Loan Analysis:
Understanding the Client and Business

1. Fundamentals of Loan Analysis

1.1 Objectives and Methods of Loan Analysis

Loan analysis is to ensure that loans are made on appropriate terms to clients who can and will pay them back. What analysis is needed and what is the most efficient approach to fulfill that need is primarily determined by the type and nature of the loan.

- **Objectives of Loan Analysis**
  - To place good and appropriate loans -- can the loan generate income for repayment and will the client repay
  - Determine eligibility of the applicant -- is he/she eligible according to the program criteria
  - Training needs and skills -- to assess the training needs and develop the financial management skills level of the client. (This is the basic principal of programs that integrate their credit and training methodologies.)
  - Program Indicators -- loan analysis may also be used to generate the indicators that will be used to evaluate the impact of the loan.

1.2 What Analysis is Needed?

How do we determine what is needed to adequately analyze a loan?

- **What Guides The Process?**

Some types of loans require more thorough analysis than others. Larger, long-term loans for fixed assets require more thorough analysis than short-term working capital loans. For individual loans, loan analysis and follow-up visits provide most of the guarantee for the institution and thus the analysis is necessarily more extensive. Group loans transfer most of this responsibility to the clients and therefore do not require detailed analysis.

- **What Guides The Process?**

An institution’s Credit Guidelines should clearly define the criteria for eligibility and for establishing the framework for analysis. The purpose of the analysis then is to assess the client by these criteria. Credit Guidelines should clarify the following points:

  - Eligibility
  - Types of loans
Loan conditions
1. Minimum and maximum loan amounts
2. Amount of loan relative to owner's investment
3. Repayment conditions and schedules
4. Interest rates
5. Fees and penalties

Loan security

Loan procedures
1. Loan Application Procedures
2. Loan Review and Approval Procedures
3. Disbursement Procedures
4. Supervision and Collection
5. Delinquent Loan Procedures

What are the Credit Analysis Tools and Sources of Information?

Loan Application
1. provides general information about client and business
2. provides enough information for initial assessment
3. provides information that can be used to verify data gathered later.

Balance Sheet and Loan Analysis
1. indicates financial status of business
2. requires analysis of inventory movement
3. indicates financial impact of loan
4. indicates status of business over time
5. generates important ratios

Profit and Loss Statement
1. indicates profitability of the business
2. indicates financial impact of the loan
3. requires client to assess financial details of production and marketing processes

Business Plan
1. requires client to set concrete objectives
2. summarizes the project in terms of the factors that will determine success
3. provides credit officer with indicators for monitoring

Loan Approval and Guarantee Forms
1. provide information that will help the institution recover the loan in the case of non-payment.
2. summarizes all factors relevant to loan approval decision
3. provides control of loan disbursements by credit committee

Repayment Schedule
1. summarizes principal and service charge repayment schedule
Contract
1. clarifies all loan conditions for the client
2. details the legal rights of all parties

1.3 What information is crucial? How to compensate for missing information?

➢ Where do we get it?
➢ How can we compensate for the missing information?

Records and supporting financial and business data do not exist for microentrepreneurs. The expectations of a well-designed client business plan and accompanying financial data of income statements and balance sheets will rarely be met.

➢ For group loans, the solidarity group can provide much of the information.
➢ For individual loans, the key to success is to know what information is essential and build the missing pieces.

Many microenterprise programs try to get lacking data on monthly sales and expenses by instructing the microentrepreneurs to fill out sales, cost and other data including funds taken for family use. However most don’t take the time to do them properly or completely and as a result the records are worthless. In microenterprise programs it is often found that it is much easier to obtain financial statement information simply by having the microentrepreneur take inventory of their cash and inventory between two or more periods. The difference is the amount of earnings or losses. In this way there are no problems resulting from keeping inaccurate records that then do not “square” with reality.

