

ABC Mahila Sanchayika Sangha
ZZ Block, YY Dist, BB State

Quality Assessment Report
(Assessment dates: 15-20 February 2005)



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Abbreviations

APMAS	Mahila Abhivruddhi Society, Andhra Pradesh
DMASS	District Mahila Sanchayika Sangha
EC	Executive Committee
CAR	Capital Adequacy Ratio
DRDA	District Rural Development Agency
FI	Financial Institutions
FSS	Financial Self Sufficiency
GB	General Body
GRADES	G overnance, R esource, A sset Quality, D esign and implementation of systems E fficiency & Profitability, S ervices to SHGs and S HG performance
ICDS	Integrated Child Development Society
MASS	Mahila Sanchayika Sangha
MIS	Management Information System
NABARD	National Bank for Agriculture and Rural Development
OCR	Operating Cost Ratio
OSS	Operational Self Sufficiency
PAR	Portfolio At Risk
PIA	Portfolio In Arrears
RGB	Rushikuya Grameen Bank
ROA	Return on Assets
SWOT	Strengths-Weakness-Opportunities-Threats
YOP	Yield On Portfolio

1. Assessment methodology



A two-member team from APMAS N.Tirupathaiiah and P.Ravi Kumar assessed the ABC Block level Mahila Sanchayika Sangha (here after called as ABC MASS), ZZ block, YY District. During 15-20 February 2005. During the Quality Assessment. The team was accompanied by Mr. AA Partnership Co-ordinator (PC) form XX Project, Mr. BB Project Manager and along with ABC MASS staff.

The team interacted with the District Collector Mr. CC IAS and Mr. AA PC, XX, Dist. ABC MASS staff, Mr. DD JJ Gramya Bank Manager and Mr. EE, BDO to understand the promoter's philosophy and as well as get an idea of their expectations from the Quality Assessment

A comprehensive methodology of visiting, observing and analyzing the performance of the ABC MASS was adopted to assess its quality. A three-day field visit and a two-day analysis were built into the process rendering it more effective. First hand information about the establishment, growth and functioning of the Body was obtained through the field visit. The quantitative data pertaining to the federation was examined and the performance was evaluated and graded accordingly by Analysis.

The field visit comprised of interactions with the Board members of the ABC MASS, Promoters and Staff of the ABC MASS, Banker and 6 SHGs. These SHGs were selected on the basis of their functional characteristic like well-functioning, moderate-functioning poor functioning and covering of all routes of geographical area. Quantitative data of all sorts related to these ABC MASS and SHGs was collected. This data was analyzed to assess the performance of the ABC MASS on several aspects. Based on the analysis and the derivations obtained from it, the performance of the ABC MASS was rated.

A debriefing on the initial findings of the field visits was done at block level to BDO, CDPO, GG representative, ABC MASS board members and staff. The following day, the consolidated debriefing presentation (all four block incl. non-GG supported ABC MASS-JJ Block) was made to Mr. AA, RGB representatives Ms FF and BB and staff of ABC MASS.

The details of the institutions visited during the process are as furnished below:

#	Institutions	Tier	Total Strength	Members Present	Grading according MASS	Grading according APMAS
1.	ABC MASS	Block	11	10	NA	A-
2.	Sri Ganesh SHG, ZZ	SHG	10	9	C	B-
3.	Pragathi SHG Asurabandha	SHG	18	16	A	A-
4.	Gayatri SHG, Gumdira	SHG	15	12	A	A
5.	Maa saraswathi SHG, Bibhutia	SHG	11	9	B	B
6.	Kadeshwari SHG, B Kotibadi	SHG	11	10	A	A
7.	Maa taratarini SHG, Badogodu	SHG	10	10	B	B

2. Overview

The ABC Block Block Mahila Sanchayika Sangha (ABC MASS) is located in ZZ Block of YY District and has been working since 1999. The ABC MASS. The ABC MASS is a federation of 867 SHGs with 9,939 members covering 210 villages in the Block. Of these 867 SHGs, 818 SHGs with 9,224 members are joined in the MASS. The members are belonging to various social categories. The ABC MASS is primarily focusing on financial intermediation and with limited social participation. The ABC MASS was registered as a federation under the Societies Act, 1860 in the year 1999. The registration No. GJM 5866-102 of 1999-2000.

ABC MASS overall performance is **good with a score of 74%** that converts into a letter grade of '**A-**'. When looked overall, the ABC MASS performs well in the area of Governance, Asset quality, resource management and systems. The federation is performs reasonable good performance in Efficiency and Profitability, Services to SHGs, and overall SHG performance.

3. Section-wise performance

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

* Grading scale is given in Annex

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 **G R A D E 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

4. Organization Information

ABC MASS Profile (as on 31st Dec'04)		
1	Legality	Society
2	Data of formation	6 th March, 1999
3	Date of registration	31 st August, 1999
4	Total SHGs in the ABC MASS	867
5	Total members 867 in SHGs	9,939
6	Enrolled SHGs in ABC MASS	818
7	Active (Loan outstanding) SHGs in ABC MASS	580
8	Executive Committee (EC) (incl. 3 Advisory Committee members)	14
9	No. Staff (incl. Project Manager who is deputed from Govt.)	12
10	Women staff	1
11	Local Staff	6
12	Regularity of meetings (%)	100%
13	EC attendance (%)	89%
Coverage		
1	Villages Coverage (%) (210/264 Villages)	80%
2	Target Beneficiaries Coverage (%)	55%
Micro Finance Activities		
1	Total Share Capital Rs. (in lakhs)	NA
2	Total SHGs Savings Rs. (in lakhs)	76.37
3	Cumulative Loan Disbursed (691 SHGs) Rs.	250.72
4	Loan outstanding (as on 15 th Feb'05) Rs. (in lakhs)	89.83
5	SHGs per staff (#)	72
6	Loan outstanding per staff Rs. (In lakhs)	7.48
7	Avg. Loan Size Rs.	22,510
8	Interest charging by Federation	12%
9	Active Loan Repayment Rate (internal)	86%
10	Current Loan Repayment Rate (internal)	92%
11	Loan Repayment Rate (external)	100%
12	Portfolio at Risk - PAR>90 days	10%
13	Portfolio at Risk - PAR>180 days	6%
14	Portfolio in Arrears-PIA>90days	8%
15	Required Loan Loss Reserve	3.7%

