

XX Mutually Aided Cooperative Society Ltd.
AA Mandal, BB Dist.

Quality Assessment (QA) Report
(Assessment dates: 1st – 3rd September 2005)



Ms.G.Trivikrama Devi & Mr. T.S.Vasu

Mahila Abhivruddhi Society, Andhra Pradesh (APMAS)

Plot No 20, Rao & Raju Colony, Road No 2, Banjara Hills, Hyderabad - 500034

Phone: +91-40-2354-7927/52 FAX: +91-40-23547926 Email:qa@apmas.org



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1. Assessment methodology

A two-member team from APMAS Ms.G. Trivikrama Devi and Mr. T.S. Vasu assessed the XX Mahila Mutually Aided Cooperative Society Limited (here after called as XX MACS), in BB District during 1-3 September 2005. During the Quality Assessment, Mr. Veera Swamy (District Accounts Officer) from YY, BB District, Chief Executive Officer (CEO), and Accounts Officer (AO) of the XX MACS accompanied the team.

The Assessment team has selected 4 Self Help Groups (SHG) based on the SHG performance from the MACS. These SHGs were spread over the total geographical area covered by the XX MACS. As part of the Quality Assessment, Focus Group Discussions (FGDs) were conducted with the XX MACS, Board of Directors (Board) and Staff members to understand their levels of awareness related to the concept and functioning of the XX MACS in its area. The team studied the books of accounts and records at the XX MACS. On the last day of the Quality Assessment, a debriefing meeting was held with the Board, staff, to share the initial observations and also match the same with their perspective.

Name of the Institution	Tier	Total Members/ board strength	Attendan ce FGD
XX MACS	Federation	11	10
Jyothi SHG	SHG	10	8
Adharsha SHG	SHG	11	7
Krishanaveni SHG	SHG	13	7
Devi Matha SHG	SHG	13	6

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 and Livelihoods.

*This assessment has been conducted by APMAS, based on a comprehensive QA system for assessing SHG Federations named **GRADES**¹. 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

The XX MACS located at AA mandal in BB District. Started working from the year 2000 with 20 SHGs spread across 10 villages. The MACS is presently functioning with 126 SHGs (1471 individual members) spread across 26 villages out of the 32 villages in the mandal. The members belong to various social categories. The XX MACS as a part of promoter's (YY) policy is primarily focusing on financial intermediation and with very limited social participation for the presence of other institutions serving the purpose. It was registered as XX MACS under the MACS Act, 1995 in the year 2000 with registration no. AMC/KNA/DCO/2000/10

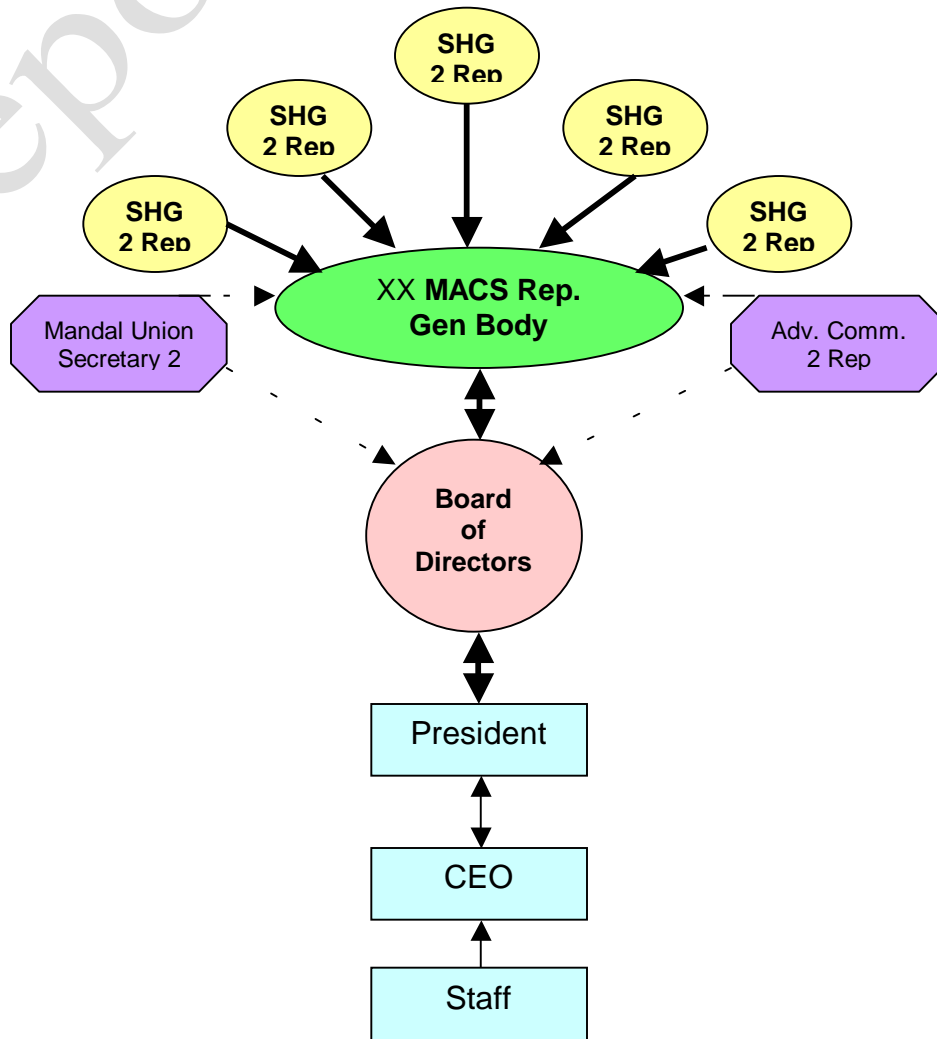
¹ **GRADES** represents the key assessment areas of the Federation Assessment – Governance & Strategy, Resources, Asset Quality, Development & Impact, Efficiency & Profitability, Systems & Operating Processes in addition to the SHG Performance. **GRADES**, the assessment tool for SHG Federations, were revised in 2004 and GRADES ver 2.0 is being used currently. **GRADES** ver 2.0 now represents the key assessment areas of the Federation Assessment – Governance & Strategy, Resources, Asset Quality, Design of Systems & Implementation, Efficiency & Profitability, Services to SHGs & Development Initiatives in addition to the SHG Performance.