In rural finance programs the sales and expenses are seasonal; hence one must look at not only monthly projections but yearly or according to a whole farming or business cycle. This makes it much harder – yes, on one hand, but easier on another hand since many of the farmers produce the same crops in a similar manner at the same intervals, thus allowing the financial institution to use some information from one client to another. In addition, in rural areas the clients, especially in solidarity groups, tend to know each other’s business which makes it easier to collect adequate information.

• Filling in the Pieces

Sufficient information for an adequate loan analysis will usually not be available in its traditional and direct form, but the information can be made available. In other words, the basic information is available, but must be properly made or construed together with the client. For example, monthly income statements or monthly sales are not found in a micro-entrepreneur’s accounting “system”. Yet the microentrepreneur or his/her solidarity group has a good understanding and memory of what is sold per hectare or season and generally how much it costs can be gathered from existing data and/or from farmers. With a small amount of joint effort together with the client or group, such information can be readily transformed into that which is needed in making an adequate microfinance business plan and loan analysis.

• What is the Process?
Balance Sheets: Walk the client(s) through the process of a simple Balance Sheet. Have the client or group do it again for their next visit. Discuss the results. What is important to know is the relative level (not exact level) of assets and debts such that a loan request can be put into proper perspective.

Income Estimation: 1) Estimate sales and costs over a period of a week or month (for monthly type activities and calculate, or 2) Estimate based on comparisons of others in the same business.

Credit History: Have the client build a credit and savings history through small short-term loans and through regular savings.

Collateral: A lack of collateral can be overcome by group and personal guarantees and by having a good business plan.

• The Proof is in the Pudding

Step by Step Example – for a MicroEnterprise
Mrs. Prado has a thriving rural business in her house making pudding, Jell-O, and pastries which she tells in her house and the local school. She also has started to make cakes and pastries on order for birthdays and special occasions. She wants to expand the special order activities since they are more profitable because she can charge more and make larger quantities, but in order to make larger quantities she needs a larger inventory of ingredients and small equipment. She decided to apply for a loan from the “Good-to-You Bank” and despite seeming to have a good reputation (as well as giving samples of her delicious pastries to the loan officer), the officer did not know what to do to help her since she did not have the information required by the bank. Since the bank is under governmental pressure to provide loans to microentrepreneurs, the officer decided to ask a friend who works at “Micro-Finance, Inc.” (MFI) for advice. These were the recommendations from MFI.

1) Visit Mrs. Pound.
2) Help her take inventory of her business’s goods, equipment assets, cash on hand and accounts owed to her (or give guidelines for her to do it herself).
3) Estimate, together with her, the average weekly or daily sales.
4) Estimate weekly materials purchases, expenses and losses.
5) Estimate weekly income under present conditions.
6) Estimate weekly family expenses at present.
7) Deduct all expenses from income to estimate average net income for business at present.
8) Repeat process for business after projected loan to estimate net income and repayment capacity after loan.
9) Review inventory again after a week or two to verify and compare to first inventory to verify net income information. (The net difference between balance sheets estimates the net income in the period between the two balance sheets.)
10) Ask neighbors for references about Mrs. Pound and her personal guarantees or solidarity group members (if group is new).
11) Use information collected and assist Mrs. Pound if necessary to complete business plan and loan.
12) Finalize loan analysis and prepare loan for approval.

Step by Step Example – for a Farm Enterprise

Loan Analysis: Understanding the Client and Business
Mrs. Pound’s neighbor, Jorge and Elvira Rojas are farmers. What must the loan officer do to gather information needed – what is the same, what is different and how can it be gathered or estimated?