Financial Ratios (as on 31st Dec'2004)		
1	Yield on Portfolio – YOP	12%
2	Financial Cost Ratio – FCR	9%
3	Operating Cost Ratio – OCR	12%
4	Operational Self Sufficiency – OSS	109%
5	Adjusted OSS (after only salary adjustment)	92%
6	Financial Self Sufficiency – FSS	60%
7	Return on Assets – ROA	1%
8	Return on Equity – ROE	3%
9	Idle Funds Ratio – IFR	5%
10	Capital Adequacy Ratio – CAR	27%
11	Loan Outstanding Vs Total Assets	90%
12	Loan Loss Provision - LLP (provided in Financial Statements)	1%
Non-financial services to SHGs		
1	Bank Linkage (thru federation)	Good
2	Training (SHGs, EC and staff)	Good
3	SHGs' monitoring (covering of all SHGs)	Moderate
4	SHG Grading	Excellent
5	SHG Auditing	Moderate

5. Organization Background

In the year 1998, the District Administration of YY, started as an action research program in federating available SHGs in the Block to provide a forum to women to come forward to solve their own problems of life and living. To address the issues of poverty and low income of women and to bring in a radical change in society as well as in the life of the rural women, District Administration of YY envisaged a credit and thrift activity based on formation of SHGs on mutual help. The underlying principle behind the plan was to uplift women socially and economically and restore in them an amount of self-respect. The process was put into action on pilot basis in the year 1998. To cater to the financial needs of the SHG members, the district administration has decided for strengthening of block level peoples' institution comprising representatives of each SHG with a name called MASS (Mahila Sanchayika Sangha). As a part of this process, the Block Mahila Sanchayika Sangha, ZZ came into being on 6th March 1999 and was registered under Societies Registration Act of 1860.

In the month of February 2002, The District Advisory Committee requested to GG to conduct a rapid study in the potential Blocks including ZZ Block to find possible partnership with the Block MASS. Based on their request and felt need of various stakeholders, the XX team was done the in-depth study using a scientific Capacity Assessment Tool in ZZ Block during March, 2002. Then the XX explored possible areas to collaborate and entered formal MoU with Block level MASS, ZZ on 12th June 2002.

The ABC MASS, ZZ has been working with XX for past three year. The block consists of 25 Gram Panchayaths and 254 revenue village out of which 44 village are either in habited or haring less than 10 family. Again a good number of villages situated in interior hilly pockets. Nearly 23% of the habitants of this block belong to schedule caste and schedule tribe. The ABC MASS is working for promoting financial discipline austerly and inculcating the habit of circulating women's hard, earned money and savings among themselves and if required to provide banking facilities to its members and to enhance status of women in their family & community; to empower women for participating in all sphere of developing through education training and collective social action reflections and to work for achieving the legitimate right of women & to provide legal support to protect their rights.

Vision:

“A Block where women live by toil with self respect and dignity are equal with man in all sphere of life and master of their destinies and have come together with mutual help to find solutions to their problems of life and living “

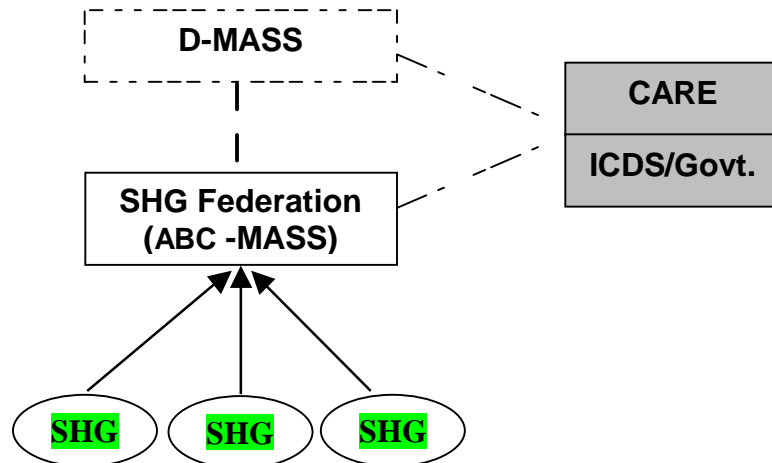
Mission:

To make women self-dependent through savings and credit program

Goal:

To provide quality micro-finance services to 12,000 women by the year 2006 by ZZ MASS, so that they will increase their income and economic security.

Organization Structure



The Role of D'MASS

District Mahila Sanchayika Sangha (D'MASS) is a district level federation (informal association of all block level MASS) formed with the representatives from 23 Block level MASS in the YY Dist. The D'MASS is registered under Societies Registration Act 1860. The Board consists of executive committee (7), who are selected from the MASS president or secretary. Apart from EC exist one advisory committee consists of Dist Collector who is the Chairman for the advisory committee, President of D'MASS (elected member), Lead Bank Manager, ICDS Director, Project Director-DRDA, AGM- NABARD, District Social Welfare Officer (DSWO) and GG Partnership Coordinator. The active role D'MASS level is taken by the advisory committee related to make policy decision, review performance of ABC MASS, monitoring and staff (Project Managers) review and feedback. The progress data collects from all ABC MASS and consolidates the data every month. It provides feedback on based on performance as well as limited Capacity Building support to ABC MASS.

6. Findings

6.1. Governance

6.1.1. Quality of Board

The ABC MASS, ZZ shows a high level performance of Governance and receives a letter grade of 'A'.

The SHGs enrolled as members shall constitute the Governing Body (GB). One of the leaders from each SHG will represent in the Governing Body. The Executive community shall elect from the Governing Body. The Executive Committee (EC) of the MASS shall constitute of 14 members. Out of which 11-members shall elected by the Governing Body and remain three members shall be nominated they are BDO, CDPO and Financial Banker. The elected EC elects the President and Secretary of the EC. The EC will be elected every year in rotation basis. The election of GB and EC is democratic basis.

