

## Fact Sheet 4 **Effective Loan Monitoring and Information Management**



### Why is Monitoring So Important in Microfinance?

Microloans are often monitored with greater frequency and attention to detail than long-term loans for much larger amounts. Many skilled loan officers who are new to the field of microlending sometimes find this situation counterintuitive. Why spend so much time monitoring small loans? The reasons are quite straightforward.

Microfinance differs from conventional business lending in several ways:

*Microloans are commonly made to business owners operating in highly volatile, sometimes distressed economic and political conditions, such as the West Bank and Gaza Strip.* Loan officers who visit clients weekly are monitoring environments in which changes can come swiftly and can only be properly assessed first-hand. Site visits accomplish a number of important tasks:

- Impressing upon the borrower the seriousness of his loan commitment
- Staying abreast of changes in the local environment (neighborhood)
- Observing any lapses in good management practices
- Watching for signs of any misuse of loan proceeds
- Noting any changes in the behavior of the borrower towards the loan officer
- Collecting important data relevant to the financial health of the business

*Microentrepreneurs are often unfamiliar with the principles of commercial finance.* As a result, the loan officer should sit with the borrower to explain the importance of abiding by the terms of the loan contract. The borrower should be aware that timely repayment builds a good credit history. Building a good credit history guarantees that the borrower will be eligible for future loans that will finance the development and expansion of his/her business.

*Frequent monitoring visits help to emphasize these important concepts for the borrower.* Effective loan officers also take the time to explain that loan proceeds are reinvested in new microloans throughout the community. Consequently, one client's failure to pay directly impacts the MFI's ability to extend loans to others in need. Emphasizing the role microfinance plays in building a strong business community reinforces program sustainability.

*A microfinance institution must work to establish its presence, its purpose, and its commitment to the growth of the local business community.* Community outreach plays a large part in institutional sustainability. Loan officers often use monitoring visits to call upon other potential clients in the neighborhood, or to post informational flyers within the community.

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## Building a Microfinance Industry in the West Bank and Gaza Strip



In microfinance, loan monitoring is a unique business development opportunity. Trained loan officers are program ambassadors for the MFI. Frequent site visits raise the visibility of the microfinance program within the local community, while allowing the loan officer to collect important data on the loans in his or her portfolio.

### How Do I Keep Track of the Information Collected on Each Visit?

Information collected on site visits must be carefully recorded in writing. Loan officers use Monitoring Scheduling Forms to keep track of the dates and the purpose of each site visit. A more detailed Loan Monitoring Report provides a handy checklist to ensure that all relevant data is being collected.

Each MFI develops customized monitoring forms for its own use. But the samples below provide an idea of what the forms look like and the information they contain.

| <b>Microfinance Lending Program<br/>Monitoring Scheduling Form</b> |                  |                               |
|--|------------------|-------------------------------|
| Client Name: _____   |                  |                               |
| Frequency of Visits: _____   |                  |                               |
| Loan Duration: _____   |                  |                               |
| Loan Purpose: _____  |                  |                               |
| Loan Officer: _____  |                  |                               |
| Date of Visit  | Purpose of Visit | Loan Status: OK/Watch/Problem |
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| <b>Loan Monitoring Report</b>                                      |                  |                               |
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## Fact Sheet 4