1) **Visit** the Rojas family.
2) Help take stock *(inventory)* of their household and business goods, equipment assets, cash on hand and accounts owed to her (or give guidelines for them to do it herself).
3) **Estimate**, together with them, the *average* sales (product sold times price) of their significant crops, and estimated dates of income from *sales*. Use a similar process for animals.
4) Add **additional income** sources and when realized.
5) Estimate the *cash costs* of these crops (best done per hectare basis) and animals and time of costs
6) **Estimate** other monthly *materials purchases, expenses and losses*.
7) **Estimate** monthly *family expenses* at present.
8) Prepare a simple cash flow of the information and verify information with the family and with information gathered from neighbors who have similar production practices
9) **Estimate** seasonal or yearly *income* under present conditions.
10) Deduct all expenses from income by period to estimate *average net income per month and season or year for business at present*.
8) Repeat process for business after projected loan to estimate *net income and repayment capacity after loan*.
9) **Jointly prepare** or review a rough *loan plan* draft.
10) In the office, review and finalize a loan plan
11) If feasible, either visit or have the Rojas’s *visit to review, adjust and accept the loan plan*.
12) Ask neighbors for *references* about the Rojas family and their personal guarantees or solidarity group members (if group is new).
13) Finalize loan *analysis and* prepare loan for *approval*.

**Isn’t This Process Costly**

The process for a **first loan** is costly, but much less costly than making loans that cannot be repaid. The recommendations above are detailed for descriptive purposes, but in practice do not consume large amounts of time. Furthermore, a majority of these *costs can be “externalized”* or passed on to others, such as *through the solidarity groups* whereby the group itself can provide the verification and support to carry out the steps needed in presenting the business plan and in verification for the loan.

**1.4 Verifying the Information**

- Information needs to be verifiable to be reliable. While it is cost prohibitive to actually verify all information, all lenders must opportunely verify key information in order to insure reliability and to make a clear message to all clients that all information must be valid.

- Follow “Kipling’s advise:

  “I keep six honest men,
  They taught me all I know,
  Their names are who and why and what,
  And where, and when and how.”
• Getting the Client Information - the How and Where

The process of finding useful information begins with knowing:

- What to look for:
  - Character and ability of borrower or group
  - Business activity
  - Existing and potential market for business
  - Cash flow feasibility

- Where to get it:
  - Use the network of peer groups, community leaders, friends and enemies
  - Past records, if they exist
  - Customers and suppliers

- How to get it
  - Observation
  - The client and/or group--have them to express plans, methods and dialogue on concerns and risks
  - Analysis of records
  - Reliable sources of prices and costs for analysis of major sectors of micro lender activity

• Verification serves to test honesty and assumptions.

- Testing for honesty involves:
  - on-site visits and verification
  - solidarity or communal group verification
  - cross-checking results with loan/business plan

- Testing assumptions involves:
  - market research and understanding of sector
  - testing results with plans, and adjusting accordingly

• Insuring for Reliability

Most rural entrepreneurs tend to be or open and honest about their business and family economic activities. Even so, there are others who wish to “test the system” and see if the financial institution is really serious about verification and about reprimanding of those who do not comply. There is only one way to keep this reliability--it is to do periodic verification and give harsh reprimands to those who have not complied.

1.5 Keys to Success in Loan Analysis
The traditional factors considered in loan analysis are: **character, capacity, capital, collateral** and **conditions**. However, for the microentrepreneur with very capital and assets, the first two are the key factors.

*Example*

Two market vendors applied for loans to increase their inventory of goods. Their sales volume was similar but the one had been in business for many years while the second vendor for only two years. The first vendor was turned down and the second one was approved. What may have been some reasons?

**What is important in rural family and enterprise loan analysis?**

**Character**, or the personal integrity of the business owner(s) and family(s).

- How is the business managed?
- Are they honesty and trustworthy?
- What is the physical and mental health of the person(s) in the business?
- Have they repaid bills and previous loans on time?
- Do they have family problems (alcohol, frivolous spending, etc.)?
- What is the innovation and creativity of the business in creating new business and growth opportunities?

**Capacity**, or the ability of the business to repay the loan

- What does the business plan indicate of the income generation and profitability of the microbusiness?
- Can the business generate enough cash to make the loan payments with interest, including a margin of security?
- When can the loan be repaid?
- What are the family needs?
- What are the effects of seasonal fluctuations and production and price variations?
- How does the microbusiness compare to others within the same sector or activity?

**Capital**, or the money invested in the microbusiness.

- What are the assets invested in the business?
- What is the family contribution to the business?

