



Ganesha Microfinance Foundation (Ganesha)

Tangerang, Indonesia

<p><1ST Rating Update> Rating Grade</p> <p style="text-align: center;">α Alpha</p>	<p>Assessment: High safety, good systems highly recommended</p>
<p>Visit dates: 24-28 July, 2006 Operational head: Mr Shafiq Dhanani</p> <p style="text-align: center;">Maximum validity of rating*: till July, 2007</p>	

Rating

Ganesha has improved its performance on all parameters as compared to the last rating. It has a strong Board and two microfinance experts have been inducted to it since the last rating. The strength of senior management has improved, however, the strength of the second line of management is still not adequate. The organisation's operations are transparent and its growth plans are well laid out.

Ganesha has improved its performance on managerial parameters with the inclusion of a specialist internal auditor. Its accounting and MIS are reasonable. Its performance is, however, limited by the lack of training and orientation of some branch staff and an inappropriate staff incentive system.

Ganesha's financial performance has improved considerably. It maintains an excellent portfolio quality. It has high profitability, however, a high operating expense ratio combined with reliance on donor funds results in moderate Financial Self Sufficiency.

In M-CRIL's view, on account of overall good performance, Ganesha can absorb total funds of US\$590,000 in 2006 (including the funds already received) and US\$1.32 million in 2007.

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to no significant changes in the organisational structure and external operating environment.**

- for Micro-Credit Ratings International Ltd

Sanjay Sinha, Managing Director

***Validity** This rating is valid till the next loan proposal made by the MFI to any financial institution or till any other significant change in the structure of the loan programme or in its external environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.



Category wise rating

<u>Category</u>	<u>Rating grade¹</u>
A <i>Governance aspects</i>	α
B <i>Managerial factors</i>	α-
C <i>Financial performance</i>	α
Overall	α

Key Risk Factors

- Legal Form:** Ganesha is registered as a ‘Foundation’, a not for profit organisation. Foundations are permitted to carry-on microfinance operations only till 2008, as per the Indonesian government’s guidelines. To overcome the problems associated with its legal status, Ganesha plans to register a Non-Bank Finance Company (NBFC). However, at present, the Government is not registering new NBFCs and registration would be possible only after new legislation comes into force, which is expected in 2007. Ganesha has found an alternative that it can register as a Venture Capital NBFC. However, this will require US\$1.1 million to be deposited in the new NBFC’s bank account which would require support from a lender. A delay in getting NBFC registration, which could be due to technical and other reasons, could pose problems for the organisation and is a risk factor².
- Inadequate HR Policies:** Ganesha does not have adequate training resources and skills. Its field staff is not very well oriented. The exposure and classroom training to the staff is also limited. This may create problems in grooming them to take senior positions and may also restrict growth. The current staff incentive system is not well designed and does not serve the purpose of adequately motivating the staff or improving the quality of operations³.

Key Programme Strengths

Governance, experience and strategy	Management and operations	Financial
1 Experienced and qualified Board	1 Good MIS and accounting system	1 Excellent portfolio quality
2 Transparent operations	2 Committed and well oriented senior management	2 High return on assets
3 Well laid out Business Plan	3 Well documented policies	3 High capital adequacy
4 Good credit discipline	4 Standardised operations	

¹ M-CRIL’s grading sheet is attached at the end of the report.

² For more details please see page no 11 “ Plans”

³ For more details please see page no 11 “ Human resource Quality and Management”



Organisational profile

Legal form	Years of m-f Operation	Active borrowers	Staff		Number of Branches	Active borrowers/	
			Field	Total		Field Staff	Total staff
Yayasan (Foundation)	3.5	22,277	62*	83	9	359	268

*includes only the Loan Officers

Microfinance programme: Operational highlights

Outstanding borrowings of MFI IDR (million)	Loan portfolio of MFI IDR (million)	Loans disbursed by MFI IDR (million)		Average loan size from MFI to borrowers (Current year) IDR (thousands)
		Current year	Cumulative	
2,620	7,768	12,940	19,413	647
US\$282,979	US\$838,905	US\$1,397,408	US\$2,096,436	US\$70