Board rotation

According to byelaw, the Executive Committee will rotate every year. In ABC MASS the EC (11 elected members) replaces with new members every year. The newly elected board will take significant time to understand the ABC MASS activities and its operations. Some time it will take a year to the board for self-management, by that time the board will change. So that, the new board initial days automatically depends on staff for decisions. The nominated three members are playing as social pressure group to avoid staff domination in decisions. This is not advisable practice to replace entire board with new members in every year. It would be better to fix board tenure at least two to three year.

The Board has good representation from all social classes and geographical area. The Board meets twice in a month (1st and 25th) to manage the ABC MASS. In the first meeting, the board discuss about ABC MASS performance and screen the loan applications and in the second meeting the board collection and sanctions loans. The Board has good clarity on the objective, goals, vision, mission, roles, responsibilities and functioning of ABC MASS. They have reasonable good knowledge on the performance of the member SHGs. But most of the board members have very good knowledge about their own village SHGs performance. Out of 11 members, three board

members are unmarried. The un-married members are very articulated and have good understanding about ABC MASS and its functioning. The board actively contributes to the governance of the ABC MASS. The effective leadership lies in the hands of board and staff (managerial staff incl. the Project Manager and field staff). Indeed, although there is a good relation between the board and management, the board tends to rely overly on management to make decisions and take the lead on initiatives. Such excessive reliance on management results from the young age of the board. As the board members are highly motivated and involved in the mission of ABC MASS and as they mature in their position of board members, this over-reliance should decline. The board has complete trust on the staff. The Board takes good interest in participating in the meetings of the ABC MASS and all the members display interest to know and understand the operations, which is reflected in attendance (89%) in meetings.

Blank Cheque Signing

The office bearers (President and Secretary) have the cheque power. It was observed during the assessment that the President and Secretary both signed blank cheque book. This might be dangerous. Though the board has complete trust on staff, there is a scope for misappropriation of cheques. The decision regarding loan disbursement would be taken by staff in consultation with the board. The staff felt that the blank cheques signatures are for operational convenience to avoid office bearers' frequency trips to ABC MASS office.

The Board has good awareness of the External Financial resources (RGB and Govt. Grant) mobilized to ABC MASS. ABC MASS has put in considerable efforts in the area of external linkage, and have good relations with the block level line departments. The ABC MASS is proactive in working with Govt. in the Block and has formally collaborating with the Bank and Block Office.

Self-reliance: The ABC MASS is currently dependent on Promoter (XX and Govt.) for financial (for staff salaries), technical support (training and evaluation). The Boards are self-motivated at both levels – ABC MASS and SHGs and seem to be capable of resolving conflicts among themselves i.e. within the ABC MASS framework. Till date there have been no instances of serious conflicts. The Board members and the staff expressed that they can manage the current level of activities.

The Board members feel that they require the services (financial and technical) of the promoting (Govt.) and Supporting (XX) institutions for at least 5 more years.

6.1.2. Legal Compliance

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. Election for replacement of board and the position of President is held regularly, on time. The assessment team understands from the promoter that the ABC MASS annual returns as required by the SRA, 1860a re 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 ABC MASS is still in developing stage.

6.1.3. Expansion strategy.

ABC MASS has employed a very rapid expansion strategy as is apparent increase in membership (3,800 members as on March 2002 and 9,224 members as on 31st Jan'05) and loan outstanding

(17.36 lakhs as on March 2002 and 89.83 lakhs as on 10th Feb'05). If the It has managed to do this while retaining its focus on quality operations and sustainability. The ABC MASS has adopted very simple procedure to join an SHG in ABC MASS. The SHG has to pay membership and savings. With a view to meeting the increasing member credit demand, it has raised loan amount (small enterprise loan), which is aiding the rapid expansion. The ABC MASS has focus on sustainability and looked upon as profit centres with all major costs being tracked. The ABC MASS has to improve vertical and horizontal expansion. An issue of concern is the relatively low in product (savings, loan and insurance) expansion.

6.1.4. Member (or SHG) satisfaction

Member ABC MASS are not fully satisfied with the ABC MASS s they were offered limited credit and savings facility. Member ABC MASS Board is happy with the future prospects of ABC MASS and support they would get in terms of bargaining power with Govt. agencies and bank linkage for credit.

6.2. **Resources**

The ABC MASS demonstrates a good performance in Resource Mobilization & Utilization and receives a letter grade of 'A-'.
3

6.2.1. Human Resources

The managerial staff at the ABC MASS office is composed of a Project Manager, Project Officer and MIS cum Accountant and at field level four SHG promoters and four SHG Animators. The managerial staff also works in field. Their role is to ensure the smooth execution of the operations and the implementation of the decision made by the Board.