**Collateral**, or backup sources of repayment to the loan.

- Are the personal guarantees of the group or persons trustworthy?
- Do the assets of the business and personal guarantees adequate to cover the loan if necessary?

**Conditions**, the key economic conditions that impact the ability of the microbusiness to repay the loan.

- Is there an adequate and stable market to sustain the business?
- Do the loan terms (lengths, interest rate, etc.) allow for adequate repayment capacity of the loans?
- What are the price and production risks?
• What are the general market trends of the sector?

<table>
<thead>
<tr>
<th>Key Factors</th>
<th>Issues</th>
<th>What to Look For</th>
</tr>
</thead>
</table>
| Character   | Personal information about the owner and family | - Honesty and integrity  
- Family situation  
- Ability to manage a business  
- Changes in business/family assets  
- Reputation in community  
- Openness and compliance with group (in group loans)  
- Ability to repay previous loans |
| Capacity    | Business’s ability to repay the loan | - Cash flow of business, taking into consideration family needs  
- Repayment capacity  
- Demonstrated capacity from repayment of other loans  
- Growth in loan size in relation to business growth |

<table>
<thead>
<tr>
<th>Secondary Factors</th>
<th>Issues</th>
<th>What to Look For</th>
</tr>
</thead>
</table>
| Capital           | Owners investment in the business | - Family money invested in the business  
- Loan use and needs in relation to the type and conditions of loans |
| Collateral        | Loan guarantees--backup sources of repayment if business cannot repay | - Business assets  
- Personal guarantees  
- Group guarantees  
- Family assets |
| Conditions        | Key economic issues that can impact the business’s ability to repay | - Economic conditions for that type of business and region  
- Risk of price fluctuations and possible downswings  
- Production risks (breakeven points) |

2 **Performing Loan Analysis**

➢ Loan analysis is both quantitative and qualitative -- the analysis must be done.

➢ Loan analysis is a multiple and dynamic process.

  - Loan analysis examines the business and the person (and the group if applicable).
Loan analysis examines the progress as well as a point in time.

Loan analysis is focused on the three R’s

- **Risk** -- what are the risks of the business and the person
- **Return** -- what is the return or profit of a loan to the business
- **Repayment** -- what is the capacity for repayment of the loan

Loan analysis is not a simple “yes” or “no” of credit worthiness; it determines the appropriate loan size and payment schedule as well.

• **What are the critical analytical calculations for loan analysis.**

The steps in loan analysis depend upon the type of loan and the operating environment of the lender and borrower. For example, a short-term working capital loan for an existing business needs very little analysis in comparison to an investment loan to be repaid over a long period with uneven flows of income and expenses. The following indicators focus toward the critical elements needed for all loan analysis. These critical elements focus on the three “R’s”. Additional analytical formulas are presented as an Annex for use with more complex loan analysis.

An organization must use a set of analytical indicators to help determine the most appropriate loan size for a given business. Five principal indicators are described below. The intent of these indicators is to provide loan officers with tools which allow them to perform a reliable and consistent analysis. The following indicators are only guidelines and may occasionally be waived when the Loan Officer can make a strong case that it is needed to insure the quality of the loan. A guiding principal must also be that when the loan application allows, preference is given to making two or more consecutive small loans to a single client or group rather than one large, longer-term loan. Business expansions should be planned in small increments rather than all at once.

2.1 **Risk Analysis**

- Business is risky -- can the risk be supported by the business without becoming a threat to its well-being?

• **Debt-Equity Ratio**

One means of determining the appropriateness of a loan and/or appropriate loan size is the debt-equity ratio, which compares the current debts of the business and the proposed loan amount to the existing net equity of the business. The net equity is the client’s own investment or the enterprise’s worth. Care should be taken to minimize this ratio in order to avoid exposing both the client and the organizations to too much risk.