Conversion rate: 1US\$=IDR 9,260

Key financial ratios

Portfolio at risk (>=30 days)	Cumulative repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of funds	Yield to APR ratio
0.0%	100.0%	84.9%	14.8%	85.9%
Yield on portfolio	Other income to average portfolio	Financial cost ratio	Loan loss provisioning ratio	Operating expense ratio
48.3%	1.0%	0.9%	1.1%	37.8%
Total income to average total assets	Total expenses to average total assets	Return on average total assets	Operational Self Sufficiency	Financial Self Sufficiency
31.2%	25.2%	4.4%	123.8%	93.1%

Notes

- All figures are for Ganesha's microfinance programme as on 30th June 2006.
- The members of Ganesha comprise 22,277 women in a total of 1143 centres.
- Ganesha started its lending operations in 2003.
- The ratio of repayment rate and PAR₃₀ has been calculated from the MIS reports generated by Ganesha. Accuracy of data generated by the MIS has been verified through an audit of the systems at Ganesha.
- Other income includes income that the organisation earns from deposits in banks.
- M-CRIL has reduced the overall loan loss reserve from 5% (maintained by Ganesha) to 1% while calculating the above mentioned ratios. This is done after considering an excellent portfolio quality.
- Since the Indonesian tax laws do not allow for tax exemption on loan loss provisioning, M-CRIL has provided an additional provision for tax on the loan loss provision.
- Though, no salaries are drawn by the two Executive Directors, M-CRIL has considered a salary of US\$24,000 (US\$12,000 per year for each of the two Directors), while computing the Operational Expense Ratio and Return on Assets. OER before including the salary of Directors is 33.2%.



Comparative highlights
Grade distribution

Category			Movement ³
	June 2004	July 2006	
Governance	β	α	↑
Management	β+	α-	↑
Financial performance	β+	α	↑
Overall	β+	α	↑

Select indicators/ratios

Indicator/ratio	June 2004	July 2006	Change ⁴
1 Growth			
Loans outstanding (IDR million)	687	7,768	Increase
Outstanding borrowings (IDR million)	Nil	2,620	Increase
Active borrowers	3,120	22,277	Increase
Average loan size (IDR thousands)	520	666	Increase
2 Credit performance			
Current repayment rate	100.0%	100.0%	↔
Portfolio at risk (>=30 days)	0.0%	0.0%	↔
3 Efficiency and profitability			
Active clients per staff	283	268	↓
Operating expense ratio	42.5%	37.8%	↑
Annual return on assets	-10.7%	4.4%	↑
Operational self-sufficiency	66.9%	123.8%	↑
Financial self-sufficiency	57.6%	94.1%	↑
Capital adequacy ratio	163.7%	84.9%	↑ *

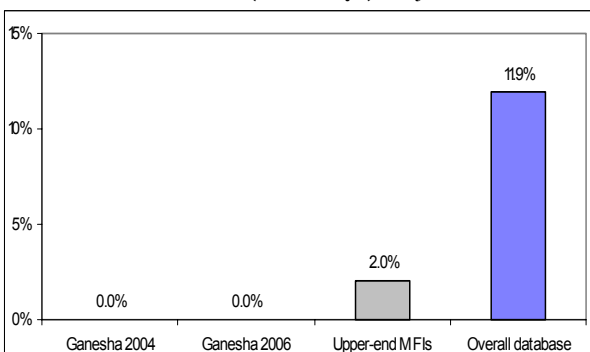
* With outstanding borrowings increasing from Nil in 2004 to IDR 2,620 million, capital adequacy has come down to a relatively reasonable level. This is an improvement in Ganesh's financial leverage.

⁴ An upward arrow indicates an improvement over the previous rating and vice versa for a downward arrow; a constant arrow indicates very low or no change.