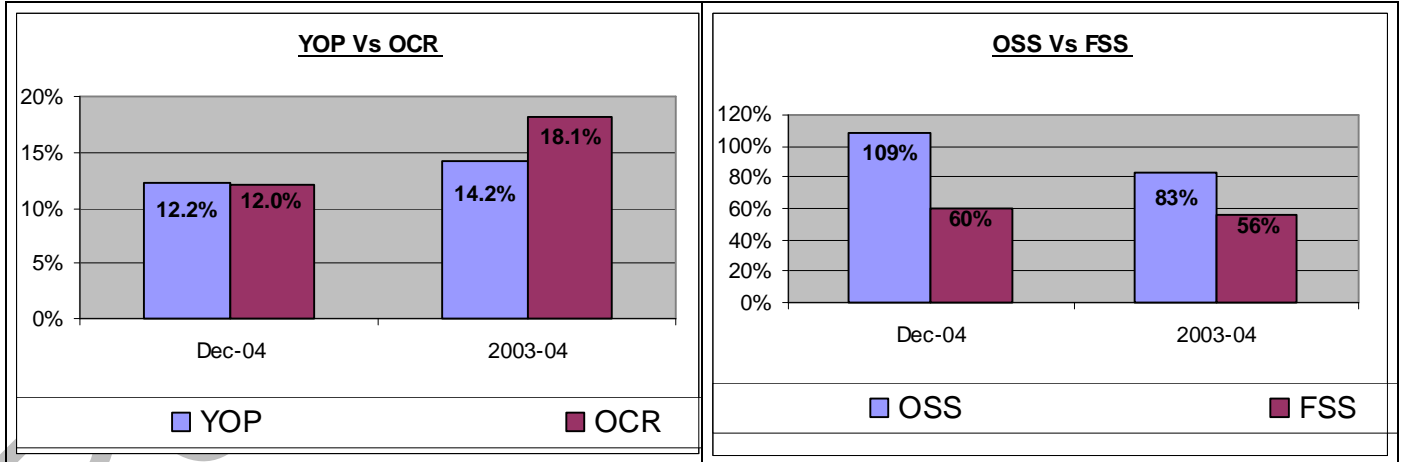
The staff is motivated and committed and has good experience in the field. The staff has good experience (more than 2 years) in community mobilization. The staff qualified and having good social work skills. All the staff full time employee and 50% local people. The managerial staff has good competence in accounting and preparation of statements. They are well aware of the strengths and weaknesses of ABC MASS in this period of fast growth and are highly willing to learn from external observers and opened to external assessment. Trainings for field staff in these areas would be extremely useful. So that, the staff can performs their work efficiently. The considerable of their time is spent in writing the books of accounts of the groups and conducting meeting. The project manager from ICDS is monitoring and review staff performance. Except the Project Manager, all the staff salaries are given by GG project through ABC MASS.

6.2.2. Financial Resources

The ABC MASS has to utilize its financial resources optimally and also the external resources available. ABC MASS has its funds from members in the form of membership fee, compulsory savings, voluntary saving and external loans (RGB and DRDA Grant). The ABC MASS has mobilized Rs 7.67 lakhs towards compulsory savings from members and more than one crore from RGB from inception. The ABC MASS has approx Rs 10,400/- of funds available per SHG.

Repayment Rate of external loans is 100% and the outstanding balance is 62.84 lakhs The Capital Adequacy Ratio is over 33%. The ABC MASS still has leverage capacity borrowings from

financial institutions. The ABC MASS has reasonable high percentage of average idle funds (5%).



The asset composition (as on 31st December, 2004) of ABC MASS is very good with about **90% of its total assets deployed in loans**. On the liability side, the organization has relied mainly on bank loan (71%) for loan funds.

6.3. **Asset Quality**

The ABC MASS shows good performance in the area of Asset Quality and receives a letter grade '**A+**'.

The cumulative loan repayment of ABC MASS stands at 96%, current repayment rate is 92% and active loans recovery rate (active loans) is 86%. The recovery rate is reasonable good. The ABC MASS is following loan scheduling, loan monitoring and follow up. The members did not following loan scheduling because they do not have regular income sources to repay. But majority of loans will be paid a stipulate time. The average loan size is 22,500. Its present outstanding portfolio is of Rs 89.83 lakhs (as on 10th Feb'05) and the cumulative amount disbursed up to January 31, 2005 amounts to Rs 2.51 crores.

The Portfolio at Risk (PAR), calculated for more than > 90 days (PAR_{90 days}) is around 10%. The Portfolio in Arrears (PIA) at >90 days is 8%. But the PAR_{>1 day} is 37%, so it indicates that majority of loans are delinquent one or two months. But, the PAR_{>1year} is high (4%). It indicates ABC MASS has long pending over dues. Though, the ABC MASS has loan tracking mechanism the loan delinquency rate is quite high. The staff is concentrating more on current loans only. The MASS has to implement strict loan monitoring and follow up. The ageing analysis as follow:

Classification of PAR and PIA

Ageing	PAR	PIA
>1 day	37%	12%
>30 days	20%	10%

>60 days	15%	9%
>90 days	10%	8%
>180 days	6%	6%
>365 days	4%	4%

The ABC MASS lends to its members for production as well as for consumption purposes. The MASS has reasonable good distribution of loan to different sectors. Major portion of the loan portfolio (about 50%) is for micro enterprises (leaf plate, business, bamboo, hotels, paan shops, grocery stores etc.). The ABC MASS has also given considerable loans to the agriculture sector (about 40%) and for animal husbandry. The significant percentage of loans for the micro-enterprises is note-worthy, and reflects either the absence of agricultural opportunities due to drought or increased livelihood opportunities within the block.

ABC MASS has maintaining present formal loan loss provision is 1%. The loan loss provision is not sufficient to cover present risk of the portfolio. The institution has to increase the provision up to 3.7% of total loan portfolio.

6.4. **Design and implementation of Systems**

The ABC MASS shows an excellent performance in the area of design of systems and implementation a receive letter grade 'A'.

6.4.1. Accounting and Documentation System

The accounting systems and procedures in the ABC MASS are well laid out and maintenance and updating and accuracy of records are excellent. The ABC MASS is maintaining all required books of accounts. 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 generates vouchers/receipts for all transactions which are recorded in the cashbook, posting into ledgers and financial statements prepared from the ledger. Except loan details, the accounting system at ABC MASS is manual. Recently, the promoting organization (GG Project) introduced the computers in ABC MASS and is planning to computerize the financial accounting system. Loan related payments and disbursements are done through computerized. The present computer package **famies** that is developed and marketed by KK is tracking all loans and generating any kind of loan reports. The staff (animators) spends considerable time in maintaining SHG level records and updated the records. Presently, ABC MASS prepares all consolidated financial statements and necessary reports are generated through computer.

The process, procedures, reports and files are well documented. Documentation used for governing the institution includes ABC MASS's own strategic plan, the annual business plans, training reports and XX review and internal audit. The monthly reports are the key tool for monitoring staff performance. They are of good quality and include enough statistics to convey a realistic picture of the performance of ABC MASS. For example, they include actual compared with expected results, but could nevertheless be improved by including more analysis to explain the numbers.

