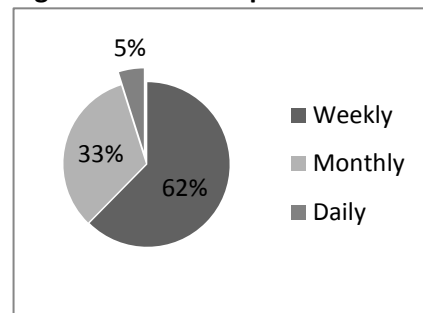
The Daily Product is designed to give members the chance to have their first experience with financial services. As they have become accustomed to living hand-to-mouth, the members are new to

managing their income over the long run. Members should graduate to the Weekly Product after the 2nd or 3rd term.

4.3.4. The Ratios

As of July 2009, Step Ahead MED had 1,209 participating members. The majority of members had Weekly Loans (62%, 754 members) followed by those with Monthly Loans (33%, 396 members), and the smallest share are those who take Daily Loans (5%, 59 members).

Figure 3: Members per Product



Source: Step Ahead MED, 2009

5. The Financial Situation & Microfin

At present, Step Ahead MED spends more money than they generate with their operations. My work as intern at the MFI was to work with Microfin, the major business planning tool for microfinance. In this section I attempt to give you a rough picture of the current financial situation and explain Microfin. Furthermore, I reveal my findings based on the current situation. Finally, I want to discuss different models by which Step Ahead MED can reach sustainability during the next three years.

5.1. The Current Financial Situation

In the following section, I take a closer look at the Financial Report for fiscal years 2007 and 2008. We will discuss the Client Portfolio over the last two years and the average portfolio size. The data from the Profit & Loss sheet will give us a better picture how Step Ahead MED finance its work and to what degree they are self-sustainable.

During the year 2007, the Client Portfolio was 1.5 million THB; with an average of 450 members, the average Client Portfolio was 3429 THB. When we take a look at the year 2008 the Client Portfolio was at 2 million THB. Its per-client mean portfolio amount was 2537 THB with 800 members on average. It is interesting to see that the number of members increased over time, but the average Client Portfolio decreased within one year. It can be assumed that Step Ahead MED primary added members with small loans, which doesn't strengthen the income situation, but rather adds a higher burden to the expenses.

In figuring out the degree to which the work of Step Ahead MED is self-sustainable, it is informative to verify the expenses and the income situation. In the year 2007, the MFI had total expenses of 1.45 million THB and in 2008 they spent 2 million THB. In both years, their earnings were behind their expenses: in 2007 there was a gap of 0.97 million THB and the shortfall the following year was 1.59 million THB. Due to noteworthy donations, Step Ahead MED finished both years with a surplus. To

give a better idea of the ratios, 72.4% of their 2007 income was financed through donations, and in 2008, 83.4% of the income was funded by donors.

We can assume that Step Ahead MED is highly reliant on donor money: in 2007 they financed 33% of their operations with their income and in 2008 the sustainability was a mere 23%. For the current year, Step Ahead MED has not raised any donor money and lives off its savings. As they generate very little income, they have to find new sources in the upcoming weeks to keep the work of the MFI going.

Looking back in the past gives us an idea where the MFI can optimize their operations. A lesson learned from the year-on-year comparison is that growth does not always support sustainability; therefore, it is important how the MFI develops in future years. Another important finding is that Step Ahead MED still relies on donor money; this is not common for an organisation that has been in business as long as Step Ahead MED has.

5.2. Microfin

The main focus of my work at Step Ahead MED was to implement the business planning tool Microfin, a Microsoft Excel-based tool that is currently the leading software for MFI business planning. In the following I will explain the main structure of the application.

5.2.1. The Software

Microfin is based on a Microsoft Excel spreadsheet and is a free of charge tool which can be downloaded on www.microfin.com. Microfin was created to help MFIs develop their financial projects in line with Business Planning. Microfin and the accompanying Business Planning Manual were first released in 1997 – the current Version is Microfin 4.10. “Since its introduction, over 2,000 managers of MFI from dozens of countries worldwide have been trained [to use Microfin]” (Waterfield & Sheldon, p. 1); Microfin is the industry’s leading product for financial projections and business planning.

