

YY Mutually Aided Thrift and Credit Cooperatives' Federation Ltd.
ABC Dist., Andhra Pradesh

Quality Assessment Report
(Assessment dates: 21-23 April 2004)



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Abbreviations

YY MACS	YY Mutually Aided Thrift and Credit Cooperatives' Federation Ltd. Mahila Abhivrudd
APMAS	Society, Andhra Pradesh
EC	Executive Committee
CAR	Capital Adequacy Ratio
FI	Financial Institutions
FSS	Financial Self Sufficiency
FWWB	Friend's World Women Bank, Ahamadabad
GRADES	G overnance, R esource, A sset Quality, D esign systems, E fficiency & Profitability, S ervices to SHGs and S HG performance
XX	Promoting Organisation
MACS	Mutually Aided Cooperative Society
MIS	Management Information System
NGO	Non Government Organization
OCR	Operating Cost Ratio
OSS	Operational Self Sufficiency
PAR	Portfolio At Risk
PIA	Portfolio In Arrears
RD	Recurring Deposit
ROA	Return on Assets
YOP	Yield On Portfolio

1. Assessment methodology

A six member Quality Assessment team from APMAS assessed the ABC Swasakthi Mutually Aided Thrift and Credit Cooperatives' Federation Ltd. (YY), ABC District (henceforth referred to as YY) during 21-23 April 2004. As part of the YY assessment, two mandal level Federations of the SHGs (henceforth referred to as YY MACS) which are members of the YY were also assessed. During the Quality Assessment, the team was accompanied by respective MACS Managers and Coordinators.

The organizational structure and overall activities of the YY promoted by XX ABC District were studied during assessment by interacting with the Promoter and the board members. Details of micro-finance activity were obtained at the field level later on.

To get an understanding of the promoter philosophy, APMAS team interacted with Mr. A. Rao, CEO, XX beforehand. Two MACS of YY were selected based on staff understanding of MACS performance and their area of operation – tribal and non-tribal. Focus Group Discussions (FGDs) were conducted with the Executive Committees (ECs) of the YY and the two MACS and SHG members to understand their levels of awareness related to the concept and functioning of the YY and its constituents.

On the last day of the Quality Assessment, a debriefing meeting was held with the YY, EC, staff and promoter, to share the observations and also match the same with their perspective. As part of the Quality Assessment, the team verified the books of accounts and records at the YY, sample MACS and sample SHGs were visited to understand the financial recording and the systems at various levels. A quick SWOT analysis was also done by the team with the staff appointed by the promoter to work with the MACSs.

MACS Visited	SHGs Visited
Kuntala Swashakti MACS, Kuntala (non-tribal)	Gouthami SHG , Ole village
	Sairam SHG , Suryapur village
	Dhanalakshmi SHG , Bhurugupalli village
	Sri Saibaba SHG , Wanalapadu village
Utnoor Swashakti MACS, Utnoor (tribal)	Lakshmi SHG , Cheruvu Kolgam village
	Yogeswari SHG , Utnoor town
	Saraswathi SHG , Ramlingampet village
	Sai SHG , Devaragaram village

Mahila Abhivruddhi Society, Andhra Pradesh (APMAS), a state level institution, supports the women's self help movement and promotes the cause of sustainable livelihoods. APMAS core activities include: Quality Assessment (QA), Quality Enhancement and Research & Advocacy.

*This assessment has been conducted by APMAS, based on a comprehensive QA system for assessing SHG Federations named **GRADE S**. The QA system is developed by APMAS with technical assistance from M-CRIL, New Delhi. For more details please visit www.apmas.org or contact qa@apmas.org*

2. Overview

YY is a federation of 13 MACS, with each MACS having 80-150 SHGs as its members. It has been working in 13 mandals¹ of ABC district, Andhra Pradesh since 2001 and was registered in the year 2001, as a Federation under the AP Mutually Aided Cooperative Societies Act, 1995. .

YY overall performance is good and receives a score of **71%** that converts into a letter grade of '**A-**' implying **reasonably high level of self-governance and good quality of operations**. Its constituent MACS (average of the two MACS - BBB and CCC) demonstrate a reasonably good performance with a score **69%**, the letter grade '**B+**' and **moderate level of self-governance and good quality of operations**. The YY performs well in the assessment areas of Governance, Asset Quality, Systems and SHG Performance while it performs moderately in the areas of Resources and Services to Constituents.

3. Section-wise performance*

Assessment Area		YY	MACS	Overall
G	Governance	A-	A-	A-
R	Resources	C	A-	B-
A	Asset Quality	A++	B	A-
D	Design & Implementation of Systems	A	B+	A-
E	Efficiency & Profitability	A-	B	B+
S	Service to SHGs and Constituents	B	B	B
	SHG Performance	--	A-	A-
Overall Grade		A-	B+	A-

- Grading scale is given in Annex
-

4. Organization Information (as on March 31, 2004)

Organizational Profile:		
1	Legal Form § YY § MACS	Cooperative Cooperative
2	Date of formation of YY	Dec' 2001
3	Date of Registration of YY	Dec' 2001
4	Total SHGs in YY	1,314
5	Total individual Members in 1,314 SHGs	18,082
6	No. of Loan Outstanding SHGs (Active SHGs) in YY	525
7	Board Strength (ST- 4, SC – 7, BC - 2) of YY	13
8	No. of Staff (incl. 13 MACS : 9 XX+4 CCC promoted)	56
9	No. of Women Staff	21

¹ mandal is an administrative unit within the district, and generally consists of 30-50 revenue villages.

10	Regularity of board meetings (%) § At YY level § At MACS Level (Avg. of two sample MACS)	100% 100%
11	Board Attendance (%) § At YY level § At MACS Level	82% 82%
12	Range of SHGs in MACS	80-150
Coverage		
1	% Village covered (391/601 habitations)	65%
2	% of target population covered	55%
Microfinance ProCCCme:		
1	Total Share Capital received (YY) in Rs lakhs	1.3
2	Total SHGs Savings (in all 1314 SHGs) in Rs lakhs	794.8
3	Cumulative Loan Given in Rs lakhs § At YY level § At MACS Level	8.2 427.1
4	Loan Outstanding in Rs lakhs § At YY level § At MACS Level	2.95 102.93
5	No. of SHGs per staff	23
6	Loan Outstanding per staff in Rs lakhs § At YY level (only one staff) § At MACS Level	2.95 1.83
7	Interest rate charged (% pa) § At YY level § At MACS Level	15% 24%
8	Current Recovery Rate § At YY level § At MACS Level	100% 92%
9	Portfolio in Arrears (PIA) >90 days § At YY level § At MACS Level	0% 15%
10	Portfolio at Risk (PAR) >90 days § At YY level § At MACS Level	0% 16%
Financial Ratios		
1	Yield on Portfolio (YOP) § At YY level § At MACS Level	14% 23%
2	Operational Cost Ratio (OCR) § At YY level § At MACS Level	9.6% 18.4%
3	Operational Self Sufficiency (OSS) § At YY level § At MACS Level	163% 163%
4	Financial Self Sufficiency (FSS) § At YY level § At MACS Level	29% 39%

5	Idle Fund to Total Assets (based on average of monthly balances)	
	\$ At YY level	24%
6	Capital Adequacy Ratio (CAR)	
	\$ At YY level	62%
7	Total Loan outstanding : Total Assets (on year end balances)	
	\$ At MACS Level	84%

5. Evolution and Growth of YY

YY has been promoted by XX, ABC with a focus on microfinance. XX started its microfinance interventions in ABC in 1984 with formation of “CCCa Sanghams”. These Sanghams had an average membership of 30-70 women in each Sangham with savings and credit as the entry-point activities. The Sanghams were later divided into Self Help Groups (SHG) of 15-20 members thereby resulting in 5-20 SHGs in each village in 1990s. Now, YY has 1,314 SHGs in 13 of its MACS.