The following analytical indicator tools presented assume that the client and/or group has already met (“passed the test”) client and loan selection criteria of the organization.
Debt-Equity Formula

\[
\text{DE} = \frac{\text{Existing Liabilities + Loan Amount}}{\text{Net Equity}}
\]

It is recommended that existing businesses to have a maximum debt-equity ratio of 0.75 or 75%. This means, for example, that a business with a net value of US$1,000 and no other debts can borrow up to a maximum of US$750. In the following special cases, the debt-equity ratio may exceed 0.75, such as:

- The business has an extremely small net equity, such as less than US$200 and/or is a small start-up business.
- The client is purchasing a major fixed asset, for which the loan cannot be lowered. However, the client’s must contribute his/her own equity funds toward the investment as well.
- The client (and group, if group loan) has established a good repayment history on previous loans with the organization.

Loan Collateral

- Risk analysis involves both the risk to the lender as well as to the borrower. Whereas debt-equity analysis focuses toward the risk to the business (and indirectly on the risk to the lender), collateral analysis directly measures risk of loan recovery for the lender (and indirectly the risk of being put out of business for the borrower.)

In programs that use individual lending methodologies, clients normally must provide collateral as a means of guaranteeing their loan rather than group solidarity guarantees.

How much collateral is needed? Enough collateral is needed to cover for the loan, to cover collection costs and to have a margin for error in the resell value of the collateral. Recommended collateral levels are to have 150% of the value of the loan, with a minimum level equivalent to at least 120% of the loan. (The value of the family home and assets unrelated to the business should not be included.)

Example

To qualify for a loan of US$1,500 the client must provide a minimum of US$1,800 of business collateral (US$ 1,800 / US$ 1,500 x 100 = 100%).
• **Working Capital Increase**

► Little steps are more secure than big ones.

A large increase in the size of a business increases risk. Working capital is the “liquid” assets of a business -- cash, inventory, etc. When these are increased in too large of increments, it is easy to overstock invest in materials that do not have a high return, thus making it harder to repay a loan from the returns generated. The intent of a working capital guideline is to minimize the risk of client losing the business’s working capital due to lack of experience managing a much large quantity of money.

It is recommended that the amount of the loan to be used for working capital should not exceed the amount of working capital that the client is currently managing (resulting in a maximum index of 2.0). For example, if the client has US$500 of working capital, the loan should not contain more that US$500 of additional working capital (US$1,000 / US$500 = 2.0). Exceptions may be considered for clients with very small loans, such as less than US$250 equity to start up a business, or those with previous experience managing larger quantities of working capital, but such cases must be considered carefully.

<table>
<thead>
<tr>
<th>Working Capital Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Capital AFTER loan</td>
</tr>
<tr>
<td>WC Incr =-----------------------------</td>
</tr>
<tr>
<td>Working Capital BEFORE loan</td>
</tr>
</tbody>
</table>

2.2 **Return or Profitability Analysis**

► Is the business profitable?

► Are the returns sufficient to cover the loan, the interest and costs and return a profit?

• **Working Capital Turnover (for micro enterprise and trade activities)**

Working capital must work -- it must rotate and be used frequently. The intent of this guideline is to determine if the business needs the additional working capital.

The working capital of the business after receiving the loan should normally have a complete turnover in less than 30 days. For example, a business with US$1,000 of working capital after the loan and only US$500 of sales per month has a turnover of 60 days (US$1,000 / US$500 = 2 x 30 days = 60 days). For most micro and small business activities, except production agriculture, a 60 day rotation implies that there is too much working capital.
Working Capital Turnover

Working Capital after loan
Working capital = --------------------------- x 30
                 Projected monthly sales

- Profit Margin

 Will I have more net income if I take out a loan? If so, how much can be expected.
Profit margin is used to show the margin of net income or profit generated on sales over a specific period of time. In case of production activities, it is the net income in relation to the net sales income from the production. For retail or wholesale activities, the profit margin can also be seen as the “mark-up” charge above actual costs.