XX MACS is a relatively young micro finance program. While the Board of the organization is not very experienced in micro finance, members have a reasonably interest in the activities of the organization but are not involved in contributing to policy issues related to micro finance. **The SHGs as a group did not pay the membership fee and share capital in the XX MACS. Of the 126 SHG, in 78 SHGs only all the members have paid the membership fee and share capital.**

The XX MACS overall performance is **good with 66%** that converted into a letter grade '**B+**'. The XX MACS performed well in the area of Asset quality (**A+**) and Resources. The XX MACS needs to focus considerably on all the aspects viz Governance and Services t Efficiency and Profitability and SGH performance. The Efficiency and Profitability shows a better performance as operational expenses are at presently met by the promoter (YY). The XX MACS focus is more on the individual member rather than SHGs, so other than financial services no other services are provided to the member.

3. Operational Structure:



4. Section wise Performance

	Category	Letter Grade
G	G overnance	B-
R	R esource	A
A	A sset Quality	A+
D	D esign and implementation of Systems	B
E	E fficiency & Profitability	B+
S	S ervice to SHGs & Development Initiatives	C
	S HG Performance	B+
Overall total		B+

5. Organizational Profile

XX MACS Profile as on 31 August 2005		
1	Legality	AP MACS
2	Date of formation	30/01/2000
3	Date of registration	28/02/2000
4	Enrolled SHGs in XX MACS	126
5	Total members 126 in SHGs	1471
6	Active (Loan outstanding) members in XX MACS	286
7	Board	11
8	Staff (in XX MACS)	3
9	Women staff	2
10	Local Staff	3
11	Regularity of meetings (%)	100%
12	Board Attendance in meetings (%)	79%
13	Total Salary expenses (incl. promoter paid) p.a.	90,000
14	Promoter paid salary expenses p.a.	90,000
Coverage		
1	Villages Coverage (%) (26/35 Villages)	67%
2	Target Beneficiaries Coverage (%)	76%
Micro Finance Activities		
1	Total Share Capital Rs.	1,47,400
2	Total SHGs Savings Rs.	26,260
3	Cumulative Loan Disbursed (515 Individual Members) Rs.	28.66 lakhs
4	Loan outstanding (286 Individual Members) Rs.	12.25 lakhs
5	SHGs per staff	42



6	Outstanding per staff Rs.	4,08,350
7	Avg. Loan Size Rs.	6,460
8	Interest changing by Federation	24%
9	Loan Repayment Rate (internal)	98%
10	Loan Repayment Rate (Borrowings)	99%
11	Portfolio at Risk - PAR>90 days	1.66%
12	Portfolio at Risk - PAR>180 days	1.66%
13	Portfolio in Arrears-PIA>90days	1.66%
14	Required Loan Loss Reserve	0.8%
Financial Ratios as on 31 March 2005		
1	Yield on Portfolio – YOP	24%
2	Financial Cost Ratio - FCR	19%
3	Operating Cost Ratio - OCR	24%
4	Operational Self Sufficiency - OSS	121%
5	Adjusted OSS (after only salary adjustment)	61%
6	Financial Self Sufficiency - FSS	58%
7	Return on Assets – ROA	4%
8	Return on Equity – ROE	14%
9	Idle Funds Ratio – IFR	10%
10	Capital Adequacy Ratio - CAR	43%
11	Loan Outstanding Vs Total Assets	65%
12	Loan Loss Provision - LLP (provided)	0%
Non-financial services to SHGs		
1	Bank Linkage	Poor
2	Training (SHGs, EC and staff)	Poor
3	SHGs' monitoring	Good
4	SHG Grading	Poor
5	SHG Auditing	Moderate

6. Findings

The XX MACS is a Micro finance institution registered under MACTS act primarily focused on serving women in rural areas through microfinance for income generation activities which will then supplement the income through which to achieve self sufficiency and empowerment.

6.1 Governance

The XX MACS exhibits a moderate performance in Governance and acquires a letter grade of 'B'.

6.1.1. Board quality



The General body represents representatives from SHG's. The general body elects the Board of Directors (board). The period of the office of the Board of Directors is three years. The office bearers are elected from among the Board of Directors. The board has diversified members from different social classes in its present board. The board meets every month regularly with 79% attendance. Very few of the board members have awareness on the vision and purpose of the XX MACS. Also the board is not familiar with the byelaws of the XX MACS, which are supposed to be the guidelines for Governance in the XX MACS.