During the first phase of the project, 1,454 SHGs were to enroll in the MACS, which are registered as independent cooperatives, in eight mandals of the project area. However, due to unforeseen changes in the external environment within the project area, the target (of enrolling SHGs into MACS) could not be achieved. Nevertheless, YY (or XX) was able to organize 515 new SHGs and had revitalized 799 defunct SHGs.

13 Mandal MACS are members of the YY. Out of 13 MACS, 9 of them are promoted by XX and 4 of them are promoted by CCC². As of now the financial resources of YY are not matching the credit requirements of its members and XX is facilitating linkages with Financial Institutes (FIs) and Micro Finance Institutes (MFIs) to meet the credit demand.

Staff plays a vital role in formation of new SHGs, revitalization of defunct SHGs, monitoring the performance of Community Based Workers and Volunteers in book-keeping/records maintenance at SHG level, extend assistance in tapping credit resources from banks/financial institutions and support with secretarial assistance to MACS. Presently they are on the rolls of XX, but it is envisaged that they shall be absorbed by the MACS during the current phase, with the development of business in MACS.

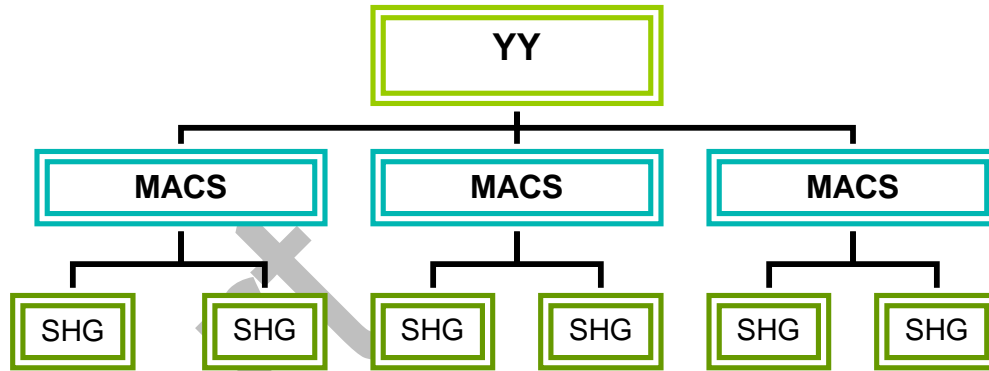
5.1 Objective of YY

To educate and enroll enterprising member cooperatives working in ABC district to plan and execute activities for their socio economic self empowerment and to render sustainable institutional services to such cooperatives functioning as Community Based Organizations in accordance with the principles of cooperation.

YY also want to provide thrift based credit and entrepreneurial services, gender and development, financial intermediation, networking with similar organizations, marketing services and dispute settlement among the member cooperatives.

5.2 YY Structure

² GRAM is an NGO, it has been working since 1985 in Adilabad and Nizambad districts. It has promoted 4 MACS in the Adiliabad district.



6. Findings

6.1. Governance

6.1.1. Quality of Board

The YY shows a high level of Governance and receives a letter grade of 'A'.

The YY has a 13-member Board, consisting of one representative each from the 13 member MACSs. All the presidents of MACS are ex-officio Board members of the YY. One Office Bearer – President is elected from among the Board, to manage the YY. The Board has **good representation** from all social classes. The Board has fairly good clarity on vision, mission, roles, responsibilities and functioning of the YY. The Board meets once in a month. All the members display interest to know and understand the operations, which is reflected in the attendance in meetings (82%).

The previous meeting minutes are reviewed by Board and is the first agenda point of the meeting. Members are not well aware of the other routine issues which are to be reviewed in every meeting like action taken on decisions in previous meeting, progress vs plan, budget vs expenditure, staff review etc. Though Receipts and Payments are prepared monthly, income and expenditure statement and balance sheet are not prepared monthly and hence not reviewed and analyzed during the Board meetings. Receipts & Payments statement prepared is only for that month, and not up to that month, which does not provide much information to the Board.

Board is very cohesive and all members get along with each other well. Participation levels of all members are good. The Board has good awareness of the future strategies like expansion of business, promoter withdrawal etc., and very ambitious about its progress. Members have understanding of vision but strategizing to reach it requires improvement. Though five year projections are made, Board is not aware of it as the Board is not involved in this process. Involvement of the Board in the operations of the YY is moderate as board is dependent on staff. As a result decision making is influenced by the XX staff..

Statutory audit is conducted regularly. The annual General Body meeting is conducted regularly as per bylaws, and the annual report and audited accounts are submitted. Surplus allocation is

not done as per by laws. Election for the position of President is held regularly, on time. The assessment team understands from the promoter that the YY annual returns as required by the APMASC Act, 1995 are being filed annually. However, it was also informed that no acknowledgement is taken while submitting the same to the (local) Divisional Cooperative Officer, and hence could not be verified Savings are not paid any interest and so is the dividend as the YY is still in developing stage.

Member MACS are not fully satisfied with the YY as they were offered limited credit and savings facility. Member MACS Board is happy with the future prospects of YY and support they would get in terms of bargaining power with Govt agencies and credit. It is inferred from above that MACS has high expectations and even YY is also very ambitious in its plans

6.2. Resources

The Federation demonstrates a moderate level of performance in the area of Resource mobilisation & utilisation and receives a letter grade of 'B-'.

6.2.1. Human Resources

The **staff is motivated and committed** and has good field experience. The staff has good experience (5-18 yrs) in community mobilization and micro finance. The MACS Coordinators, MACS Managers and the Frontline Workers have enough experience in micro finance sector. However, both the managerial and field staff has relatively limited exposure to the sector.

The field and managerial team are skilled and competent, to handle the current level of operations. They are aware of the strengths and weaknesses of YY and are open to learn from observations made by external agencies. However, the staff needs to strengthen its skills especially with respect to financial risk management capabilities, documentation and MIS.

The YY Secretary is working as part time employee. She spends considerable time in YY activities and is respected by her fellow staff. The promoter is planning to place two full time employees to look after the YY in view of the anticipated increase in financial operations.

6.2.2. Financial Resources

The YY has its funds from members in the form of share capital, compulsory savings and membership fee. The MACS are to compulsorily save Rs. 1,000/- month in YY. The federation does not have any external financial linkages.

The YY's outstanding portfolio as a percent of total assets on 31st March 2004 is 83% and while the rest 17% is in cash. The average of idle fund (monthly balances) at YY is a high 24%. As the available funds at YY is limited, they are not able to meet the demand of MACS, which resulted in high cash balances.

6.2.3. Infrastructure

YY uses the promoting organization's (XX) office for its functioning and therefore has access to all the infrastructure of XX. XX has good infrastructure facilities to conduct training and workshops.

6.3. Asset Quality

YY shows a good overall performance in the area of Asset Quality and receives a letter grade 'A'.

Credit repayment performance is excellent at the YY (100%) while the two member MACS on average have a Current Repayment Rate of 92%. High levels of credit discipline and procedures for preventing and controlling delinquency have shown good results. As mentioned above, YY Current Repayment Rate of 100% has resulted in zero Portfolio at Risk. I.e PAR (>1 day) is 0%.

This is mainly a result of lending to primary federation i.e MACS. Though the members SHGs of the MACS do not repay completely, the MACS repay the YY loan fully. This is because of the average loan size being a low Rs 29,490 per MACS (as on March 31, 2004), while the average loan portfolio of the sample MACS is approx Rs 8 lakhs.

6.4. Design and Implementation of Systems

The YY receives letter grade of 'A-' reflecting its good performance in Design and Implementation of Systems.

6.4.1. Accounting and Documentation System

The accounting systems and procedures in the YY and its member MACS are well laid out and the updation and accuracy of records is good. Financial flow documents such as vouchers for payment of loan, promissory notes, agreements for loans and documents like savings ledger for SHGs or MACS, cash book (day book), general ledger and monthly report are maintained at YY and MACS level. At the SHG level, individual member passbook, resolution book for group meeting, cashbook, membership book, loan ledger and savings book are also maintained with the group leader.