The approach of Microfin is threefold: First of all, it guides the user through the planning process of a MFI. In addition, it gives the user an outlook about the development of his MFI over the next three or five years, dependent on the framework he has chosen. Third, the user can modify aspects of the framework of the micro bank within Excel to figure out how new policies would influence the financial situation of the MFI.

The planning process within Microfin goes step-by-step. Microfin collects the necessary information on different sheets to get a complete picture of the MFI. The key elements can be summarized as follows: designing financial products and services, establishing marketing channels and projecting

activity levels, determining institutional resources and capacity, developing a financing strategy [and] analyzing projected financial statements and ratios (Waterfield & Sheldon, p. 1).

To give a better picture I will describe the main sheets and their content in the following part:

The *Model Setup* is the starting point from which one can begin work with Microfin. On this sheet, Microfin asks for some basic information: the starting year and month for the projection along with inflation rate projections; most importantly, historical financial data can be added. This last step is not necessary to run the model, but after having entered the data, the last year earnings and probable surpluses are part of the financial picture. Data in later steps can be used to compare if the projections are consistent with the former periods.

On the *Products* sheet and its affiliates you have to enter all required data to design the product. Microfin gives the opportunity to define 4 different products: Term Loan Products, Line of Credit Loan Products, Compulsory Savings and Voluntary Saving Products. For the purpose of Step Ahead MED, we focus on Term Loan Products and on defining the Compulsory Saving, which is part of our common loan products. The whole process of setting up a loan product takes place in several steps. The main work has to be done on the Product Design Sheet and the Product Activity Sheet. As their titles already tell, the first one sets the framework for each product and the second one defines the marketing. At this point Microfin asks the user everything about the loan product, the setup, and the future outlook: average loan amount per loan cycle, mode and frequency of repayment, rules for compulsory savings, rates of interest and fees charged, current number of members per loan cycle, growth targets for the upcoming years, and retention and graduation.

The next three Excel sheets can be easily explained together – they are Program, Institutional Capacity (Ins. Cap.) and Admin (for administration). The so-called Ins. Cap. sheet can be seen as the basic sheet out of these three sheets. A lot of information refers to this particular sheet. At this point, information should be inputted into Microfin regarding your staff structure; in a further step, all expense categories should be inputted into the system. Most information Microfin asks for on this sheet can be given either as a fixed number or as a variable. The second half of this sheet contains the fixed assets with all important information.

The Program sheet shows information about the different loan products regarding number of loans, total loan portfolio, average loan size, and other information. Besides the loan products, this sheet summarizes all the other products in Microfin. In a later step, Microfin requires important information about the loan officers, the number of loans they handle, their income, etc. The Admin sheet has the same approach as the Program sheet with regard to gathering information except that it is fo-

cused on the organisation of the MFI and the resulting cost rather than on the products and their effects on income and expenses.

On the Financial Sources sheet, the user has to add all the information about the MFI's funding. This includes the loans and grants to which the MFI has access, and it differentiates them between restricted and unrestricted, equity investment, usage for operations or the portfolio, and usage for other assets. Furthermore, you can add liquidity requirements and the interest rate for borrowed funds.

The next three sheets – Financial Flows, Financial Statements, and Summary Report – are the financial information centre for Microfin. After the user has set the framework for his MFI on these sheets, he now can analyze his MFI and its finance in detail.

The Financial Flows sheet is a record of all financial activities over time. The main idea of the Financial Flow sheet is that the user can analyze the cash flow and liquidity in his MFI. On top of that, there is a summary entitled 'Excess/Shortfall Including Liquidity Requirements'. This summary is a primary indicator used to check the performance of your MFI regarding sustainability. In the next step, the user can choose if he wants to activate the 'Automated Default Source', and he can then define the rules for it, such as for the interest rate. The following parts summarize financing of the MFI business as well as deals about the investment done by the MFI, the crux of which is called 'Liquidity Analysis'. The user can see the shortfall in liquidity by operations, by portfolio, and overall; a further purpose for this function is to see how much shortfall has to be covered. This is a crucial indicator for the performance of the MFI.

The sheets 'Financial Statement' and 'Summary Report' almost represent the same data. The Summary Report is the Financial Statement reduced to the crucial numbers. It contains a tool which converts the important figures into a foreign currency of your choice. The Financial Statement sheet has a complete and detailed Financial Statement and has added an extensive 'Ratio Analysis'.