The value of the profit margin analysis is two-fold: 1) It forces the borrower, group and/or the credit officer to calculate the income and expenses of a business activity. This should be done both for the current period (normally week or month) without a loan and for a similar period with the projected loan.

An acceptable or adequate profit margin varies according to the business activity and the sales “turnover of that business. The risk involved with the activity is also a consideration. While there is no set indicator, the adequacy of the profit margin is best measured by comparing with other similar businesses.

Profit Margin

Profit Margin = Net Income (or profit)-----------------------------
                 Net Sales

LOAN ANALYSIS EXAMPLES

Example 1: Corn buying and selling (per trip)

Revenue
(44 bagsX Tsh2,000/bag) Tsh 88,000

Cost of Goods Sold
9 bags X Tsh9,000/bag 81,000

Gross Profit Margin 7,000

Expenses (excluding family labor)
Transport
9 X Tsh150/bag 1,450
Bags
200
Taxes
9 X Tsh50 450
Hired labor
9 bags X Tsh100 900
Interest
3 days equivalent 250
Other
300

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<table>
<thead>
<tr>
<th>Total Expenses (excluding labor)</th>
<th>3,550</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Labor</td>
<td>1,400</td>
</tr>
<tr>
<td>2 day X Tsh700</td>
<td></td>
</tr>
<tr>
<td>Total Expenses</td>
<td>4,950</td>
</tr>
<tr>
<td>Net Profit</td>
<td>2,050</td>
</tr>
<tr>
<td>Profit Margin = Net Profit/Net Sales =</td>
<td>2.3%</td>
</tr>
<tr>
<td>2,050/88,000</td>
<td></td>
</tr>
<tr>
<td>Monthly Profit =</td>
<td>2,050 X 13 sales/month</td>
</tr>
</tbody>
</table>

**Retail Shop (monthly)**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Tsh 300,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Goods Sold</td>
<td>246,000</td>
</tr>
<tr>
<td>Gross Profit Margin</td>
<td>54,000</td>
</tr>
<tr>
<td>Expenses (excluding family labor)</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>5,000</td>
</tr>
<tr>
<td>Variable operational expenses</td>
<td>3,000</td>
</tr>
<tr>
<td>Electricity</td>
<td>1,500</td>
</tr>
<tr>
<td>Tax and license</td>
<td>2,660</td>
</tr>
<tr>
<td>Total Expenses (excluding labor)</td>
<td>12,160</td>
</tr>
<tr>
<td>Family Labor</td>
<td>15,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>27,160</td>
</tr>
<tr>
<td>Net Profit</td>
<td>26,840</td>
</tr>
<tr>
<td>Profit Margin = Net Profit/Net Sales =</td>
<td>8.9%</td>
</tr>
<tr>
<td>26,840/300,000</td>
<td>Tsh</td>
</tr>
</tbody>
</table>

Repayment Capacity = Monthly loan payment/Monthly sales

- Tsh125,000 2nd loan 13542/300,000 | 4.5%
- Tsh225,000 4th loan 22300/300,000 | 7.4%

### 2.2 Repayment Capacity Analysis

- Can the client repay?

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The underlying concern of a lender is to determine if the borrower can and will repay.

- **Repayment Capacity**

  What repayment commitment can the client afford?

The purpose of a micro-business loan is to capitalize the business. Hence, repayment ought to come from the profit generated by the loan and not from “dipping” into the working capital.

The Repayment Capacity Indicator is used by micro and small businesses which have fairly stable income and expense flows (such as retail and wholesale, urban micro-production activities, etc.) It compares the client’s average monthly payment to the business’s current average monthly profits. Generally, the average payment should not exceed 20% of the business’s profits. The intention is not to overburden the client with payments which she/he will find difficult to make. For example, if average monthly payment schedule of the client is US$100 and current monthly profits of their business is calculated at US$500, the repayment percent would be 20% (US$100 / US$500 = .2 * 100 = 20%). Conversely, a loan that requires this microentrepreneur to make payments of more than $100 in monthly sales should not be approved as it will cause difficulties for repayment. Either the loan amount must be reduced or the loan term (repayment period) must be lengthened.