The accounting system at both YY and MACS is completely manual. Recently, the promoting organisation introduced the computers in respective MACS and is planning to computerize the accounting system. The staff spends considerable time in maintaining SHG level records. Primary documents for the accounting system are vouchers/receipts, with all transactions recorded in them. These being the basis, the transactions are posted in the cashbook, general ledger and sub-ledgers.

Financial Statements are prepared from the ledger. Presently, YY prepares monthly financial statements and are consolidated once in six months. Necessary reports are generated through computer.

There is a considerable scope for improvement in the area of general documentation. YY does not have well-documented manuals in key areas like operations, human resources, process for identification of target population, loan collection procedures and trainings. In spite of inadequate documentation, staff has good understanding of the criteria for village selection, SHG formation and loan disbursement. These criteria have been adopted by them from their earlier experience of forming and working with CCCa Sanghams .

6.4.2. Information Systems

The YY and its member MACS maintain records and necessary information related to meetings (minute's book) and borrower profile. The MACS promoting the YY resulted in a decentralized decision making structure. Financial and monitoring operations are decentralized. However, common activities which facilitate economies of scale e.g., training, human resources recruitment etc are coordinated by the YY.. One possible area of decentralisation is the staff recruitment.

So far, it has been noticed that data is shared by the MACS to the YY regularly. The reports received are not being consolidated and generally filed after reviewing each separately. Some consolidation of data is being done. However, a comprehensive and systematic consolidation of the data would provide a better sense of overview within the YY, and data will not remain as data. The top down and lateral (i.e., between MACS) information flows are weak. Minutes of the YY Board meeting are regularly circulated to all member MACS. It was also informed that the information consolidated at the YY level is being shared with all the member MACS. The assessment team felt the need for improving the information flow from between YY and member MACS promoted by CCC. While the policies and decisions taken by the YY are being communicated to the SHGs and their members, feedback on overall proCCCme performance is missing. The necessary reporting and analysis system is in place. The timeliness of the information should improve with identification and implementation of an integrated MIS. The monthly, annual progress reports are good. Staff enter the financial information of the SHGs and MACS audited in the computer. All staff have an action plan (i.e. tour schedules), but the implementation of the same is not strictly reviewed by the Board. The YY is preparing annual cash flow statements, budget vs expenditure statements, but are not reviewed by the Board. Report formats are not uniform across MACS and require standardization. It is noticed that the information collected is more in data form, and cannot be used for analysis, monitoring and review of purposes. Loan applications and promissory notes are maintained and filed properly at the YY and MACS level. The Assessment Team understands that XX, the promoting organization, plans to purchase a computerized MIS package, which would integrate the accounting, portfolio analysis, MIS, member wise tracking and staff monitoring.

6.4.3. Internal Control Systems

The current loan tracking system is Excel based. In order to process portfolio data, such as payment information, data is entered into Excel at the MACS level, and then consolidated at the YY level. There is no formal overdue tracking system at the YY level, in the sense that this consolidation is not regular.

Since inception, the YY and MACSs accounts were audited by qualified Chartered Accountants. However, till recently they did not have a internal audit system. In the year 2003-04, recognizing the need, an internal audit team has been pooled from among the MACSs staff, based on experience and competence.

The manual progress reports are prepared every month for each SHG. These are then consolidated at the MACS level to prepare the monthly consolidate sheet (i.e. monthly progress report). For the past six months, MACSs staff are also preparing loan ageing analysis report. The statement shows loan over dues amount, loan outstanding and period of over dues. Staff shares these statements with the Board and chalk out an action plan

In the promissory note, though the repayment terms are mentioned, the members do not strictly follow the same. They see the last instalment date as the date for making full repayment. This makes tracking of overdue a complicated task.

At the MACS level, a member SHG can have only one loan outstanding at any point of time. Where required, the member SHG has to settle the current loan and then is eligible for a new loan. In emergency situations, the MACS Board in consultation with staff sanction a new loan to the SHG, immediately (i.e. same day) after settling the current loan.

The staff of XX checks all microfinance related accounts of MACSs, on a monthly basis. However, it is noticed that the staff do not sign in the registers after checking the same.

The YY has informal cash flow planning systems. The YY uses the loan application forms to consolidate demand and project the monthly requirement. Similarly, the MACS also consolidate the demand estimates and determine the level of funds required, based on the current cash and bank balances. .

6.4.4. Operational Process

The YY operational processes for MACS are clearly defined and are followed strictly. Entry and exit processes are well defined and are voluntary. A MACS wanting to join has to pay the following amounts to the YY, along with an application.

Particulars	Amount (Rs)
Share Capital	10,000
Membership fee	1,001
Monthly thrift	1,001

6.5. Efficiency and Profitability

The YY shows moderate performance in Efficiency and Profitability related aspects receive a letter grade of 'B+'.

6.5.1 Staff productivity

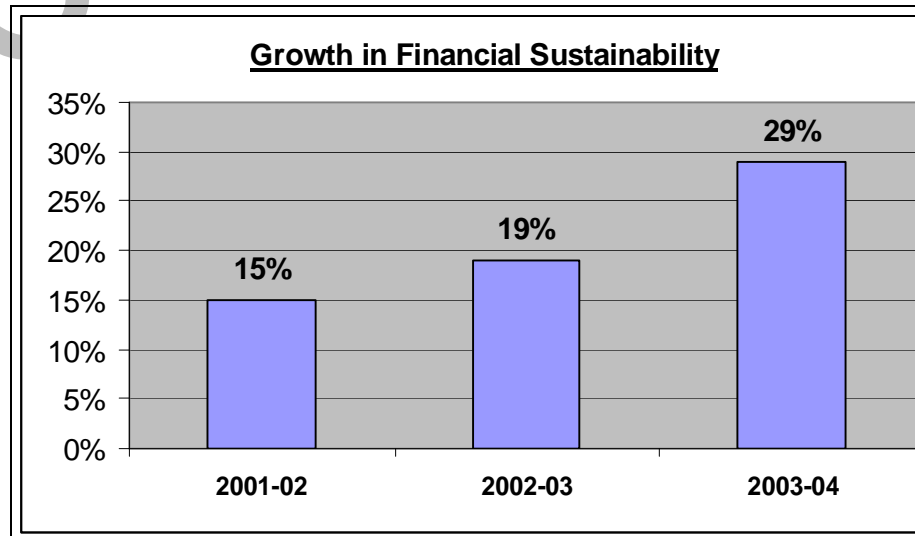
At the MACSs level, the staff productivity in terms of number of member SHGs per staff is 23 with a total loan outstanding of Rs 102.94 within the 13 MACS resulting in a loan outstanding per staff of Rs 1.84 lakhs. The number of SHGs managed by staff and loan outstanding per staff indicate that there is a need to work with more number of SHGs (30-50 SHGs per staff) and also increase the loan outstanding substantially (to at least Rs 3 lakhs), without increasing the staff.

6.5.2 Profitability and Sustainability

The Operating Cost Ratio (OCR) for YY is 9.6% and this is when there is no cost of funds. This is so because the funds available for lending is almost nominal for the YY. The OCR (excluding cost of funds) would reduce if the funds available for it are more. The current OCR is high though the federation has only one staff and getting support from the promoting organisation to meeting administrative expenses, as it meets the cost of travel to the member MACS for monitoring and auditing.

For the YY, the Yield on Portfolio (YOP) is 14%. The YY lends @ 15% pa to its member MACSs, which on-lend to their member SHGs @ 24% pa on reducing balances.

The Operational Self-Sufficiency (OSS) which reflects ability to recover its operating expenses, explicit financial costs and loan loss provisions is 163% for the YY, leading to a preliminary conclusion that the institution is viable. However, the YY is highly dependent on promoter, who has been meeting the cost of staff, since inception. The YY has entered into a contract with XX (for personnel and technical support) to become self sufficient over the next three years, after which XX is to withdraw its support.