The following sheets are supportive in the work with Microfin. The most important among these sheets is the 'Graphs' sheet, which is used throughout the model to generate different graphs. None of these sheets is used to set up the model within Microfin.

5.3.Ways to Reach Sustainability

One of the main targets for every MFI is to reach sustainability as soon as possible. For sure, this goal must be consistent with other goals of the MFI. For this year, Microfin projects an overall profitability for Step Ahead MED which is around 20%. The aim of my work was not only to get Microfin running, but also to create an idea of the future development of the MFI. In the following I want to take a look

at different growth models for Step Ahead MED and attempt to explain how and when they can reach sustainability.

5.3.1. Basic Assumption & the Standard Model

To start off, we have to make a basic assumption and define sustainability. Next, we want to take a look at the so called Standard Model. The Standard Model is based on numbers that my colleague, John Stodghill, and I discussed and declared as most reasonable. Coming from the Standard Model, we can start to play with the input factors and try to figure out if there is any way to improve the performance of Step Ahead MED.

The basic assumption is that Step Ahead MED has access to commercial funds with a market rate of 7% p.a. (Bank of Thailand, 2009). This assumption helps us to see how much funds Step Ahead MED has to raise, and it is also a mechanism to control shortfalls instead of accumulating them. Sustainability is to be defined as the moment at which Step Ahead MED generates a positive Net Income. The target for the Standard Model is 3000 members at the end of 2011, adding approximately 500 this year, 700 in 2010, and 800 during the last year. The biggest share of the operation cost is the PA, thus it is very important to define how many members each PA is responsible for. We think that a PA can handle up to 350 members each. Currently the accountant also fulfils tasks of a PA. Microfin doesn't have any accountant in its projections until August 2011, and we assume that from that date one, a fulltime accountant must be employed.

Using these assumption and member numbers, we see that Step Ahead MED would be profitable from the end of 2011 on. Over time, the MFI will need to raise approximately 1 million THB in funds either on the market or through donations.

It is interesting to take a closer look at the development and compare the last year with the current one. We see that the Financial Income is more than threefold that of the previous year. The Expenses increase very little and the Net Portfolio Outstanding increases to 150% of the 2008 value. One reason is that the numbers from previous years do not seem to line up, and poor loan tracking is likely a culprit for this data mismatch. As we look back into the development of the organisation, we can find several reasons leading to high expenses: Step Ahead MED added new staff during the years 2007 and 2008, and consequently there is no need to increase the number of PAs in the current year. Each local employee costs about 120,000 THB per year, which sums up to 600,000 THB for the PAs and another 240,000 THB for the program manager. Comparing the Member-to-PA Ratios (MPAR), in the year 2008, we see that each PA was responsible for 200 members, compared to the official policy of 350 per PA. Another important fact is that Step Ahead MED moved its office into a new building and must pay higher rent. Beside that, several investments had to take place to adapt the building for the

needs of Step Ahead MED. Another big question is how the Financial Income of 1.8 million THB, in comparison to the result of 2008, is to be explained. We have to take into account that Step Ahead MED added a lot of members with very small loans in the previous period, which finally minimizes the Financial Income per client. We hope that the development in the current year will be healthier and that the MFI will achieve the goals set by the Microfin projection.

In the next step we want to figure out what kind of impact different MPAR and different growth models would have.

5.3.2. The Influence of the Member-to-PA Ratio on Profitability

For this analysis we take a look at the main indicators with the following MPAR: 250, 300, 350 and 400 members per PA. Before we take a closer look, I want to outline the final number of PAs (at the end of 2011) that Microfin calculates for the set ratios: 250 members per PA results in 15 PAs, 300 members per PA results in 12 PAs, 350 members per PA results in 9 PAs and 400 members per PA results in 8 PAs. The change in the MPAR has a very limited influence on the current year; as Step Ahead MED already has 5 PAs, there will not be any change in the current year regarding the number of employees. Moreover, the change of the MPAR does not alter the Financial Income and Net Portfolio Outstanding, since both figures depend on the total number of members and not the number of PAs. I think it is clear that the financial performance of Step Ahead MED gets better as the MPAR increases. Finally, it should be said that Step Ahead MED will not become profitable within the time-frame if the MPAR is below 350 members per PA. With a MPAR of 350 Step Ahead MED will have a positive Net Income of 72,605 THB at the end of 2011 and with a MPAR of 400 they will have a Net Income of 253,892 THB at the end of the same time period. I have to admit that an MPAR of 400 is not realistic within microfinance the way Step Ahead MED does it. 300 to 350 members is a very common number, and because some of the Step Ahead MED PAs have already hit the 300 mark, I believe that 350 members per PA is doable for all of them.