Repayment capacity is often overlooked on small, first-time loans but later becomes a very important indicator when loan size increases.

<table>
<thead>
<tr>
<th>Repayment Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average monthly payment</td>
</tr>
<tr>
<td>Current monthly profits</td>
</tr>
</tbody>
</table>

- **Cash Flow Analysis**

Cash is necessary to make a business secure and able to withstand adverse economic and market conditions and take advantage of business opportunities. Cash is needed at all times, but the incomes generated and the expenses incurred in a business may not be evenly distributed. Analysis of these inflows and outflows of cash allows the borrower and the lender to understand when credit is needed and when it can be repaid.

Whereas repayment capacity is a quick and simple indicative tool for analyzing repayment capacity for loans with relatively even cash flows such as retail operations, a simple but more time consuming repayment analysis is needed for loans such as agriculture that can have seasonal or uneven flows of income and expenses.

- What is Cash Flow Analysis?

Cash flow analysis is a chronological projection of projected income flows, expenses and balances. This is projected on a periodic basis (often monthly). It is quite simple to do and involves only addition and subtraction, yet it may actually be the single most important analysis needed for microfinance.
What is needed?

Cash flow projections are merely a chronological review of expected sources and uses of funds to and from the business.

Sources and Uses of Cash or Income

<table>
<thead>
<tr>
<th>Sources</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>+ current cash balance (beginning of month)</td>
<td>- purchases in cash</td>
</tr>
<tr>
<td>+ cash sales</td>
<td>- business expenses</td>
</tr>
<tr>
<td>+ accounts receivable repaid</td>
<td>- accounts payable repaid</td>
</tr>
<tr>
<td>+ other income</td>
<td>- other expenses</td>
</tr>
<tr>
<td>+ new loans</td>
<td>- family salary/expenses</td>
</tr>
<tr>
<td></td>
<td>- taxes paid</td>
</tr>
<tr>
<td></td>
<td>- loan repayments</td>
</tr>
<tr>
<td></td>
<td>- interest payments</td>
</tr>
</tbody>
</table>

What is the Goal?
The goal that must be achieved is that the income stream of funds must be greater than the out-flows and insure a positive cash balance at all times in order to be able to adequately cover costs.

What Does It Look Like?
The following chart shows a typical form used for microfinance cash flow analysis.
## CASH FLOW ANALYSIS

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
<th>TOTAL</th>
</tr>
</thead>
</table>

| I           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| N           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| C           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| O           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| M           |     |     |     |     |     |     |     |     |     |     |     |     |       |

**SUBTOTAL INCOME**

| INCOME      |     |     |     |     |     |     |     |     |     |     |     |     |       |
| NEW LOANS   |     |     |     |     |     |     |     |     |     |     |     |     |       |

| TOTAL       |     |     |     |     |     |     |     |     |     |     |     |     |       |
| INCOME      |     |     |     |     |     |     |     |     |     |     |     |     |       |

| E           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| X           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| P           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| E           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| N           |     |     |     |     |     |     |     |     |     |     |     |     |       |
| S           |     |     |     |     |     |     |     |     |     |     |     |     |       |

**SUB TOTAL EXPENSES**

| EXPENSES    |     |     |     |     |     |     |     |     |     |     |     |     |       |
| FAMILY EXP. |     |     |     |     |     |     |     |     |     |     |     |     |       |
| LOAN PAYMENTS|     |     |     |     |     |     |     |     |     |     |     |     |       |
| INTEREST    |     |     |     |     |     |     |     |     |     |     |     |     |       |
| INVESTMENTS & OTHER |     |     |     |     |     |     |     |     |     |     |     |     |       |
| TOTAL USES |     |     |     |     |     |     |     |     |     |     |     |     |       |
| MONTHLY BALANCE |     |     |     |     |     |     |     |     |     |     |     |     |       |
| ACCUMULATED BALANCE |     |     |     |     |     |     |     |     |     |     |     |     |       |