The Financial Self-Sufficiency (FSS) for the YY, which also takes into consideration the in-kind subsidies and inflation³, is a poor 29%. This indicates that the YY has to improve its income substantially to meet the cost of maintaining its operations at the current level. However, it may be noted that as a trend, the FSS has been increasing over the past two years.

7. Performance of Sample MACS

³ calculated at 5%

7.1 Governance

The sample MACS assessed, showed a high level of Governance and receives a letter grade **A⁻⁴**.

MACS board members aware of that the purpose of the MACS as to achieve self reliance among women, and operational activities of the MACS. MACSs Board members are active and are aware of most of the information related to MACS. However, only a few people have the capability to go through and understand the reports produced by the staff on MACS functioning, staff performance and portfolio quality etc

7.2 Resources

The Sample MACS showed a high level of performance in resource mobilization and utilization, it received a letter grade of '**A⁻**'.

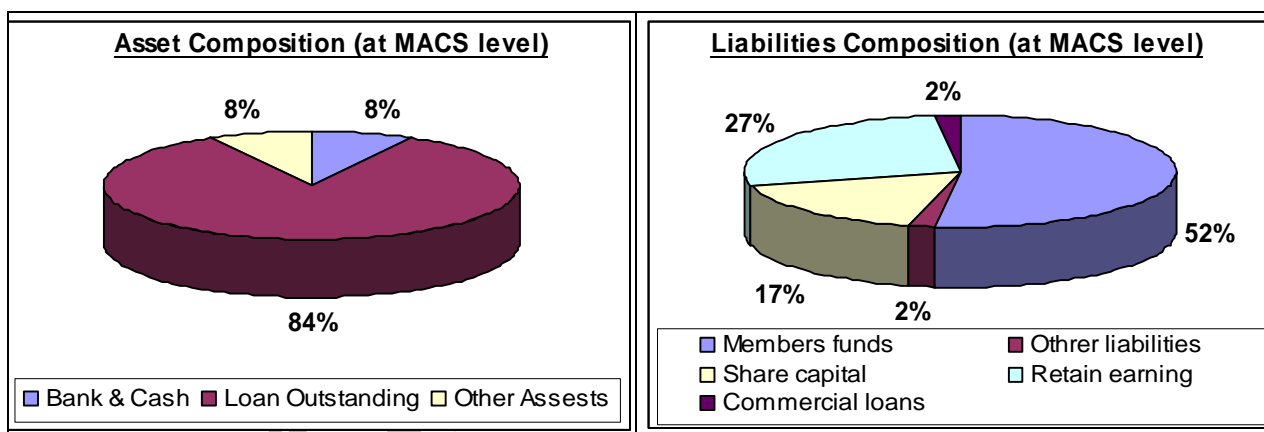
As already explained the staff is committed and has significant experience in the area of micro finance activities. MACS has a Manager and 2 Community Organizers. The Community Organisers regularly interact with the SHGs and their members. Drawing upon their experience, the staff have structured the MACS and its operations in a manner that it views itself more as a financial institution, with lending as its primary activity. This is a paradigm shift from the earlier perspective, where the MACS were seen primarily as institutions of social change. This shift seems to make the MACSs focus more on systems, processes and financial prudence.

The outstanding portfolio as a percent of total assets on March 2004 is 84%, while cash and other investments are 8% each. Of the 13 MACS, ten have financial linkage from YY and three MACS have external financial linkage from BASIX, a well known MFI based at Hyderabad.

During the financial years 2002-03 and 2003-04, cash balances increased from 1.5% to 3.7% of total assets while investments in other non-microfinance activities (in businesses – eg sarees, “super market”) have decreased from 8.8% to 3.6%. This is a good shift, keeping in tune with the manner in which the MACSs are currently viewing themselves. However, the low cash balances possibly may warrant situations of financial crunch, due to lack of adequate liquidity. There is a need for the MACSs to develop formal liquidity and investment policies.

The composition of liabilities of the MACSs reveal that they are primarily dependent on internal funds (**52%**) through compulsory, voluntary savings and insurance deposits. The average risk weighted Capital Adequacy Ratio of MACS is a high **53%**, indicating that these MACS can leverage their funds to raise external borrowings.

⁴ The grade displayed is average of two sample MACS, Kuntala and Utnoor.



The MACSs have to explore diversified financial linkages like banks - rural and commercial, and other financial institutions like SIDBI, RMK and FWWB. The average fund availability per SHG is Rs.6,483, which is very low, resulting in the MACSs not being able to meet the SHGs credit needs.

7.3 Asset Quality

The sample MACS showed a moderate level of performance in Asset Quality and utilization and got a letter grade of 'B' in this section.

The average Current Recovery Rate is healthy with **95%**. The average Portfolio at Risk (>90 days) is a 9% of total outstanding portfolio - the PAR at sample MACS of Kuntala and Utnoor is 13% and 3% respectively. The average Portfolio in Arrears (PIA >90 days) is also indicating that the loans that are at risk are those which have completed their repayment term significantly high 9%. It has also been noticed that there seems to be a better follow-up of the latest loans while there is limited follow-up of the older loans, which have become overdue.

Classification of PIA and PAR

Ageing	Kuntala		Utnoor		Average	
	PIA	PAR	PIA	PAR	PIA	PAR
>1 day	12%	18%	7%	31%	10%	24%
>30 days	12%	17%	5%	12%	9%	9%
>60 days	11%	15%	3%	5%	8%	10%
>90 days	11%	13%	2%	3%	7%	9%
>180 days	7%	7%	1%	1%	1%	4%
>365 days	1%	1%	1%	1%	1%	1%

The members are not following loan scheduling because they do not have regular income sources to repay. Majority of loans are repaid as per the stipulated time. Also, it was noticed that of the overdue loans, majority are delinquent one or two months.

The MACS lends to its member SHGs for production as well as for consumption purposes. It is observed that the largest portfolio of loan (**68%**) has been utilized for agriculture and allied

activities, followed by small businesses and other productive purposes. The SHGs meet demand for consumption loans mostly from their internal funds i.e. savings.

The MACS does not have a formal **loan loss provision and write-off policy**. According to the bylaws, the MACS could appropriate up to 20% of the current year surplus as loan loss reserve. Considering the present loan portfolio quality, the MACS should provide for a loan loss provision of at least 5% of the total loan outstanding. The MACSs are not appropriating the surpluses as laid out in the bylaws, and carrying it as accumulated profit into the next year, in violation of the law.

7.4 Design and implementation of Systems

The Sample MACS showed a moderate level of performance in resource mobilization and utilization as is reflected in the score of 66% that converts into a letter grade of 'B+'.

Earlier, MACSs directly gave loans to individual members through SHG guarantee and the loan repaid came directly to the MACS.. Since past six months, MACSs are lending to SHGs instead of direct lending to individuals. Based on savings and credit history of the SHG members, the staff recommend for loan sanction. In case of an SHG which has newly taken, membership in the MACS, the particular SHG is kept under scrutiny for the initial 6 months to test its credit worthiness and then initiate lending small loans.

MACS has systems in place with regards to loan sanctioning, collection and monitoring. MACS have instituted systems to facilitate the monitoring of borrower accounts on a regular basis. Currently, all collections are monitored at the MACS level and consolidated report is prepared at the YY on a monthly basis. Required MIS formats prepared according to the needs of the district federation for performance review.

The internal control systems need to be strengthened. In Kuntala MACS assessed, it was observed that the cash book shows an amount of Rs 5,228/- as physical cash balance consistently for the past one year, while it was not so.

Operational Process

There are clear joining and exiting processes; the SHG can join in the MACS if it makes payment towards various heads in following manner

Particulars	Amount (Rs)
Share Capital	100
Membership fee	10
Monthly thrift	300
DRA ⁵	100

7.5 Efficiency and Profitability

⁵ Death Relief Assurance – a scheme similar to life insurance, and paid in multiples of the “insurance premium” in case of death

The Sample MACS showed a moderate level of performance in Efficiency & Profitability as is reflected in the score of 61% that converts into a letter grade of 'B'.