Regularity of Board Meetings	100%
Attendance in Board Meeting	79%

During board meetings it was observed that majority of the discussions were limited to ratifying the loan issues and monitor the loan repayments. Board members are not given full responsibility of the XX MACS. In no meeting portfolio quality reports, income-expenditure reports were analyzed and proceedings on the same were not recorded in the minutes, though every month the progress and portfolio reports are prepared.

Almost all Board members, **including the Office Bearers have no clarity about their roles and responsibilities, other than acting as co-signatories** for bank transactions and they remained as passive participants. Since inception of XX MACS **no training inputs were provided to the Board so far** regarding XX MACS functioning other than discussing in the board meetings.

Empty cheque leafs signed by President was available with staff for '*operational convenience*', proving the point of staff control over XX MACS.

The staff are recruited and paid by YY, promoter of the XX MACS. Board is entirely depending on the staff for managing MACS activities and portfolio, there was no sense of ownership on the MACS among the board members **which is crucial element to ensure institutional sustainability of Self Managed Financial Institution (SMFIs)**. Board members don't have any awareness on the status of member SHGs. Staff who are monitoring the SHGs are not providing any information on the performance of member SHGs to the board which is major missing link in the MACS functioning.

The board seems to have no plans regarding self-sufficiency and sustainability. Right now, promoter, YY bearing the staff salaries and board wants to continue the same in future.

6.1.2 Legal Compliances

The XX MACS has not been continuing with the same leader since inception and there have been **regular elections held** all through these years as per byelaws regarding the issue of change of leadership and the representation in the Board. XX MACS has taken steps in the aspect of legal compliance and the concerned activities such as Statutory Audit, presentation of Annual Report have been done very successfully along with filing the returns to the District Cooperative Officer (DCO), which is absolutely commendable. But there was no internal auditing done in the XX MACS and apportion of surplus was not done as per the byelaws. The occurrence of the Annual General Body Meeting is also one of appreciable facts and the **required quorum was present** for the General Body meeting.

6.1.3 Member satisfaction



XX MACS is providing loan, savings and life and debt insurance service to its members. The member's satisfaction with the XX MACS is moderate, as interest or dividend on the savings is not yet credited to the member's accounts. Members don't have clarity on the security deposit, which is 11% of the loan amount. XX MACS need to clarify the members prior to taking the security deposit about the interest, when it will be paid and other processes. There is greater demand form the members for the loans, but they need to wait for months together for obtaining the loan, as there is scarcity of funds at XX MACS level.

6.2 Resources

The XX MACS demonstrates a good performance in Resource Mobilization and Utilization and exhibits a letter grade of 'A'.

6.2.1 Human Resources

The staff of the XX MACS comprises of a CEO, an Accounts officer (AO) and a Program officer (AO), competent enough to perform the specified portfolio of activities. The staffs are motivated and committed. Though they are **not professional qualified** they have good **field experience** (5-13yrs) in community mobilization and micro finance. Each staff member is responsible to 80-90 SHGs. The XX MACS completely depends upon the staff. Staff is not providing any handholding support to member SHGs except monitoring the loan repayments though this enhances the performance of the XX MACS significantly. Women staff is 67% which is comparatively more, and this is a advantage to take up issues pertaining to women such as health, hygiene, mortality rate, and this the women staff needs to be strengthened as women can address the problems of women member in the SHG easily.

6.2.3 Mobilization of Funds

The corpus of the XX MACS only limited to share capital, membership fee; savings generated from the members availed loans. At the moment XX MACS gets its borrowings from YY only, it has to develop strategy for **diversifying its lending partners in order to meet the member needs. Access to Banks would give the XX MACS a new source of fund** support, to cover the costs involved if converted into loans.

Though the XX MACS was successful in mobilizing savings, it has not put an essential norm of savings in the XX MACS, only those members who have availed a loan have to **save a very nominal amount** (Rs.10-20) in the XX MACS. Regular savings with XX MACS could not only help develop a sense of ownership among the members and also would improve the fund availability with the XX MACS.

Available funds with XX MACS to individual member is only Rs.485/- which is decimal when compared with the credit needs of the member SHGs and the average corpus of SHGs Rs.82, 572/-. The average idle funds at XX MACS are 10%, which is higher than the normal standard. The XX MACS can think of better utilization of available funds rather than keeping it idle.