5.3.3. Different Growth Scenarios for the MFI and their Financial Outcome

Going back to the standard model, we can change the target member number for the year 2011. Instead of reaching 3000 members, we will analyze what would happen if we had 4000 or 5000 members as of December 2011. To get a deeper understanding of the scenarios, we need to take a closer look at a few figures and decide if they are relevant for our analysis. Besides that, we should think about the outcome for the daily business if Step Ahead MED set these targets, what it would mean in terms of employees, the average number of members the MFI would have to acquire per week, and whether or not this could be achievable within the Bangkok environment.

Certain figures are obvious for the observer; for instance, with a higher number of members, the Financial Income, the Operating Costs, and the Net Portfolio Outstanding increase. But we need to clarify what these numbers mean in relation to each other and what the different outcomes in the scenario are; if there is a scenario that is favourable, we need to justify why. In the analysis, we need to focus on two figures: the Profitability – which is among other things generated with the Financial Income, Operating Costs, and Net Income – and the commercial loans. It is interesting that the Net Income and the Profitability Ratio in 2011 is lower for the 5000-member scenario than for the 4000-member scenario. It is generally known that a MFI can only get sustainable through growth – the faster the better. We have to take a deeper look into the projections to find the reason for this outcome. Over all periods, we see that the 5000-member scenario is less profitable and generates less income than the 4000-member scenario. In my point of view, one major reason is that Step Ahead MED has to employ more PAs in a short amount of time (16 compared to 12 at the end of 2011). Additionally, the MFI needs to fund 1 million THB more within a year. If they were able to find interest-free sources, this would not have an impact, but regarding a 7% p.a. interest rate, they have to finance an additional 70,000 THB (which is included in the Microfin calculations). We can assume that the lower Net Income (app. 50,000 THB) is affected by these two factors. With a faster development, the costs rise inconsistently and the financial income per client decline. Therefore, we can assume that excessively strong growth within a period creates a risk of cost explosion.

Under the assumption that sustainability is the goal, all three scenarios are doable. Financially, the 5000-member scenario is not as effective as the 4000-member scenario. Adding 4000 members within 3 years (approximately 20 to 22 members per week) is very difficult in the Bangkok environment – it demands new qualified PAs and high abilities on the management level. I find no reason why the management should subject themselves and their employees to such considerable strain for a goal that they most likely cannot reach. From a commercial point of view, the 4000-member scenario is the most preferable one; the MFI would make 404,570 THB Net Income in 2011 and would have a solid foundation to continue its growth over the upcoming periods. This scenario picks up the officially-set target for the current year, which we figured is out of reach at the moment. My recommendation would therefore be to follow the 3000-member scenario; this scenario would give the MFI the opportunity for consistent growth over the next years and would lay a solid foundation.

6. Closure

When we see Step Ahead MED, we see a history which is not common for microfinance – a lot of managers would have dumped the organisation already and moved on to serve in a different place or

community. There is no classical microfinance success story with Step Ahead MED – there have not been any breakthroughs and up to this day, sustainability has not been attained.

My research at Step Ahead MED showed that there are opportunities to develop the MFI, but even if there are numbers which paint progress on the horizon, they represent potentialities, not definitive conclusions to measured courses of action. The management learned some hard lessons about the differences between microfinance in Bangkok and in other places around the developing world. It is indispensable that Step Ahead MED evaluate past decisions and results, and from there, figure out where changes have to take place to move the MFI towards progress.

Each of us who works within the business has to find an answer as to what he or she thinks progress is: yield, number of members, portfolio size, amount of collected donations, sustainability, or transformation. Because Step Ahead ICD has a focus on the people, their definition of progress places human beings at the top; serving the community and the individual comes first, even occasionally at the expense of the business.

There are many paths to choose – each of them offers different results, yet it is possible for Step Ahead MED to keep the individual in focus and sustainability as a top priority. It may take longer for them than for other MFIs, but the impact on each of their members will pay off in the long run. When positive changes in society take place, the influence of Step Ahead MED will be felt in having facilitated those changes through their concern for people, careful planning, and hard work.

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