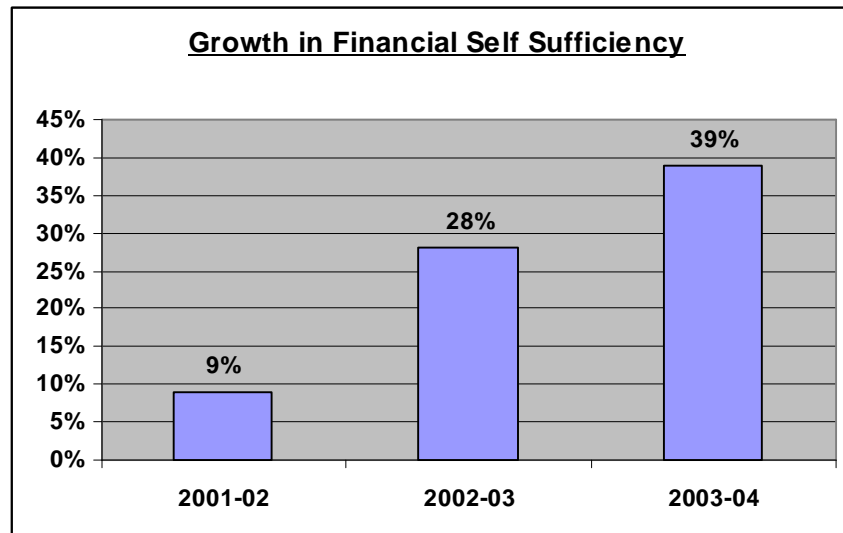
As already mentioned, at the MACSs level, the staff productivity in terms of number of member SHGs per staff is 23 with a total loan outstanding of Rs 102.94 within the 13 MACS resulting in a loan outstanding per staff of Rs 1.84 lakhs. There is a need to increase the number of SHGs and the loan outstanding substantially (to at least Rs 3 lakhs), without increasing the staff for making effective and viable use of the staff.

While in one MACS there are 4 staff appointed by the promoter, another has 6 staff whereas the number of member SHGs are only 93 and 112 respectively. It is also noticed that the MACS staff not only work with the member SHGs of the MACS but also with other SHGs in the mandal. Also, the increase in member SHGs in the year 2003-04 is not matched with at least a proportionate increase in funds, which has brought down the funds available per SHG as compared to the financial year 2002-03. While field staff is locally recruited, the Managers are deputed by the promoting institutions.

The Operating Cost Ratio (OCR - including cost of funds) is 18.4%, indicating that MACS is incurring a high cost of Rs 18.40 ps for every Rs 100/- of loan disbursed. This is so as the loan size and outstanding per staff is low.

The MACS lend to member SHGs @ 24% pa and the Yield on Portfolio (YOP) is 23%, indicating a good recovery.

The average Operational Self-Sufficiency (OSS) of the assessed MACSs is 163%. This indicates that the MACSs are operationally self-sufficient. The MACS staff is currently paid by XX or CCC, the promoting institutions. The MACS have an understanding with the promoting institutions for technical and personnel support, for next three years.



The average Financial Self-Sufficiency (FSS) for the assessed MACSs at present is 39%, which reflects the low volume of operations and the amount of in-kind subsidies provided by the promoters. The extremely low FSS and the huge variation between OSS and FSS is primarily due to the staff costs.

7.6 Services to the SHG or Constituents

The Sample MACS showed a moderate level of performance and received a letter grade of 'B'.

Financial products

The MACS offer both compulsory and voluntary savings products to the individual members through the SHGs. Individual members save Rs. 30/- per month in the SHGs, which are then in turn saved in the MACS. This effectively makes the SHG a branch/conduit for the MACS to collect savings of individual members

The MACS, as per its bylaws can extend a loan of 8 times the savings of the member SHGs with it. As already mentioned, in case of lending to a new member SHG, the MACS keeps the particular SHG under scrutiny for 6 months to monitor its creditworthiness and then starts lending out. It is a policy not to sanction a new loan, when there is an existing loan outstanding. However, the field visit revealed cases of bulk recovery and sanction a new loan on the same day, which could amount to refinancing of loan. Most of such cases involved some vocal member of the SHG, including the SHG leaders.

The MACS offers couple of insurance products to its members through SHGs. With risk mitigation and borrower welfare in mind, the MACS has made insurance compulsory for all members at time of joining which requires them to pay Rs. 100/- towards Death Relief Assurance (DRA), payable to the member's survivor(s), in case of death.

Recently, the MACS introduced a new insurance scheme for protecting its own loan portfolio by collecting a fee of Rs. 2/- per Rs 100/- loan sanctioned. Under this scheme, in case of death of a member, the MACS will not recover the outstanding loan due by the member but would adjust the same from the fee collected. The MACSs are planning to centralize the insurance products at district level, for greater economies of scale and risk spread.

Non-financial Services

The MACS is also offering non-financial services to SHGs like bank linkage, monitoring, training, internal auditing and grading. In a few instances, the MACSs also facilitate market linkage.

Social Initiatives

The MACS have been successful in establishing good functional relationships with all the Mandal level institutions. The MACS has participated in all the major Govt. development and welfare programmes. The SHGs participate in social activities like health and hygiene, family planning, pulse polio and reducing the amount spent by men on cheap liquor consumption. However, there is still a need to work for greater social change, including increased women empowerment. There is a need to improve the literacy level among members as majority of them are not able sign.

7.7 SHG Performance

The SHGs, with an average membership of 14 are homogenous with 97% of the assessed SHG members belonging to the same economic class. On an average, 100% of the members live in the same neighbourhood and 95% of the members belong to the same social class.

Norms are not fully understood by the members, responsibility in most of the cases is left to the leaders of the SHGs. They have a good understanding of why there is a need for federation ie MACS. This understanding of the members is not utilized properly as the contribution of the SHGs to the maintenance of the federation is nil.

Meetings are monthly and on an average regularity of meetings conducted in the past 12 months is 96%, while attendance level is an extremely high 94% in the meetings conducted. Regularity of savings is 100% on average with average idle funds (in hand and in bank) of 11%.

Book keeping in SHGs is good. The meeting minutes and all the accounting books are maintained properly. However, it was noticed that in one SHG received an auto (3-wheeler) as an in-kind grant, the same is not accounted for in the SHG books of accounts. All expenditure incurred and income earned are not reflected in the financial statements, while at times the details are being mentioned in the minutes book.

Accounting needs to be comprehensive and it has to include all the inflows and outflows of cash from SHG. But it has been observed that some SHGs having procured assets from external agencies such as ITDA have not accounted for those assets in the SHG books. The internal auditor also approved the accounts of the SHG with out making any corrections in this regard.

Expected loan repayment pattern is monthly, In this case the repayment is based on the loan amount outstanding. Pattern of repayment is regular principal with interest. Striking feature is all the loans that are given are for production purposes. On an average 20 loans were given out during the past one year in each SHG, with the average loan size being Rs 2,243. This average loan size makes it difficult for the SHG members to utilize the available credit for productive asset creation, but meet agriculture "expenses" (47% of loan portfolio on average) and take up small enterprise and business activity (22% on average) which provide limited returns in absolute terms.

It is observed that in general, multiple loans are given to each member. However it is noticed that the **loans from bank are distributed equally among all the members**. Maximum loan outstanding with a member on average is 11% of the total loan outstanding and the range is 4% to 18%. These figures also support the above statement.

Velocity of internal lending on an average is 0.7 times the total corpus, indicating that the corpus is not being rotated even once in a year. Of the eight SHGs assessed, repayment rate of external borrowings is 100% in six SHGs, while the other two record a repayment rate of 81.7% and 30.8%.