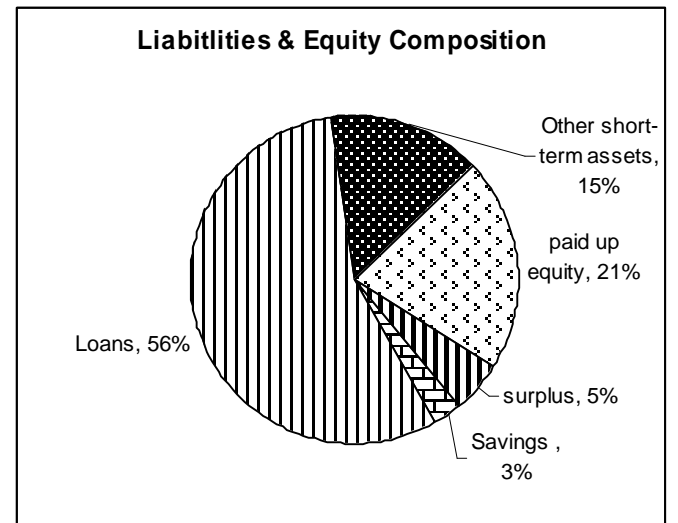
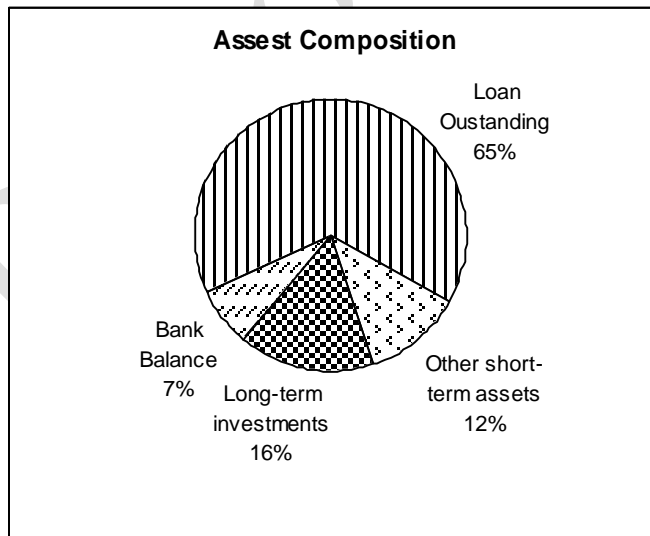
The repayment of the external loans from the promoter YY is remarkably good at 99%. The capital adequacy of the XX MACS is 45%, which indicates that it has Rs. 45/- equity in every Rs. 100 of risk-weighted assets that is loans.

Competition and Multiple Players

This significant aspect needs to be looked at particularly as this might influence the

future course of XX MACS. Each SHG has membership in ZZ promoted Federation as well as in XX MACS promoted by YY. Each SHG accessing loans from bank under NABARD credit linkage program supported by ZZ, Community Investment Fund component of ZZ through Village Federation and XX MACS. Separate books of accounts maintained for ZZ and XX MACS. YY and ZZ not considered the presence of other promoter and their influence on the SHG, hence there is no correlation strengthening SHGs to cater its members needs. This might over a time affect the each ones position among at member level. Also number of Micro Finance Institutions such as FF and GG infusing credit to the members of the same SHGs. In the current scenario, one member have the opportunity to avail credit from internal savings, bank linkage, federation loan and one or two loans from MFIs in Grameen methodology which might over burden them over a period of time. XX MACS need to consider this reality and plan its strategy carefully to deal this issue.

6.2.3 Asset, Liability and Equity Composition



The asset composition of XX MACS is good **with about 65% of its total assets** deployed in loans. On the liability side, the organization has relied mainly on YY for loan funds-however, its lender base has been not been expanding over time.

6.3. Assets Quality:

The XX MACS shows very outstanding performance in Asset Quality and receives a letter grade of '**A+**'.

6.3.1 Loan maintenance

The cumulative repayment rate of the loans issued is **at 99%**. High levels of credit discipline and procedures for preventing and controlling delinquency have shown good results. However, still there is scope for improvement for loans that are disbursed from XX MACS internal funds. Since inception the **cumulative disbursement is Rs.28.66 lakhs** spread on 515 individual members. Presently there are 286 active accounts with an outstanding of Rs.12.25 lakhs. The average loan size is Rs.6, 460.

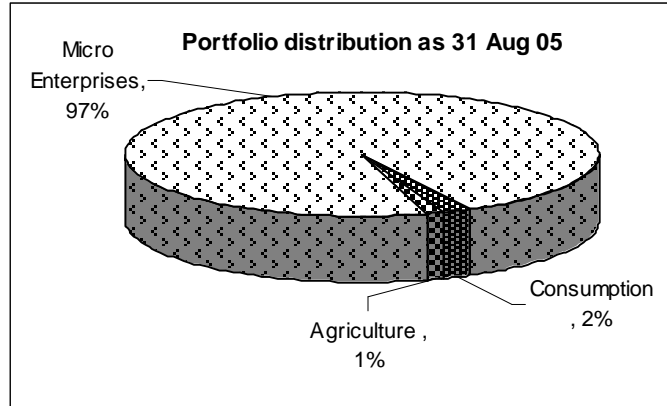
Recovery Rate*	%	Recovery Rate	%
Cumulative Repayment rate	99	YY loans	100
Current Repayment rate	98	Internal Loans	82
Active Repayment rate	97		

* Repayment rate calculated as on 31 August 2005.

6.3.2 Portfolio quality

XX MACS have an exceptionally **good credit performance with a low portfolio at risk (PIA and PAR at 90 days at 1.66% and 1.66% respectively)** and an excellent current repayment rate at 98%. However, keeping in mind growth plans of the organization, the challenges for maintaining such portfolio quality are bound to increase. With the current loan outstanding and performance, federation should create 0.5%

loan loss provision. In terms of loan diversification, majority of the loans (98%) are for income generation activities the repayment seems to be good.



Another area of concern in regarding the credit management is accountability of SHGs. Portfolio outstanding is showing in the name of SHG while loan is disbursing to the members directly. In long run this practice might create problems in the XX MACS when members from SHGs withdrawn with XX MACS loan outstanding. Practice of loan disbursement through SHG and repayment from SHG might increase the accountability of the SHGs.

6.4 Design of Systems

The XX MACS shows a moderate performance in the area of design of systems and implementation and receive a letter grade 'B'.