6.4.2. Information Systems

The ABC MASS maintains records and necessary information related to meetings (minute's book) and borrower profile.

The top down and lateral information flows are weak. Minutes of the ABC MASS Board meeting in circulated to all member. The assessment team felt the need for improving the information flow from between ABC MASS to SHGs. While the policies and decisions taken by the ABC MASS are being communicated to the SHGs and their members. 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. Staffs record the financial information of the SHGs. All staff has an action plan (i.e. tour schedules), and the Board strictly reviews the implementation of the same. The ABC MASS is preparing annual cash flow statements, and moderate level budget vs. expenditure statements preparing, and reviewed by the Board. Report formats are uniform and standardization. Loan applications and promissory notes are maintained and filed properly at the ABC MASS. The Assessment Team understands that XX, the supporting organization, purchased a computerized MIS package, which would not integrate the accounting, portfolio analysis, MIS, member wise tracking and staff monitoring.

6.4.3. Internal Control Systems

The control mechanisms in terms of internal audit, financial planning, micro credit plans, and budgeting etc mechanisms are satisfactory in ABC MASS. The Cash flow statements are prepared sometimes only. These types of statements are prepared regularly for XX.

There is computerized overdue tracking system in place. Using available technology, the ABC MASS preparing overall consolidated aging analysis. The statements shows us loan over dues and period of over due from the statements. The progress reports are prepared manually every month for each staff. As the regards the loan from ABC MASS to SHGs, the entire loan is to be repaid in approximately 10-20 monthly installments. The loan from SHGs to members is same or more installments. These are formal loan repayment schedule for each loan. At the ABC MASS 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 ABC MASS Board in consultation with staff sanctions a new loan to the SHG, immediately (i.e. same day) after settling the current loan. So, loan tracking of overdue becomes a relatively easy task.

Since inception, qualified Chartered Accountants audited the ABC MASS accounts. Through XX, the books of accounts internally audited regularly.

The manual progress reports are prepared every month for each SHG. These are then consolidated to prepare the monthly consolidate sheet (i.e. monthly progress report). Staff shares these statements with the Board and chalk out an action plan

6.4.4. Operational Process

SHG Grading and Staff Review System:

With initiative of XX, SHG Grading and Staff review system are in placed. All member SHGs in MASS will be graded by the staff with well define indicators. The Grading of staff and APMAS grading of sample six SHG are similar. The grading system is critique and transparent. The rated sheet will keep one copy at SHG level and another will file at MASS.

The Project Manager will review field and managerial staff every month. The review mechanism structured well defined and practicing well. The staff also feels that it would help in staff development through feedback based on performance. The XX Partnership Coordinator is also participating in the review. He gives technical inputs to enhance staff skills.

The ABC MASS operational processes for SHGs are clearly defined and following strictly. There is free entry and free exit policy. An SHG may join with paying Rs. 100/- towards membership fee and compulsory thrift. The SHG may withdraw any point of time. At time of withdrawing of SHG, the SHG should pay loan amount with interest and the ABC MASS will pay the total member thrift with nominal interest on thrift.

6.5. Efficiency and Profitability

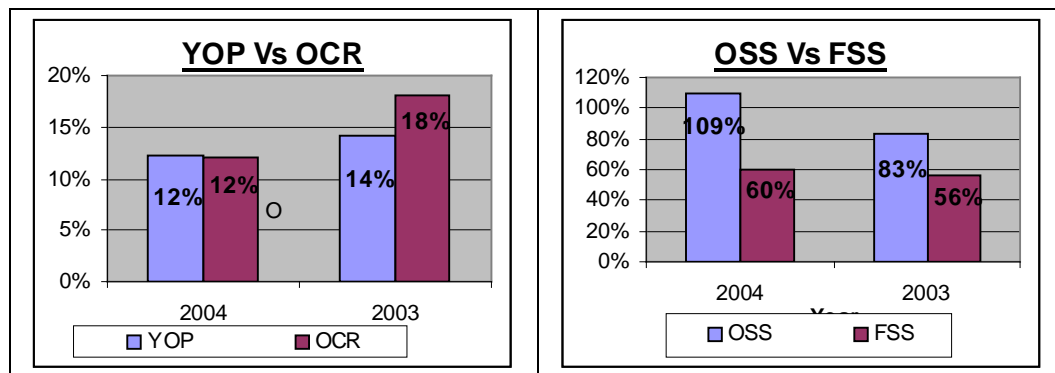
The ABC MASS shows reasonable good performance in Efficiency and Profitability related aspects and receive into a letter grade of 'B+'.

6.5.1. Staff productivity

The staff productivity in terms of number of SHGS managed per staff is 72 with 7.34 lakhs loan outstanding. The staff are managing high amount of loan outstanding. It reflects high productivity of staff in terms of SHGs, loan outstanding and recovery.

6.5.2. Profitability and Sustainability (as on 31st Dec'05)

Thus, the operating cost ratio is low at 12% (including Financial Cost). The cost efficiency has improved significantly from the last year (18.1%) The good performance on profitability is more a function of good yield on portfolio (12.2%). However, as the ABC MASS grows further and stabilizes at a certain level of operations, the profitability position is expected to improve further. At the same time there may be pressures on the interest rates charged by ABC MASS. Therefore, needs to determine a strategy to attempt to bring down its operating costs even while maintaining the quality of operations. The ABC MASS is bargaining with banker to reduce the interest rate charged by Bank.



The ABC MASS financial sustainability in terms of its independence from subsidies (operational grants) and its return on average assets is reasonable low. ABC MASS Financial Self-Sufficiency at 60% and return on assets at 0.7% are all-low. Similarly, the Operational Self-Sufficiency (OSS) ratio is good at 109%. This indicates that the ABC MASS is operationally self-sufficient. The low cost of operations and reasonable good yield on portfolio led the institution make it operationally self-sufficient. While the performance on these aspects is good, it has not improved significantly from the last financial year (i.e.83%). The main reason for this has been the rapid growth in loans that has not allowed costs to come down significantly.