Repayment Rate of loans taken by the SHG members is a poor 36.2%. This has resulted in a high Portfolio at Risk (PAR > 90 days) of 27.7%, if the current practice of bullet repayment is considered. The same increases to 64.4%, if the expected pattern of monthly repayment is taken into account. The following tables present the loan portfolio quality in the eight SHGs assessed under two scenarios

Table -1: bullet repayment pattern (which is actually practiced by the SHGs)

Particulars	SHG 1	SHG 2	SHG 3	SHG 4	SHG 5	SHG 6	SHG 7	SHG 8	Average
Repayment Rate (%)	53.2	14.6	5.5	65.6	59.1	39.3	37.5	57.5	36.2
PIA (> 90 days) (%)	28.3	74.4	14.0	53.0	0.0	0.0	4.2	0.0	27.7
PAR (> 90 days) (%)	28.3	74.3	14.0	52.8	0.0	0.0	4.2	0.0	27.7

Table – 2: monthly installments pattern

Particulars	SHG 1	SHG 2	SHG 3	SHG 4	SHG 5	SHG 6	SHG 7	SHG 8	Average
Repayment Rate (%)	53.2%	14.6%	5.5%	65.6%	59.1%	39.3%	37.5%	57.5%	36.2%
PIA (> 90 days) (%)	38.2%	86.1%	61.2%	62.9%	8.9%	11.1%	46.2%	43.8%	49.1%
PAR (> 90 days) (%)	44.2%	94.8%	96.0%	69.4%	45.7%	13.5%	61.3%	66.7%	64.6%

Of the eight SHGs assessed, two belonging to the Kuntala MACS have a significantly high PAR ie in excess of 50% (see Table 1). These two SHGs have affected the overall PAR. Drought conditions are sighted as the reason for this scenario by the SHGs of Kuntala MACS. In Utnoor MACS portfolio quality in the first scenario (Table 1) is excellent with zero PAR in three SHGs.

The above figures clearly bring out that loan portfolio quality is not same across all the SHGs, and climatic conditions play a significant role on the SHG portfolio quality.

While majority of the SHGs perform excellent in terms of portfolio quality, the social impact of the SHGs seem to be considerable.

Members mentioned that prior to their joining the SHGs, there was a fear of their ignorance & vulnerability being exposed which resulted in a lack of confidence among them. They attribute the SHG movement as the sole reason for their empowerment – ability today to discuss issues even with the government officials, demand their rights. Members also expressed that they now have a source to rely on if they need some money and need not be at the mercy of money lenders at time of need.

8. SWOT Analysis of YY⁶:

Strengths	Weaknesses / Areas for improvement
<p><u>Organizational</u></p> <ul style="list-style-type: none"> ü Appropriate legal form ü Active Board members ü SHG members confidence in YY ü Increasing focus on microfinance ü Assured support from the Promoter (XX) <p><u>Management and Systems</u></p> <ul style="list-style-type: none"> ü Committed and experienced staff ü Good accounting system and recording ü Effective and participatory leadership ü Well performing members (MACS & SHGs) <p><u>Financial Performance</u></p> <ul style="list-style-type: none"> ü Internal fund mobilization ü Good credit recovery performance ü Good portfolio quality and diversification ü Reasonably good asset composition 	<p><u>Organizational</u></p> <ul style="list-style-type: none"> ý Coordination with CCC promoted MACS ý Relatively low coverage of villages and target families in project areas ý Low education levels among Board Members <p><u>Management and Systems</u></p> <ul style="list-style-type: none"> ý Limited exposure to its staff towards other micro finance programmes ý Limited no. of qualified professional staff ý Limited concentration on member education and empowerment for building people's institution ý Limited market linkage ý Limited policy design and implementation <p><u>Financial Performance</u></p> <ul style="list-style-type: none"> ý Poor portfolio quality among some of the members (SHGs and MACSs) ý Low performance on profitability and sustainability at MACS level ý Low emphasis on savings ý Dependence on promoter ý No diversified sources of funds
Opportunities	Threats / Risks
<ul style="list-style-type: none"> ✓ Potential leadership qualities ✓ Good market to cover project area ✓ Can easily recruit qualified field staff ✓ Great potential to diversify funds ✓ Great opportunities to establish relationship with like minded organization ✓ Increased focus on micro finance in Andhra Pradesh 	<ul style="list-style-type: none"> § Rapid Expansion Risk § Govt. Poverty Eradication Project (Velugu) § Competition from other microfinance institutions § High level of poverty and severe drought conditions § Subsidized interest rates (e.g. Govt. Policies)

⁶ includes those identified by the AMACSFED Board members and staff

9. Conclusions

The YY has been working actively since last 3 years and has an articulate board. The Board has good **awareness** about the YY operations and is functioning with reasonably good **involvement in decision making**. Board was not provided exposure to micro finance activities carried out by other micro finance institutions.

The MACS provide a range of **financial products** to SHGs (compulsory savings, voluntary savings-RDs & FDs, loans and Insurance). The participation in government welfare and developmental programmes at YY level is not satisfactory level, while good at MACS level and excellent at SHG level.

The YY and MACS are currently **dependent on the promoting agency (XX & CCC)** in managing the current activities for financial and technical support.

In terms of **staff** strength, the present level of staffing is adequate for the existing and future expansion of operations. While staff members at all levels are well versed with operational requirements and are **committed and motivated**, the level of financial management and accounting skills is fairly good.

The YY does not have external linkages from financial institutions like rural and commercial banks, SIDBI and FWWB. The asset composition of YY and MACS are good with 83 % and 84% of its total assets deployed in loans respectively. On the aspect of sources of funds, the MACS have relied mainly on internal funds (52%), resulting in a high Capital Adequacy Ratio.

The overall **Current Recovery Rate** of loans is 100% at YY and 92% at MACS level. The average PAR & PIA (>90 days) is 16%, and 15% respectively at MACS level, and many overdue loans are past the due date, and therefore carry a fairly high risk. Initial lack of emphasis on having SHGs as the building block, absence of loan tracking system and strong NGO (give-away) culture are factors for poor performance.

The MACS provides loans mostly for production purposes. However, its portfolio is moderately diversified with an estimated 68% of the portfolio in agriculture and its allied activities.

The Operating Cost Ratio (OCR) is 9.6% (excluding cost of funds) at YY and 18.4% (including cost of funds) at MACS level indicating that the cost of operations is high. It is very costly affair and non sustainable to manage current level of operations.

In terms of **staff productivity**, the YY structure displays moderate performance - the number of SHGs per staff are 23. The average loan outstanding per field staff is a low Rs.1.84 lakhs, which is not adequate to even cover the direct staff costs.

The YY has an adequate manual **accounting system** in place and records are up-to-date and reasonably accurate. However, due to manual entry, the systems are subject to occasional computation and carry forward errors. This problem can be easily solved by using a computerized accounting software.

MIS related to meetings, borrower profile, portfolio reports, budget vs expenditure etc is good. The **information flow** from YY to MACS is good. The information flow from YY to individual members and from individual members to YY is limited.

The YY has **internal control systems** like loan repayment schedules, loan utilization checks, overdue tracking, internal audit, financial planning. There is scope to improve the existing systems

The YY has a clearly defined joining and exit policy for members, which is strictly adhered to. The loan sanctioning process is simple and does not require much documentation.

10. Recommendations

Key Recommendations:

1. Intensive Capacity Building should be imparted to the EC members (at YY and MACS level) on MACS Concept, functioning of federation, Leadership, Problem Solving, Fund management, MIS and internal control systems.
2. Recovery performance at MACS and SHG levels should be improved through regular monitoring and follow up, by strengthen the Default Management Committee and promoting diversified livelihoods
3. There is a need to enhance the decision-making capacities of the YY Board and facilitate a transfer of skills from the staff to the board members.
4. Prepare a 3-5 year Business Development Plan, which would include vision building for the YY and member MACSs.
5. The YY should develop linkage with FIs and MFIs to meet credit demand of the members and have diversified funds sources and to improve its Operational and Financial Self Sufficiency.
6. The MACS should lend to SHGs instead of lending directly to members and see the SHGs as its building blocks.
7. Information flow to be improved from MACS to SHG members and from SHG members to MACS to YY. Conduct regular and intensive 1-2 day member education for all SHG members.