6.4.1 Accounting system

XX MACS have an efficient recording system in place. However, due to manual entry, the system is subject to occasional computation and carries over errors, which are very insignificant. The standard procedures of accounts followed with cashbook, general ledger, savings ledger, loan ledger and receipts vouchers are in place. Physical cash balance is also taken on day-to-day basis. Flow of the information is also good. All the records mentioned in the table are maintained up to 31 August 2005.

Records maintained	
Minutes book	Loan ledger
Loan application	General ledger
Promissory note/ agreement	Share capital register
Receipt voucher	Membership register
Saving register	Staff movement register
Cash book	

Payment vouchers are not maintained and the supporting bills are used as the payments vouchers. Promissory notes are maintained for the loans disbursed from the borrowing of



YY loans and for the loans disbursed with the internal funds, the promissory notes are not maintained. Filling of the promissory notes needs to be taken care of.

During the assessment, team found 115 blank promissory notes with signatures of the members, when asked staff responded that the signatures taken before hand. This indicates the aberration in the defined processes, which need to avoid. .

One accounting aspect that needs immediate attention is the crediting of interest on security deposits of members. This has not been done so far and immediate steps should be taken to ensure the same, both in XX MACS accounts and member pass books. Apart from the above books a set of files are maintained for various correspondence, insurance, audit reports, progress reports, etc.

6.4.2 Information System

XX MACS maintain borrower's profiles but not maintaining members records except the details of membership fee paid. Information flow to the SHGs from XX MACS is completely absent which creates lot of **communication gap and ultimately resulting in lack of ownership**. It is observed during the field visit during the assessment that many of the members are not even aware of the MACS name.

The quality of minutes maintained is good to the extent of the discussions taken place during the meetings. Progress and portfolio reports are prepared on the monthly intervals along with the receipts and payments, balance sheets. The income and expenditure statements are prepared once a month and send it to the regional staff and external donors but internally the board of directors does not verify it. **Repayment rates, PAR are calculated from the information available from the portfolio report**. With the support of Regional and District YY staff, the XX MACS have prepared the **Business Development Plans (BDP) for one year, which is commendable**. Three BDPs are available for three years. Though the BDP is prepared, annual budgeted to the actual is not compared. Credits planning, budgeting, over dues are prepared regularly but discussion doesn't take place systematically on this aspect.

6.4.3 Internal Control System

Default management mechanism good. Staff along with 2-3 Board members has visited 2 villages for repayments, which were due. The staff has monthly plan, which is reviewed not by the board but by YY every month. **Loan sanctioning process is followed strictly**. I.e. each SHG applies for loan through an application in which the entire bio-data of each member is recorded; the application gets approved at the SHG level and passed to XX MACS. XX MACS then discuss it in the Board meeting and send it to YY. One lacuna in the process is member's profiles not available with XX MACS giving the members past credit history except promissory note

6.4.3 Operational Process

By paying a one-time share capital of Rs. 135/- including the service charges and application an individual member can take membership in the XX MACS. This enables them to avail loans from the XX MACS. For availing a loan a security deposit has to be paid totaling to 10% of the amount of loan required. This security deposit is again reimbursed to the member after the repayment of the loan amount. If the member is not able to pay the last 2-3 installments the security deposit is adjusted to the installments. The XX MACS is supposed to pay 5% interest on the security deposit p.a., which is not yet credited to the member accounts.



Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Share Capital	100	Service Fee	23
Membership Fee	10	Application Cost	2

6.5 Efficiency and Profitability

The XX MACS displays a poor performance in Efficiency and Profitability related aspects and secures a letter grade of 'B+'.

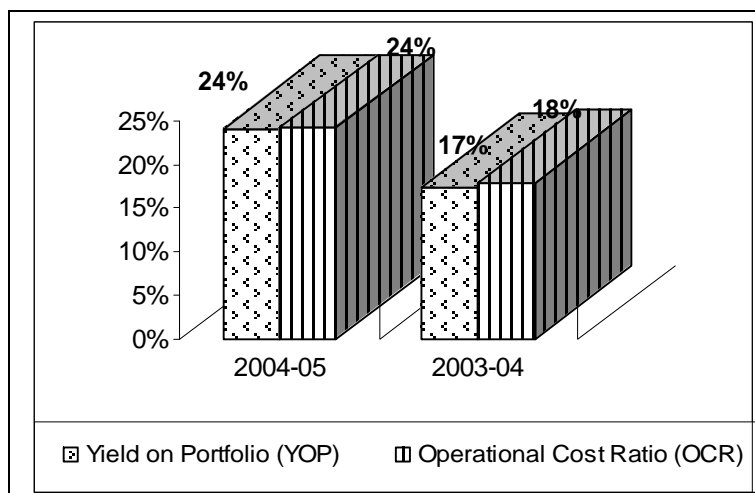
6.5.1 Staff efficiency

The staff productivity in terms of number of active members (individual) managed per staff is **95** with the total loan outstanding (Rs.12.25 lakhs) being covered by the three personnel. Ratio of the loan outstanding per staff stands at Rs. 4 lakhs. This is good in terms of productivity, but quality services to SHG's can't be provided with such huge responsibility. Though the staff trained in micro finance, they don't have experience in formation of SHGs or strengthening the existing SHGs. This reflecting in the functioning of the SHGs. Staff is limited to monitoring of the existing loan portfolio of the XX MACS.