*The financial performance of micro finance operations is shown in the statements give in **annex**.*

QA Report



6.6. **S**ervices to the SHG and development Initiatives

The ABC MASS showed a moderate level of performance in services to the SHG and development initiatives and received a letter grade of 'B'.

6.6.1. Financial products

The ABC MASS offers both compulsory savings and loans to its member SHGs. Board does not decide the interest rate on savings. Apart from savings and credit no other significant financial services to its members. There is a greater demand for diversified saving and loan products to its members.

The ABC MASS is offering insurance product to its members through District Mahila Sanchayika Sangha (D'MASS). The scheme is open for all the members, any member can join by paying Rs. 50 per annum. The response from members is good covered 60% members are enrolled into the scheme. The existing insurance scheme covers accident death (Rs. 20,000) and natural death (Rs. 10,000).

6.6.2. Non-financial Services

The ABC MASS is offering non-financial services like bank linkage, monitoring, training, internal auditing and grading. The SHG bank linkage is not directly linked to SHGs, through ABC MASS providing bank finance to the SHGs. Each staff is monitoring more than 70 SHGs in a month. So that, staff is not able to monitor close each SHG. The SHG grading system is excellent, every six months regularly doing SHG grading. According to their internal SHG grading, 45% SHGs are in A Grade 30% in B, 20% in C and remain (5%) in D Grade. But there no formal SHG internal auditing system like grading system.

6.6.3. Social Initiatives

The ABC MASS has been successful in establishing good functional relationships with all the block line departments. The ABC MASS members have participated in all the major Govt. development and welfare programs. The SHGs have performed in participating in social activities like family planning, adult education, pulse polio health and nutrition. The impact of development initiatives is not satisfactory level. The literacy level of members is not improved significantly, majority of members still are not able sign.

6.7. **S**HG Performance

The MASS showed a moderate level of performance in the SHG performance sector and received a letter grade of 'B+'. The performance level of SHGs is lesser than the performance of ABC MASS.

The SHGs, with an average membership of 10 to 15 are homogenous with 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 90% 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 ABC MASS. This understanding of the members is not utilized properly as the contribution of the SHGs to the maintenance of the federation.

Meetings are monthly and on an average regularity of meetings conducted in the past 12 months is 93% and attendance also similar is 92% in the meetings conducted. Regularity of savings is 77% on average with average idle funds (in hand and in bank) of 3.6%.

Book keeping in SHGs is maintained properly but some gaps are continuing. The meeting minutes and all the accounting books are maintained. All expenditure incurred and income earned is not reflected in the financial statements.

Velocity of internal lending on an average is 1 times the total corpus, indicating that the corpus is being rotated once in a year. Repayment rate of external borrowings is 88% in average of assessed six SHGs.

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 but internal loans not paying the monthly basis still external loans (ABC MASS loans) repay the monthly. Striking feature is all the loans that are given are for production and Agriculture purposes. The average loan size is Rs 3,249 to individual member. This average loan size makes it difficult for the SHG members to utilize the available credit for productive asset creation.

Praying the best practices

The ABC MASS has recently introduced best practices prayers, which are developed by XX. Before meeting starts, SHG has to pray these ten things.

1. We will hold meeting regularly and attend the meeting.
2. During the meeting only we will deposited our savings and loans amount.
3. We shall abide the rules of ABC MASS and SHG.
4. We will be literate and to send our children to the school.
5. We will make plantation and to take GG of that plant.
6. To avail loan and repay on time to ABC MASS and SHG with principal & interest.
7. We will utilize our loan for Income Generating Activities.
8. We will clean our home and environment.
9. We will free from intoxicants to our home and village.
10. In the time of distress we will mutually help each other.

For internal lending of their own savings and funds, there is no fixed loan scheduling the last installment is the dead line for repaying the loan. The SHGs average Portfolio in Arrears (PIA > 90 days) of 23% and average Portfolio at Risk (PAR > 90 days) is 31.5%, here more concentration required. While majority of the SHGs not perform well in terms of portfolio quality. Significant number of SHGs has not been paid their internal loans from more than six months.

Loan Quality (aging analysis)	PAR	PIA
>1days	45.5%	26.7%
> 30 days	36.0%	25.8%
>60 days	34.7%	25.0%
>90 days	31.5%	23.1%
>180 days	23.9%	18.7%
>365 days	4.1%	3.7%
* Portfolio at Risk – PAR		* Portfolio in Arrears-PIA

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 moneylenders at time of need.

The participation of members in Govt. development and welfare programs are not satisfactory level. The SHGs limited participate in social activities like and, health & hygiene and child education programmes. 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.

7. Recommendations

For the promoters (Govt.) and supporters (XX)

- The entire EC members replaced with new members in every year. The ABC MASS needs **to revise the bye-law** to fix board tenure at least 2-3 years. Then, there is a possibility to have old board members not only to support new board members but also to manage effectively ABC MASS activities without depending on staff. And same time the existing legal form is not appropriate form to do large level of micro financial activities. So that the promoter and supporter should **explore possible legal entity** (such as NBFC or new generation mf act) which will enhance ABC MASS ability to leverage large scale main stream funds and to improve quality of operations.
- To run ABC MASS effectively with self management, there is greater need for **impart capacity building** for the board members on ABC MASS management, financial statements, Customized MIS and legal aspects; for staff on ABC MASS operations, Control Systems, MIS, Risk Management, and Institutional Sustainability, Legal Procedures and Livelihoods.
- The ABC MASS needs at least two-year **financial support** and three **technical supports** from XX to become organizational and financial self-sufficient.
- XX has lot of experience in micro finance and participatory techniques. It is better to develop **participatory monitoring system** for the staff.