Other Recommendations:

1. Board should also have 1-2 invitees who are like minded federations or NGOs in microfinance sector in AP, for an external and objective perspective.
2. The YY/MACS should offer different non-financial products and support services aimed at strengthening the performance of its members on a fee-for-service basis in order to sustain the federation.
3. To work more effectively, the staff should be imparted capacity building on Control Systems, MIS, Risk Management, and Institutional Sustainability, Legal Procedures and Livelihoods.

4. Improved coverage of all target population, in term of number of habitations and mandals. Clear expansion plans may be developed to increase the outreach.
5. Develop a “Capacity Building Resource Center” at YY level to strengthen MACS and SHGs
6. Increase staff productivity in terms of number of SHGs and loan outstanding per staff, through increase of loan size, formation and revitalizing of defunct SHGs.
7. Develop formal policies related to Credit, Human Resource, Accounting, Training, Organizational Systems and Internal Control. A participatory monitoring system need to be developed for the staff.
8. There is need for greater synergy between CCC promoted and XX promoted MACS.
9. Ensure legal compliance related to return submission to the Registrar, surplus appropriation, interest on members funds.



Annexes -1**Financial Statements of YY**

The financial statements have been prepared for the microfinance operations of the federation by allocating costs based on information made available to the assessment team during the exercise. These have been prepared to provide an idea about the status of the microfinance programme

Income Statement of YY

Particulars	2003-04	2002-03	2001-024
OPERATING INCOME	Amount in Rupees		
Interest and fee income from loans	30,905	15,522	-
Income from other finance-related services	1,001	-	12,012
Income from investments (incl. bank Interest)	2,216	3,159	-
Other Income	-	-	-
Total Operating Income (a)	34,122	18,681	12,012
OPERATING EXPENSES			
Interest and fee expense	-	-	-
Loan loss provision expense	-	-	-
Personal Expenses	18,000	-	-
Administrative expense	2,918	25	10,000
Other operational expense	-	-	-
Total Operating Expenses (b)	20,918	25	10,000
Operating Surplus/(Deficit) (c)=(a-b)	13,204	18,656	2,012
NON-OPERATIONAL INCOME			
Cash donations (Recurring Grants)	-	-	-
Other non-operational income	-	-	-
Total Non-Operational Income (d)	-	-	-
Non-Operational Expenses (e)	-	-	-
Total Surplus/(Deficit) (f)=(c+d-e)	13,204	18,656	2,012

Balance Sheet of YY

Particulars	2003-04	2002-03	2001-024
ASSETS	Amount in Rupees		
Cash Balance	-	-	
Bank Balance	62,472	82,168	140,012
Advances	-	-	-
Short-term investments	-	-	-
Total loan portfolio	294,900	142,500	-
Other short-term assets	-	-	-
Long-term investments	-	-	-
Fixed assets	-	-	-
Total Assets (g)	357,372	224,668	140,012
LIABILITIES			
Savings accounts: compulsory	175,500	84,000	18,000
Savings accounts: voluntary	-	-	-
Members SB Account	-	-	-
Death Relief Assurance (DRA)	-	-	-
Loans: commercial	-	-	-
Loans: subsidized	-	-	-
Other short-term liabilities	-	-	-
Total Liabilities (h)	175,500	84,000	18,000
EQUITY			
Paid-in equity from shareholders	130,000	120,000	120,000
Donated equity -- prior years (cum.)	-	-	-
Donated equity -- current year	18,000	-	-
Surplus/(Deficit) -- prior years (cum.)	20,668	2,012	-
Surplus/(Deficit) -- current years	13,204	18,656	2,012
Reserves/Provisions	-	-	-
Other capital accounts	-	-	-
Total Equity (i)	181,872	140,668	122,012
Total Liabilities & Equity (j)=(h+i)=(g)	357,372	224,668	140,012

Annexes – 2
Financial Statements of Average of two Sample MACSs

<u>Income Statement of Average of Sample MACS</u>			
Particulars	2003-04	2002-03	2001-02
OPERATING INCOME	Amount in Rupees		
Interest and fee income from loans	105,834	61,950	12,891
Income from other finance-related services	13,090	-	5,245
Income from investments (incl. bank Interest)	-	1,080	1,277
Other Income	19,591	21,150	-
Total Operating Income (a)	138,514	84,180	19,413
OPERATING EXPENSES	-	-	-
Interest and fee expense	32,404	6,018	3,684
Loan loss provision expense	2,976	-	-
Personnel Expenses (incl. Animators Salaries)	18,450	26,500	-
Administrative expense	21,101	10,439	681
Death claims	1,500	8,350	-
Other operational expense	5,800	25	-
Total Operating Expenses (b)	85,131	58,582	4,365
Operating Surplus/(Deficit) (c)=(a-b)	53,383	25,598	15,049
NON-OPERATIONAL INCOME	-	-	-
Cash donations (Recurring Grants)	-	-	-
Other non-operational income	-	7,020	31,800
Total Non-Operational Income (d)	-	7,020	31,800
Non-Operational Expenses (e)	-	-	-
Total Surplus/(Deficit) (f)=(c+d-e)	53,383	32,618	46,849

Balance Sheet of Average of two Sample MACSs

Particulars	2003-04	2002-03	2001-02
ASSETS	Amount in Rupees		
Cash Balance	25,265	2,614	355
Bank Balance	29,431	4,626	13,699
Deposits	-	-	-
Short-term investments	-	25,000	-
Total loan portfolio	555,032	370,839	289,130
Other short-term assets	30,773	23,395	-
Long-term investments	24,000	42,000	11,500
Fixed assets	-	8,073	-
Total Assets (g)	664,501	476,546	314,684
LIABILITIES	-	-	-
Savings accounts: compulsory	135,238	223,913	162,246
Savings accounts: voluntary	138,350	-	-
Members SB Account	-	-	-
Death Relief Assurance (DRA)	66,393	49,573	26,740
Loans: commercial	14,000	9,000	1,200
Loans: subsidized	-	-	-
Loans: Other	-	-	-
Other short-term liabilities	16,407	375	-
Total Liabilities (h)	370,387	282,860	190,186
EQUITY	-	-	-
Paid-in equity from shareholders	115,520	84,495	56,795
Donated equity -- prior years (cum.)	-	-	0.
Donated equity -- current year	-	-	-
Surplus/(Deficit) -- prior years (cum.)	100,321	67,703	20,855
Surplus/(Deficit) -- current years	53,383	32,618	46,849
Reserves/Provisions	24,891	8,871	-
Other capital accounts	-	-	-
Total Equity (i)	294,114	193,686	124,498
Total Liabilities & Equity (j)=(h+i)=(g)	664,501	476,546	314,684

Annexes –3

Calculation of Financial Ratio

Particulars	Coding	YY	Avg. of two Sample MACS
No. of SHGs	a	1,314	225
Member SHGs	b	1,314	103
No. of Loan Outstanding SHGs (Active SHGs)	c	526	60
No. of Staff	d	56	5
Interest rate charging	e	15%	24%
Bank Rate of Interest	\$	12%	12%
Inflation rate	f	5%	5%
Staff annual salary	g	18,000	234,270
Total Loan outstanding	h	294,900	555,032
Avg. loan outstanding	i	218,700	462,936
Interest and fee income	j	30,905	105,834
Total Operating Income	k	34,122	138,514
Operational profit / (loss)	l	20,918	85,131
Financial cost	m	-	32,404
Personal Expenses	n	18,000	18,450
Administrative expense	o	2,918	21,101
Total Operating cost	p	20,918	85,131
Consolidated Surplus/(Deficit)	q	13,204	53,383
Idle funds	r	86,899	24,670
Total assets	s	357,372	664,501
Avg. total assets	t	291,020	570,523
Total Funding Liabilities	u	175,500	370,387
Avg. Funding Liabilities	v	129,750	326,623
Networth/ Total equity	w	181,872	294,114
Avg. Equity	x	129,750	243,900
Fixed Assets	y	-	-
Avg. Fixed Assets	z	-	-
Loan loss provision expenses	A	-	2,976
In-kind donation adjustment	B=C+D	74,940	249,620
a. Personnel (paid by promoter)	C	18,000	215,820
b. Other	D	56,940	33,800
Financial cost adjustment*	E=v*\$-m	15,570	6,791
Inflation Adjustment	F=f*(F-G)	6,488	12,195
Total Adjustment	G=B+E+F	96,998	268,606