6.5.2 Profitability

The operational costs are very high when compared to the magnitude of the outstanding portfolio. The Operational Cost Ratio (OCR) is as high as 24%, which implies that Rs. 24/- is incurred for maintaining the portfolio of Rs.100. There is an increasing trend in the cost year by year. Presently most of the operational expenses (such as staff salaries, travel expenses, meeting expenses and stationery) are supported by the promoter which is not included in calculation of the OCR. XX MACS could improve the situation by increasing the credit exposure by borrowing external funds.

The XX MACS income earning is in the form of interest income (24% interest on loan portfolio) and collection of membership fee and service fee. Interest collected on portfolio is the major source of income i.e. 82%. The XX MACS has earned the complete 24% yield on the portfolio during 2004-05, which is very appreciable. Annualized Percentage Rate (APR) is 100%.



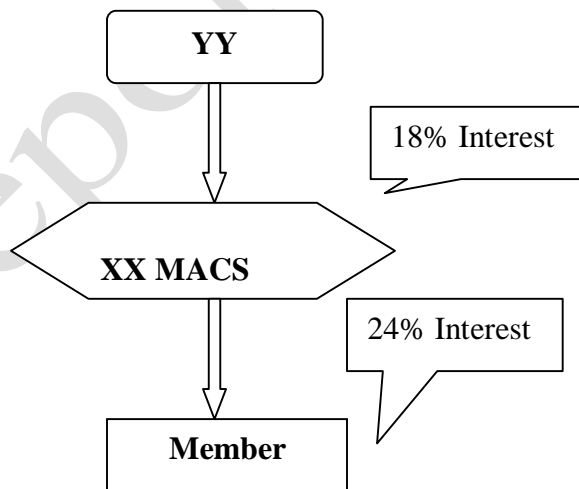
Operational Self Sufficiency (OSS) which reflects the XX MACS ability to recover its operating expenses from operating income is 121%, for 2004-05. The Financial Self Sufficiency (FSS) which also considers the ability of the XX MACS to meet the in-kind donations, explicit financial costs, inflation and the salary adjustment that are paid by the promoter (YY) is also low at 58%. Though the OSS and FSS is low, but there is an increasing trend seen in last three years.

Particulars	OSS*	FSS
2004-05	121%	58%
2003-04	112%	42%

* For calculation of ratios (OSS, FSS) the financial support extended by the YY is excluded

Interest rate margins at XX MACS:

The 6% margins, which the XX MACS get from lending the YY borrowings, it was pre decided that 4% would be kept at XX MACS level and the balance 2% would be returned to the SHG after the loan payment, which in practice is not being followed.



6.6 Services to SHGs

The XX MACS has illustrated a poor performance in the Services to SHGs and Developmental Initiatives and has earned a letter grade of 'C'.

6.6.1 Financial products

Savings Products

Savings is generally Rs.10 per month. Savings is not compulsory for all the members; only those members who avail loans should start saving at XX MACS. Though the member is supposed to save monthly, in practice majority of them pay once in 3-4 months. Interest on savings is not yet decided.

Loan Products

The loan products offered by the organization are fairly standardized. The main loan product is termed as YY Loan and this focuses on income generation activities (loan utilization checks are carried out one week after disbursement). Loans are extended to members for 15 installments, which are repayable on monthly basis. Recently the installments are changed to 16 (15+1), where in the first month member is supposed to pay interest only. The interest on loans is 24% diminishing. Other loan product is internal loans, which the XX MACS give from XX MACS internal funds that include a health, education consumption and for production loans.



Insurance is also being offered with a very nominal premium of Rs.110/- for the first time and at Rs.100/- on renewal. Rs. 10/- is the service fee to the federation. But members don't have much awareness about the details of the insurance product.

6.6.2 Non-financial Services

The XX MACS is offering very limited non-financial services. The XX MACS is not offering any technical services to member SHGs such as auditing, grading that helps them to improve their functioning. As of now these services are being provided by ZZ promoted Village Organizations and Mandal Samakhyas staff. ZZ has larger presence in the SHGs and XX MACS members also members of ZZ promoted members. SHGs seen XX MACS as out side agency, not even recognize this as institution of their own. At the same time SHGs are maintained different books of accounts for ZZ and XX MACS, which is duplicating effort.

6.6.3 Social Initiatives

The YY promoter as such possesses a separate institution named Union working for the social benefits for the members, consequentially there has been no concentration on the addressing the social issues faced to avoid duplication and superficiality.

6.7 SHG performance

The XX MACS identifies itself with an above average performance on the part of SHGs and scores a letter grade of '**B+**'. Overall the performance of the SHGs seems to be good in the area of financial side.

SHG Rating			Jyothi	Adharsha	BBveni	Devimatha	
	Category	Max	Score	Score	Score	Score	Average
A	<i>Systems & self management</i>	400	286	243	271	216	63%
B	<i>Social</i>	150	90	72	72	38	45%
C	<i>Finance</i>	450	411	375	396	281	81%
	Overall totals	1000	787	690	739	535	69%
	Overall Grade		A	B+	A-	C+	B+

6.7.1 System and Self Management

The SHGs, with an average membership of 12 are homogenous with over 95% of the assessed SHG members belonging to the same economic class. On an average, 100% of the members live in the same neighborhood and 94% of the members belong to the same social class.



Member education about the XX MACS is lacking, members are not having awareness about the MACS they recognize XX MACS with the name of staff. Members who availed loan from MACS know the interest rate charged by the XX MACS and only few members are aware about the 10% security deposit. Members are not aware of the bifurcation of Rs.135 paid at the time of joining the XX MACS.

