



Assessment driven Transformation

The sustainability issue for Self-managed Micro Finance Institutions (SMFIs) has become increasingly important in recent years. In order to determine the sustainability of an SMFI, it is important to review a wide range of indicators, including the portfolio, systems, creditworthiness and governance of the institution. Through a collaborative effort with M-CRIL in Delhi, APMAS has developed a quality assessment (QA) system called GRADES¹ which addresses the needs of bankers, promoters and donors with respect to the issue of sustainability.

In 2003-04, APMAS was requested by a promoting organization to assess 12 federations in the Nizamabad district in Andhra Pradesh. Some of the major issues the report raised about the federations were: poor asset quality, inadequate systems, limited services to the members and federations were overly dependent on the promoter for financial and technical support.

After the quality assessment, the promoter realized that it needed to invest heavily in institution building to ensure the future sustainability of its federations. Therefore, the organization enlisted APMAS support in capacity building, bookkeeping & accounting training, financial management and self-assessment of SMFIs. APMAS also provided materials, charts and training manuals to assist the organization in providing training to frontline workers, the board and SHG members.

The federations have diversified and expanded their activities, and improved their recovery performance; all of which has had a positive impact on the institutions' financial sustainability. The managing capacity of board and staff of institution has also increased considerably.

¹ GRADES is an acronym which stands for Governance & Strategy, Resources, Asset Quality, Design of systems & its implementation, Efficiency & Profitability, Services to members and SHG Performance

Areas	Before QA	After QA
G	B+	A-
R	A-	A+
A	C	B-
D	C+	B+
E	B+	A+
S	B-	A-
SHG	B	B+
Overall	B	A-

After concerted efforts on the part of the promoter and APMAS, the performance of federations significantly improved from an **overall grade of 'B' to 'A-'**. The federations improved their accounting, MIS and internal control systems, and developed MIS systems for improved loan tracking which are linked to head office. As per APMAS' recommendations, statutory audit of accounts have been conducted up to March 2005, and annual returns are now being filed. Further, the organization is now recruiting professionals with financial academic background, and is helping the federations to develop clearly articulated business development plans. The federations have diversified and expanded their activities, and improved their recovery performance; all of which has had a positive impact on the institutions' financial sustainability. The managing capacity of board and staff of institution has also increased considerably.

These federations have utilized the QA reports to gain to access bank finance; out of 12 federations five of them have received Rs. 2.75 million in loans from local commercial banks. Similarly, the District level apex federation² utilized the QA reports to obtain bulk lending. The apex federation has received Rs. 10.19 million from from ABN AMBRO Bank and Rs.5 million from BASIX³.

The drastic enhancement in the path for sustainability for these federations has been accredited to the QA system developed by APMAS.

² The apex federation is association of all block level individual federations at district level.

³ Local non-banking financial institution (NBF) or micro finance institution (MFI)

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