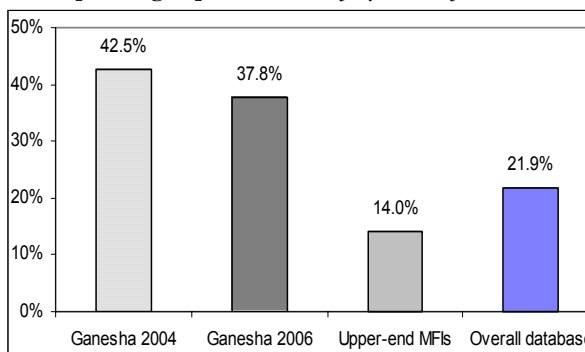


Ganesha– Financial overview

Portfolio at risk (>=60 days): 30 June 2006



Operating expense ratio: 1 July 05- 30 June 2006



- Note: 1. $n_{upper-end} = 10$ $n_{database} = 120$ (excluding outliers); Database figures as on 31 December 2005
 2. Outliers and rated MFIs with no direct lending have been removed for analysis. Upper-end figures reflect top 10 MFIs.
 3. The upper-end MFIs and overall database ratios represent simple averages for their respective samples.
 4. The performance of either the Upper-end MFIs or all MFIs (overall database), do not necessarily reflect M-CRIL's rating standards.

Income and expense distribution:

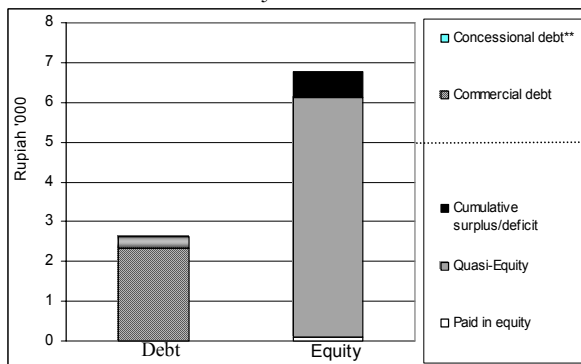
1 July 05- 30 June 2006



* Other operating expenses include travel, depreciation and administrative expenses

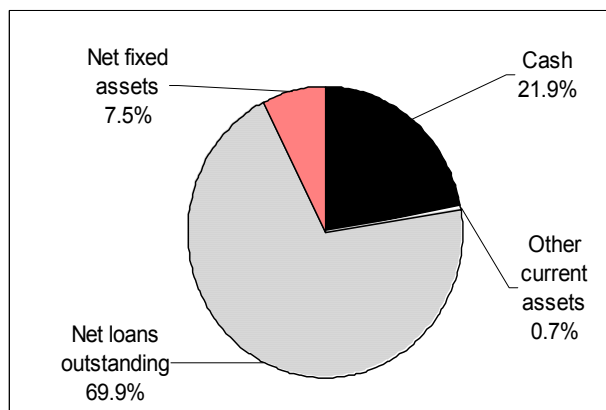
Debt and equity composition:

30 June 2006

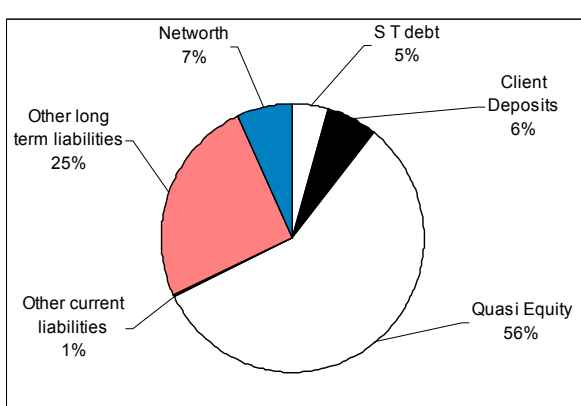


** Concessional debt is borrowing+comp.savings taken at < Bank PLR +50 basis points, & voluntary savings taken at < bank deposit rates