For the MASS:

- ABC MASS should **avoid signing on blank cheques** by office bears. There is scope for misutilise.
- **Two way communication**, instead of the current bottom-up only data transfer, would help in SHG members being more aware about the MASS functioning
- The ABC MASS should offer existing non-financial services to constituent groups on a **fee-for-service basis** in order to sustain the MASS. **Suitable saving and loan products** need to be designed as per the SHGs and need of the SHGs.
- The ABC MASS is better to develop **linkage with more than one Bank** or other Financial Institutions (FIs) to meet credit demand of the members and have diversify funds sources

- At present, the ABC MASS working with 867 SHGs and the numbers of SHGs definitely will increase. Managing the huge of SHGs and providing close monitoring support is very difficult in the future. So the ABC MASS better to decentralize the functions by **splitting two federations or creating braches**.
- There reasonable good **recovery performance** at ABC MASS level still there is a need to improve the performance. But the SHG levels should be improved through regular monitoring and follow up, by strengthen the Default Management Committee and promoting diversified livelihoods
- The current financial self-sufficiency is 60%. To become **fully financial self sufficient**, ABC MASS should increase the volume of loan with respect to each loan and increase its on-lending interest rate; and Mobilizing Seed Capital (grant) from any Donor.
- Concentrate member education in SHGs and SHGs have to **impart orientation on SHG** concepts and ABC MASS activities.
- **Use Poverty Index** as criteria for selection of ultimate clients (for coverage of Poorest of the Poor) and Mobilizing Seed Capital (grant) from any Donor.

For D'MASS or District Officials

- Develop a **"Capacity Building Resource Center"** at D'MASS level to strengthen ABC MASSs' and SHGs
- The XX supporting federations have greater possibilities to make 'Model Federations'. So, make **"Model federation (MASS)"** to spread best practices through out the district
- There no control on SGSY subsidy loan, which are given by local, banks directly SHGs without MASS consultation. SGSY subsidy loan received SHGs no need of MASS loan. Keep in view of financial sustainability of federation, the **SGSY subsidy loans should be routed through ABC MASS**. The subsidy amount will remain with ABC MASS and have close control of ABC MASS on SHGs.
- The Regional Rural Bank is providing bulk lending to the federations. Based on credit demand, every month the federations is approaching bank, the banks are appraising the SHG loan application and sanctioning within a month. Instead of approaching every month to the bank, the bank should provide **Cash Credit facility** for credit worthy federations.
- **Develop operational manual** related to accounting & book keeping, internal control system, credit policy, overdue tracking, MIS and training.

Annexure – 1 : Financial Statements**Income Statement**

Particulars	Dec-05	2003-04	2002-03	2001-02
OPERATING INCOME	Amount in Rupees			
Interest and fee income from loans	594,124	557,017	207,281	62,218
Income from other finance-related services	17,000	12,728	13,796	3,450
Income from investments (incl. bank Interest)	4,714	11,247	8,897	6,444
Sales of records	5,297	1,962	100	1,370
Other Income	20,341	10,204		
Total Operating Income (a)	641,476	593,158	230,074	73,482
OPERATING EXPENSES				
Interest and fee expense	282,797	204,694	93,561	26,725
Loan loss provision expense		95,398		
Personal Expenses	113,574	179,210	81,126	
Administrative expense	188,799	234,262	75,459	25,432
Other operational expense	2,550	50		
Total Operating Expenses (b)	587,720	713,614	250,146	52,157
Operating Surplus/(Deficit) (c)=(a-b)	53,756	(120,456)	(20,072)	21,325
NON-OPERATIONAL INCOME				
Cash donations (Recurring Grants)	283,796	531,652	392,248	
Other non-operational income				
Total Non-Operational Income (d)	283,796	531,652	392,248	-
Non-Operational Expenses (e)	560	926	107,675	
Total Surplus/(Deficit) (f)=(c+d-e)	336,992	410,270	264,501	21,325

Balance Sheet

Particulars	Dec-04	2003-04	2002-03	2001-02
ASSETS	Amount in Rupees			
Cash Balance	33,647	13,276	30,654	33,071
Bank Balance	420,259	460,187	860,513	456,828
Advances				
Short-term investments				
Total loan portfolio	7,976,846	5,049,307	2,816,847	1,679,033
Other short-term assets	90,886	54,282	7,350	31,317
Long-term investments				
Fixed assets	292,847	277,347	128,097	24,815
Total Assets (g)	8,814,485	5,854,399	3,843,461	2,225,064
LIABILITIES				
Savings accounts: compulsory	768,590	492,200	234,490	95,290
Savings accounts: voluntary				
Members SB Account				
Death Relief Assurance (DRA)				
Loans: commercial	6,283,824	3,929,256	2,728,135	1,494,571
Loans: subsidized				
Loans: Other				
Other short-term liabilities	20,477	8,000	4,200	
Total Liabilities (h)	7,072,891	4,429,456	2,966,825	1,589,861
EQUITY				
Paid-in equity from shareholders				
Donated equity -- prior years (cum.)	628,800	610,000	610,000	
Donated equity -- current year (RLF)		18,800		610,000
Surplus/(Deficit) -- prior years (cum.)	700,745	290,475	2,135	3,878
Surplus/(Deficit) -- current years	336,992	410,270	264,501	21,325
Reserves/Provisions	75,057	95,398		
Other capital accounts				
Total Equity (i)	1,741,594	1,424,943	876,636	635,203
Total Liabilities & Equity (j)=(h+i)=(g)	8,814,485	5,854,399	3,843,461	2,225,064

