

LIABILITIES PLANNING TOOL

USER GUIDE

Introduction to the Liabilities Planning Tool (LPT)

Background

Micro Finance Institutions (MFI's) often have multiple options for funding. These include local capital markets either via loans or deposits, hard currency loans from abroad and in some cases, local currency loans from international lenders who are able to hedge their currency risk. However they do not have simple, understandable tools for evaluating their choices in a way that captures all of the implications and risks of a particular funding decision. Nor do they have a way to look at options under different economic scenarios so that they are able to do proper contingency planning.

Development of the Liabilities Planning Tool

MFX and SimArch have developed an easy-to-use decision support tool called the Liabilities Planning Tool ("the tool"). The objective with the tool is to assist MFI managers assess and value different local and hard currency loan options using their own situation and balance sheet data. MFX is making the tool available at no cost to the microfinance industry – MFI managers, microfinance lenders and others - through its website and would provide consulting services to MFIs in using it. The tool forms a central part of MFX's educational offering to MFIs.

Overview of the Liabilities Planning Tool

The tool will help MFI managers compare various loan offerings in different currencies and terms, evaluate a variety of complex factors – potential currency and interest rate volatility, how each option would offset or augment the risk of the MFI's existing liabilities, how it would match existing or expected assets, etc. All these factors will impact a variety of different performance and regulatory measures in different ways. The tool allows for the decision-maker to make sense of all of these factors, and come up with a clear picture of the financial trade-offs involved with a particular choice.

For example, an MFI general manager looking at a 3-year dollar floating rate loan at LIBOR+3% vs. 2-year fixed local currency loan at 12% might find that a lower rate hard currency loan is better for profitability but at the same time requires that additional capital be set aside for regulatory capital adequacy. Or a decision that might make sense in the near-term might change the institution's credit rating by adding currency risk, raising its cost of funds in the future. The tool allows the user to weigh these factors and attach a cost to them. In this way, the MFI can compare the impact of a hard currency loan and a local currency loan with different terms and features.

The tool also allows the MFI manager to test various scenarios (primarily interest rate/currency fluctuations) and assess the likelihood and implications of various outcomes. The tool is not designed necessarily to define a "right" answer, but it allows the user to make an informed decision. The tool therefore is an important planning device for MFIs developing their funding strategy. It is particularly useful for institutions that are in the process of transforming into full-fledged regulated

institutions but have yet to fully implement Basel standards of risk-weighted capital adequacy.

The tool is also configured so that an MIV is able to use it to quantify the effect of local currency lending on its own credit profile, helping the MIV to provide risk-appropriate pricing on the local currency loans they offer.

How to access the tool

The tool is available via the internet and is optimized for use with Internet Explorer and Fire Fox as web browser. Browse to www.simarch.com/LPTMFI. Before you can use the tool you have to register as a 'New User'. You register as a 'New User' by clicking on the 'Click Here' button on Step 1 User Registration. Whilst registering as a 'New User' you will be able to create your own username and password. Once you have been registered as a user you can freely access the tool using your username and password.

In order to ensure ease of use the tool has been designed in two major parts:

- Part 1 - Registration Wizard
- Part 2 - Application Program

In order to load your current data and to make your first forecasts, all users MUST complete the 11 steps that form the Registration Wizard. By following these steps the user is ensured that all information required to make informed choices or options are input to the tool. Once the 11 steps have been completed the user gains access to the Application Program part of the tool. Here the user can amend or update any data already input, change economic indicators, change loan options, etc.

On each step there is a 'Click Here' button. By clicking the 'Click Here' button the user is able to input all data required for that step. On each first screen that opens you will see a Help button on the left-hand side. By clicking on this button you gain access to information concerning that step to be completed. Once a step has been completed, you are progressed to the next step and the box of the completed step will change colour.

After every step you are navigated back to the Registration Wizard where all of the 11 Steps are visible. Here you can choose to advance to the next step if it is enabled or amend decisions in a previous step. Please do not forget to click on 'Save' or 'OK' before closing the screen of any of the 11 steps. By simply clicking 'Cancel' you will be navigated back to the Registration Wizard but no input data will be saved. You may logoff at anytime and when logging in again will be able to continue from where you stopped before.