Particulars	Coding	YY	MACS
Total funds available per member SHG	s/b	272	6483
Idle Fund to Total Assets	r/s	24%	4%
Capital Adquacy Ratio (CAR)	w/h	62%	53%
SHGs per staff	a/d	23	45
Avg. loan outstanding / staff annual salary	i/g	12	2
Yield on Portfolio (YOP)	j/i	14%	23%
YOP to Annualized Percentage Rate	$((j/i)*100)/e$	94%	95%
Administrative Efficiency	$(n+o+B)/i$	44%	55%
Operational Cost Ratio (OCR)	p/i	9.6%	18.4%
Personnel (vs) Admin Expenses	$(n+C)/(o+D)$	60%	427%
Operational Self Sufficiency (OSS)	k/p	163%	163%
OSS after Salary Adjustment	$k/(p+C)$	88%	46%
Financial Self Sufficiency (FSS)	$k/(p+G)$	29%	39%
Return on Assets (ROA)	l/t	5%	9%
Return on Equity (ROE)	l/w	7%	18%
Loan Loss Ratio	A/h	0%	1%
Total O/S : Total Assets	h/s	83%	84%

Annexes –4

Grading Scale

Score	Grade	Description
>90%	A+++	Worth emulation. Very high level of Governance. Excellent quality of operations
85.1% - 90%	A++	Worth emulation. High level of Governance. Excellent quality of operations
80.1% - 85%	A+	Emulate with modification. High level of Governance. Good quality of operations
75.1% - 80%	A	Emulate with modification. Reasonably high level of Governance. Good quality of operations
70.1% - 75%	A-	Reasonably high level of Governance. Good quality of operations
65.1% - 70%	B+	Moderate level of Governance. Good quality of operations
60.1% - 65%	B	Moderate level of Governance. Moderate quality of operations
55.1% - 60%	B-	Needs CB assistance to improve level of Governance and quality of operations
50.1% - 55%	C+	Needs substantial CB assistance to improve level of Governance and quality of operations
<50%	C	Needs substantial CB inputs. Low level of Governance and poor quality of operations

Annexes - 5

System Maintenance

Accounting system		
1	Regular updating of records & books	
1.1	Payment Vouchers	Good
1.2	Receipt Vouchers	Good
1.3	Loan Application	Good
1.4	Promissory Note/ Inter-se agreement	Good
1.5	Cash Book	Excellent
1.6	Loan Ledger (member SHG/VO wise)	Good
1.7	General Ledger	Excellent
2	Accuracy of recording (correctness)	
2.1	Quality of recording	Good
2.2	Payment Vouchers	Good
2.3	Receipt Vouchers	Good
2.4	Loan Application	Good
2.5	Promissory Note/ Inter-se agreement	Good
2.6	Cash Book	Excellent
2.7	Loan Ledger	Excellent
2.8	General Ledger	Good
Management Information Systems (MIS)		
1	Information flow (2-way)	Moderate
2	Quality of minutes	Good
3	Member Profile	Good
4	Annual Plan	Good
5	Annual Budget	Good
6	Portfolio Quality Report (Loans overdue tracking)	Moderate
7	Monthly/Quarterly Progress Report vs Plan	Moderate
8	Budget vs Actual	Good
Internal Control Mechanism		
1	Default Management Mechanism	Good
2	Physical verification of cash	Moderate
3	Internal Audit	Good
4	Staff Review	Moderate
5	Exiting process for SHGs/VOs	Strictly followed
6	Loan sanctioning process	Strictly followed

Annexes – 6

Promoting Organisation (XX)

About Promoter (XX)

XX is an NGO working in ABC district since 1984 on a range of activities including formation of Community Organization, Youth Groups, Skill development and Income Generation Activities, Sustainable Agriculture, Natural Resource Management and Thrift and Credit activities. The vision of XX *“is to empower the most marginalized women of Dalit Tribal and Backward communities for a equal opportunity, control over incomes and quality of life”* The mission of XX is *to educate, organize and increase the capacities of the communities to understand and sustain the activities leading for women empowerment in due course of time.* The target communities of XX comprise Tribes, Dalits, Agricultural labourers, backward communities and small & marginal farmers, with special emphasis on women.

XX was very successful and effective in mobilizing savings among women and creating alternative credit system for the productive and consumption needs of the target women community, As XX objective is the technology transfer of dry land agriculture, XX used the CCC Sangham as channel to effectively promote the same at gross root level. Later, it has concentrated on microfinance in addition to the knowledge transfer.

XX has been promoting SHGs since 1991 and SHG Federations since 1994. XX keeping its objective of making these MACS an independent and self-managed institution, registered a District Federation under the AP Mutually Aided Cooperative Societies Act, 1995 with 13 MACS as members.

About CEO of XX

The Promoter of YY, Mr. A. Rao, has an experience of 25 years in development sector. He has completed his Masters in Agriculture and he is the promoter of the XX, a Voluntary Organization, under which he promoted YY in 2001 to promote micro finance concept among rural poor. He has a high level of commitment (as is evident his leaving the lucrative job that he had with ICRISAT) and competent to guide the YY and its operations. He maintains a congenial relationship with the Board and the staff. The CEO has a clear vision towards taking the YY forward in terms of achieving greater milestones.

Annexes –7

Glossary

1. **Current Repayment Rate:**
Principal amount received (current and past due) of all loans after prepayments against the expected principal amount to receive in specific period.
2. **Portfolio At Risk:**
Ratio of principal balance outstanding on all loans with over dues greater than or equal to 90 days to the total loan outstanding on a given date
3. **Arrears Rate**
Ratio of the total amount of principal over dues greater than or equal to 90 days against the total loans outstanding on a given date
4. **Operating Cost Ratio (OCR):**
The OCR is calculated by dividing all expenses related to the operations of the institution (incl. all the administrative, Salary expenses, depreciations, cost of funds and in-kind donations) by the period average Portfolio outstanding. Non-operating expenses are not included.
5. **Yield On Portfolio (YOP)**
The YOP is calculated by dividing interest and fee income related to loan (i.e interest + penalties on loan+ Loan related fee) by the period average portfolio outstanding
6. **Idle funds**
The Idle Fund rate is calculated dividing period of average of idle funds (cash in hand and cash at bank) of institution by period of total asset of the institution.
7. **Operational Self-Sufficiency (OSS):**
The OSS is calculated by dividing total operating income by total operating expenses in a given period.
8. **Financial Self-Sufficiency (FSS):**
The FSS is calculated by dividing total operating income by total operating expenses plus adjustment like in-kind (personnel + trainings + other), subsidized cost of funds (w.r.t market interest rate) and inflation in a given period.
9. **SHGs per staff: (staff productivity)**
Staff productivity is calculated dividing the number of client or SHGs of an institution by the total number of staff.
10. **Loan outstanding per staff: (staff productivity)**
The field staff, who are directly working with SHGs, is calculated dividing the Loan outstanding of an institution by the total number of field staff.
11. **Capital Adequacy Ratio (CAR)**
The CAR is calculated by dividing total equity (incl. share capital, donated equity, provisions & reserves and cumulative surplus/(deficit) of the institution by risk weighted asset (mostly loan outstanding) as on date