Common Size Balance Sheet

Particulars	Dec-04	2003-04	2002-03	2001-02
ASSETS	Amount in percentage			
Cash Balance	0%	0%	1%	1%
Bank Balance	5%	8%	22%	21%
Advances	0%	0%	0%	0%
Short-term investments	0%	0%	0%	0%
Total loan portfolio	90%	86%	73%	75%
Other short-term assets	1%	1%	0%	1%
Long-term investments	0%	0%	0%	0%
Fixed assets	3%	5%	3%	1%
Total Assets (g)	100%	100%	100%	100%
LIABILITIES				
Savings accounts: compulsory	9%	8%	6%	4%
Savings accounts: voluntary	0%	0%	0%	0%
Members SB Account	0%	0%	0%	0%
Death Relief Assurance (DRA)	0%	0%	0%	0%
Loans: commercial	71%	67%	71%	67%
Loans: subsidized	0%	0%	0%	0%
Loans: Other	0%	0%	0%	0%
Other short-term liabilities	0%	0%	0%	0%
Total Liabilities (h)	80%	76%	77%	71%
EQUITY	0%	0%	0%	0%
Paid-in equity from shareholders	0%	0%	0%	0%
Donated equity -- prior years (cum.)	7%	10%	16%	0%
Donated equity -- current year (RLF)	0%	0%	0%	27%
Surplus/(Deficit) -- prior years (cum.)	8%	5%	0%	0%
Surplus/(Deficit) -- current years	4%	7%	7%	1%
Reserves/Provisions	1%	2%	0%	0%
Other capital accounts	0%	0%	0%	0%
Total Equity (i)	20%	24%	23%	29%
Total Liabilities & Equity (j)=(h+i)=(g)	100%	100%	100%	100%

Annexure – 2: Growth of ABC MASS

#	Particulars	March, 2002	March, 2003		March, 2004	
		Figures	Figures	%	Figures	%
1	No of SHG's formed	347	579	67%	775	34%
2	No of SHG's enrolled in ABC MASS	207	436	111%	641	47%
3	No of SHG's available loan	179	416	132%	553	33%
4	Promotional management	197	265	35%	610	130%
5	Financial management	90	225	150%	388	72%
6	No of members	3,800	6,620	74%	8,864	34%
7	No of members in enrolled SHGs	2,122	4,594	116%	7,116	55%
8	No. of loans (active loans)	1,790	4,160	132%	7,324	76%
9	Registration fees collected	10,350	21,800	111%	34,150	57%
10	Saving deposited with ABC MASS	90,090	227,900	153%	490,010	115%
11	Service charges realized	59,416	266,318	348%	736,059	176%
12	Total saving mobilized	542,730	2,037,325	275%	4,697,277	131%
13	Total disbursement	2,557,800	6,091,800	138%	14,617,800	140%
14	Principal realized	821,606	3,364,414	309%	9,568,495	184%
15	Loan outstanding	1,736,194	2,727,381	57%	5,049,305	85%
16	Fund received from Bank	1,780,360	3,357,360	89%	5,752,000	71%
17	Total Loan repaid to Bank	-	751,929	NA	2,574,883	242%
18	Balance to be paid to Bank	1,780,360	2,407,941	35%	3,659,912	52%

Annexure – 3: Loan Analysis

Repayment Rate	Internal	External
Loan Outstanding	8,983,620	7,003,794
Loan Disbursement (a)	15,644,477	10,021,000
Cum. Principal paid (b)	6,660,857	3,017,206
Prepayment Amount (c)	501,570	12,977
Schedule to pay (d)	7,199,909	3,102,644
Repayment Rate (e)=(b-c)/d	86%	97%
Prepayment % (f)=c/a	3%	0%

Portfolio Quality Analysis (Aging Analysis)	PIA	PAR
>1day	12%	37%
> 30 days	10%	20%
> 60 days	9%	15%
> 90 days	8%	10%
>180 days	6%	6%
> 365 days	4%	4%

Loan Loss Provision (LLP)	Overdue Principal	LLP amount
Days & Risk Percentage		
1-30 days - 1%	1,554,024	15,540
31-60 days - 2%	474,836	9,497
61-90 days - 5%	400,657	20,033
91-180 days - 15%	321,015	48,152
181-365 days - 25%	203,332	50,833
> 365 days - 50%	378,214	189,107
Total		333,162
Loan Loss Provision (%)		3.7%

Annexure – 4: Important financial ratios

Particulars	Dec-04	2003-04	2002-03	2001-02
Total funds available per member SHG	10,418	8,701	8,521	10,629
Idle Fund to Total Assets	5%	10%	23%	22%
Capital Adequacy Ratio (CAR)	27%	33%	35%	41%
SHGs per staff	72	78	72	43
Avg. O/S/staff annual salary	29	13	11	17
Yield on Portfolio (YOP)	12%	14%	9%	4%
YOP to Annualized Percentage Rate	101%	118%	77%	31%
Administrative Efficiency	9%	14%	12%	7%
Operational Cost Ratio (OCR)	12%	18%	11%	3%
Personnel (vs) Admin Expenses	109%	118%	211%	237%
Operational Self Sufficiency (OSS)	109%	83%	92%	141%
OSS after Salary Adjustment	92%	71%	62%	50%
Financial Self Sufficiency (FSS)	60%	56%	38%	20%
Return on Assets (ROA)	1%	-2%	-1%	1%
Return on Equity (ROE)	3%	-10%	-3%	3%
Loan Loss Ratio	1%	2%	0%	0%
Total O/S : Total Assets	90%	86%	73%	75%

Annexure – 5: Systems and implementation

Accounting system		
1	Regular updating of records & books	
1.1	Payment Vouchers	Excellent
1.2	Receipt Vouchers	Excellent
1.3	Loan Application	Excellent
1.4	Promissory Note/ Inter-se agreement	Excellent
1.5	Cash Book	Excellent
1.6	Loan Ledger (member SHG/VO wise)	Excellent
1.7	General Ledger	Good
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	Good
2.7	Loan Ledger	Good
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)	Good
7	Monthly/Quarterly Progress Report vs Plan	Good
8	Budget vs Actual	Moderate
Internal Control Mechanism		
1	Default Management Mechanism	Good
2	Physical verification of cash	Excellent
3	Internal Audit	Good
4	Staff Review	Good
5	Exiting process for SHGs	Strictly followed
6	Loan sanctioning process	Strictly followed

Annexure – 6: Glossary

1. **Repayment Rate** (active loans):
Calculated for all active loan accounts and is the “principal recovered (net of pre-payment) to “principal due (or schedule to pay or demand)” as on the date of calculation
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:**
Ratio of financial cost, salaries, travel, administrative costs and depreciation expenses to the average loan portfolio
5. **Yield On Portfolio:**
The interest income on 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.

Annexure – 7: 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