Meetings are monthly and regularity of meetings conducted in the past 12 months is **excellent with 100%**, while attendance level is an extremely high 95% in the meetings conducted. Regularity of savings is 97% on average with average idle funds (in hand and in bank) of 4%. All this figures indicate the good performance of the SHG functioning. But the area of concern is financial management in SHGs. **Concept of corpus was not understood well by the members.** Different interest rates exists for loans availed from different sources in the SHGs. **Savings are distributed earlier making the corpus nil at some stages and few SHGs members have paid the bank loans from the savings amount.**

Book keeping in SHGs is not proper. Separate books of accounts maintained for ZZ and XX MACS, which is duplicating effort. The meeting minutes are not maintained properly and envisage only the financial transactions. No particular agenda is fixed. Accounting books are not updated regularly but the passbooks of the members are regularly updated. Savings are not noted in the ledger book, during the assessment the savings were collected with support of bank passbooks. There is a need for preparation of financial statements at the SHGs level.

6.7.2 Financial

Expected loan repayment pattern is **different depends on the source funds**. Loans availed from internal corpus are scheduled to repay in one time payment (principle + interest). Striking feature is all the loans that are given are for production purposes. On an average 23 loans were given out during the past one year in each SHG, **with the average loan size being Rs 4874/-**. The loan size gives a clear picture that the SHGs are utilizing the loan for working capital requirements only and not for any asset creation. This aspect has to be looked upon seriously and ways have to devise to aid the asset creation among the SHGs.

It is observed that in general that multiple loans are taken from different sources (banks, XX MACS, FF and ZZ) and **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 15% of the total loan outstanding and the range is 4% to 15%. These figures also support the above statement. Velocity of internal lending on an average is 1.4 of the total corpus, indicating that the corpus is being rotated well in the SHG. External loan repayment rate is 88% on average.

SHGs	Jyothi	Adharsha	BBveni	DeviMatha	Average
Internal repayment rate	100%	86%	90%	51%	72%
Repayment rate (Borrowings)	100%	87%	91%	80%	88%
PIA > 90 days	0%*	0%	0%	62%	15%
PAR >90 days	0%	0%	0%	67%	16%
Total Production Loan %	100%	80%	95%	43%	80%



* The SHGs, which have PIA, PAR as 0%, does not have any internal loans. Members are regularly paying the external loans. In order to pay the external loans, the savings are stopped in few SHGs and in others the savings amount is used for paying the bank loans.

The SHGs Average Portfolio in Arrears (PIA > 90 days) and Portfolio at Risk (PAR > 90 days) is less and indicating good asset quality as the three sample SHGs recorded 0.00% PAR, PIA. But the Devi Matha SHG, indicating its poor performance in the repayment, has maintained the highest PAR of **61.7%** of the portfolio affecting the average PAR and PIA. This trend is cautioning towards close monitoring of SHGs by MACS.

Loans to members

In Devi Matha SHG it was observed that the three times loans (Rs.15, 000/-, 9,000/-, 10,000/-) were given to non-members at an interest of 2.5%. After the loans were repaid back the amount was distributed among the members. Interesting thing is that the leader has recorded the loan disbursements in the minute's book but the repayments were not noted any were. Member's area not aware of the accounts and there is turbulence among the members.

XX MACS staff who visit the SHG have never looked into the books of accounts of the SHG.

Change in Status

Members mentioned that earlier there was a fear of exposure and lack of confidence among them and attribute the SHG movement as the sole reason for improvement in their capacities. Also it is felt that they now have a source to rely on if they need some money and need not run to moneylenders at the time of need.

6.7.3 Social Initiatives

The member's participation in socio economic development and other government programs is not satisfactory at this level.

7. Credit Worthiness

Credit Estimation:

CREDIT REQUIREMENTS		AMOUNT in Rs.
<i>As per credit policy in the byelaws</i>	<i>31st Mar 2005</i>	<i>37,15,587</i>
<i>As per present requirement</i>	<i>30th Sep 2005</i>	<i>80,00,000</i>
<i>As per BDP</i>	<i>31st Mar 2005</i>	<i>53,00,000</i>
<i>As per growth (clients + loan size)</i>		<i>60,37,131</i>
<i>As per growth in outstanding</i>		<i>43,04,475</i>

The above figures explain the credit estimation under various situations. When the growth of the XX MACS is seen with an increase, not just in loan size but also in the



client base, it equals to the amount, which would suffice a growth in outstanding to match the credit need of all the members.

APMAS credit estimation:

After evaluation of all the valid parameters of the federation and estimation of the credit absorption capacity based on the same the credit estimation equates an amount of **Rs. 22, 29,352/-**. The federation also secures a same amount of credit absorption capacity when analyzed on the basis of the overall grade secured.

From the perspective of the importance being given to the external funds, repayment rate, systems being implemented and the scope for improvement of governance, the XX MACS has an ability to imbibe a minimum of **Rs. 22,29,352/-** immediately and thereon the amount could be raised observing the consistency of the performance.

8. Conclusions and Recommendations

- w Strategy for diversification of lending partners is the vital; as presently YY is the only fund supporting Organization.
- w The XX MACS should **lend to group instead of lending to members** and strictly practice. So, it decreases cost of operations, easy to monitor and decrease workload.
- w The **operating cost** of the XX MACS is very high at **46%**, the XX MACS should focus on reduction of cost. Though the XX MACS is able to get 24% interest charged, should increase its portfolio in order to meet the expenses.
- w The **availability of funds** per member in the XX MACS when compared to SHGs is very nominal. This has to be given a high concern. If XX MACS does not offer credit services in significant manner to its members, identify of the XX MACS would be in question, hence, the institution sustainability couldn't not be achieved.
- w The Board has moderate awareness about the XX MACS operations and is functioning with limited participation in decision-making. Board was not provided exposure to micro finance activities carried out by other micro finance institutions.
- w The XX MACS is currently dependent on the promoting agency YY in managing the current activities for financial and technical support. To facilitate the promotion of member owned and member managed XX MACS, **board competencies need to be enhanced significantly and also vision and purpose of the XX MACS need to be articulated by the board** instead of current promoter driven approach.
- w The XX MACS is conducting **the meetings regularly but has moderate (79.1%) attendance**. The agenda of the meeting is limited to purely financial transactions only. The review of SHG performance, portfolio quality, financial statements and previous meeting minutes are not being done during the meetings. Staff should facilitate the **Board in reviewing SHG progress, loan performance and financial statements in the meetings**.



- w **Intensive Capacity Building should be imparted to the Board members on XX MACS Concept, functioning of XX MACS, Leadership, Problem Solving, Fund management and internal control systems.**
- w 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, **they require capacity building inputs in strengthening SHGs.** Also staff needs to be monitored by the Board of the XX MACS to really making the XX MACS as self managed financial institution.
- w There is a need to enhance the decision-making capacities of the Board and **facilitate a transfer of skills from the staff to the board members.**
- w It is at this stage the capacity building of SHG's is very essential. By and large the members look upon XX MACS as an external funding agency. They have not fully understood the concept of XX MACS and identified as their own XX MACS and they are the shareholders. This perception needs to be changed by increasing the information flow from XX MACS to the SHGs and vice versa.

Annexure-I

Financial Statements of XX MACS, AA, BB Dist.

The Financial statements have been prepared for the microfinance operations of the XX MACS 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. There is no other than thrift and credit business operation in the XX MACS. The XX MACS totally depending on operational grant (from YY) for operational expenses.

Income Statement

Particulars	2004-05	2003-04	2002-03
OPERATING INCOME		Amount in	



		Rupees	
Interest and fee income from loans	118,688	72,760	760
Income from other finance-related services	15,542	284	
Income from investments (incl. bank Interest)	3,389	146	83
Membership & Application fee	6,523	1,420	4,436
Other Income		9,275	
Total Operating Income (a)	144,142	83,885	5,279
OPERATING EXPENSES			
Interest and fee expense	93,737	60,330	
Loan loss provision expense			
Personal Expenses			
Administrative expense	22,962	13,713	500
Other operational expense	2,900	1,000	
Total Operating Expenses (b)	119,599	75,043	500
Operating Surplus/(Deficit) (c)=(a-b)	24,543	8,842	4,779
NON-OPERATIONAL INCOME			
Cash donations (Recurring Grants)			
Other non-operational income		1,500	
Total Non-Operational Income (d)	-	1,500	-
Non-Operational Expenses (e)			
Total Surplus/(Deficit) (f)=(c+d-e)	24,543	10,342	4,779

Balance Sheet

Particulars	2004-05	2003-04	2002-03
ASSETS	Amount in Rupees		
Cash Balance	160	-	
Bank Balance	52,381	66,880	5,486
Advances	241		
Short-term investments			
Total loan portfolio	464,238	524,745	313,259
Other short-term assets	84,022	12,000	47,000
Long-term investments	112,000	50,000	
Fixed assets	4,140	1,800	



Total Assets (g)	717,182	655,425	365,745
LIABILITIES			
Savings accounts: compulsory	19,364		
Savings accounts: voluntary			
Members SB Account			
Death Relief Assurance (DRA)			
Loans: commercial	400,006	500,000	244,547
Loans: subsidized			44,580
Loans: Other	2,625	4,825	
Other short-term liabilities	105,560		
Advance			900
Total Liabilities (h)	527,555	504,825	290,027
EQUITY			
Paid-in equity from shareholders	147,400	83,500	70,939
Donated equity -- prior years (cum.)	-	-	
Donated equity -- current year			
Surplus/(Deficit) -- prior years (cum.)	15,121	4,779	
Surplus/(Deficit) -- current years	24,543	10,342	4,779
Reserves/Provisions			
Other capital accounts		50,000	
Others	2,563	1,979	
Total Equity (i)	189,043	150,600	75,718
Total Liabilities & Equity (j)=(h+i)=(g)	717,182	655,425	365,745

Annexure-II

Glossary

Glossary
<p>1. Repayment Rate: Calculated for all loan accounts of disbursed and repaid during last year, "the principal recovered (net of pre-payment) to "principal due (or schedule to pay or demand)" as on the date of calculation</p> <p>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</p> <p>3. Arrears Rate (Portfolio in Arrears) : Ratio of the total amount of principal over dues greater than or equal to 90 days</p>



against the total loans outstanding on a given date

4. Operating Cost Ratio:

Ratio of financial cost, salaries, travel, administrative costs and depreciation expenses to the average loan portfolio

5. Yield On Portfolio:

The income related to loans divided by average loan portfolio

6. Operational Self-Sufficiency:

Ratio of the operating income to the operating costs for the year

7. Financial Self-Sufficiency:

Ratio of total income to total adjusted costs for the year. Adjustments are made for subsidized cost of funds (w.r.t market interest rate), equity (w.r.t. inflation) and in-kind donations.



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