Asset composition: 30 June 2006



Liability & net worth composition: 30 June 2006





Country Profile: Indonesia

Indonesia's approximately 224 million people make it the world's fourth-most populous nation. The island of Java is one of the most densely populated areas in the world, with more than 107 million people living there. Indonesia's 18,108 islands, of which about 7,000 are inhabited, are scattered around the equator, giving the country a tropical climate. Indonesia borders Malaysia on the island of Borneo, Papua New Guinea on the island of New Guinea and East Timor on the island of Timor. After 30 years of authoritarian dictatorship, Indonesia became the world's third-largest democracy in the year 2004.

Indonesia is frequently hit by earthquakes and the resulting tsunamis. The country is rich in natural resources with substantial reserves of petroleum, tin, natural gas, nickel, timber, bauxite, copper, fertile soils, coal, gold and silver.

Indonesia's economy suffered greatly in the late 1990s, due to the financial crisis that struck East and Southeast Asia at the time. It has recovered since then, has recapitalized its banking sector, improved capital markets, and taken steps to stimulate growth and investment, particularly in infrastructure. GDP growth was 4.5% in 2003, 5.1% in 2004, and 5.6% in 2005.

The country has extensive natural resources, including crude oil, natural gas, tin, copper and gold. Its major agricultural products include palm oil, rice, tea, coffee, spices and rubber. Indonesia is the world's second-largest exporter of natural gas. However, Indonesia's fuel production has declined significantly over the years, owing to aging oil fields and lack of investment in new equipment and exploration. As a result, Indonesia is now a net importer of oil. Indonesia's major trading partners are Japan, the United States and the surrounding nations of Singapore, Malaysia and Australia.

In late 2005, Indonesia faced a 'mini-crisis' due to rising oil prices and imports. The currency reached IDR12,000/US\$ before stabilizing. The government was forced to cut its massive fuel subsidies, which were to cost \$14 billion for 2005. This led to a more than doubling in the price of consumer fuels, resulting in double-digit inflation. The situation has stabilized, but the economy continues to struggle with inflation at 15%-17% in 2006.

The current issues which the country needs to respond to are rising unemployment, rising poverty and recent acts of terrorism. Problems that continue to put a drag on growth include low foreign investment levels, bureaucratic red tape, and widespread corruption.

Source:

- 1) Wikipedia, the encyclopedia, <http://en.wikipedia.org/wiki/Indonesia>
- 2) CIA, World Fact Book, <https://www.odci.gov/cia/publications/factbook/geos/id.html>



1 Organisational background

Ganesha Microfinance Foundation (Ganesha) was registered as a Yayasan (Foundation), a not for profit organisation, in 2002 and began operations in early 2003. It has its Head Office in Tangerang district, which is near Jakarta. It was started by a group of development professionals in order to provide microfinance services under the “Grameen Bank” approach to the large numbers of poor households in Indonesia and graduate them out of poverty.

Ganesha has five members on its Board, including the three promoters. The Directors are highly experienced development professionals. Ganesha recently constituted an advisory Board, which has Prof David Gibbons, a renowned microfinance expert and the promoter of CASHPOR Group of Companies and Ms Hasti Tarekat, founding member of POKMAS Foundation. The two founding members of the Board, Dr Shafiq Dhanani, Chairman and Dr Elizabeth Sweeting, are involved in day-to-day operations of the organisation.

2 Microfinance operations

2.1 Background of microfinance operations

Ganesha started its operations in April 2003. It follows the Grameen model approach of lending to individuals with the joint liability of a centre (group of 20-25 clients). The organisation targets the poor, with clients selected using the CASHPOR housing index with certain modifications. Five such members form a group, and 4 to 5 such groups form a centre, which sits together in weekly meetings. The centre undertakes the joint liability of loans to all members of that centre. Loans are disbursed and collections are made weekly in meetings, which are held on pre-decided days and times.

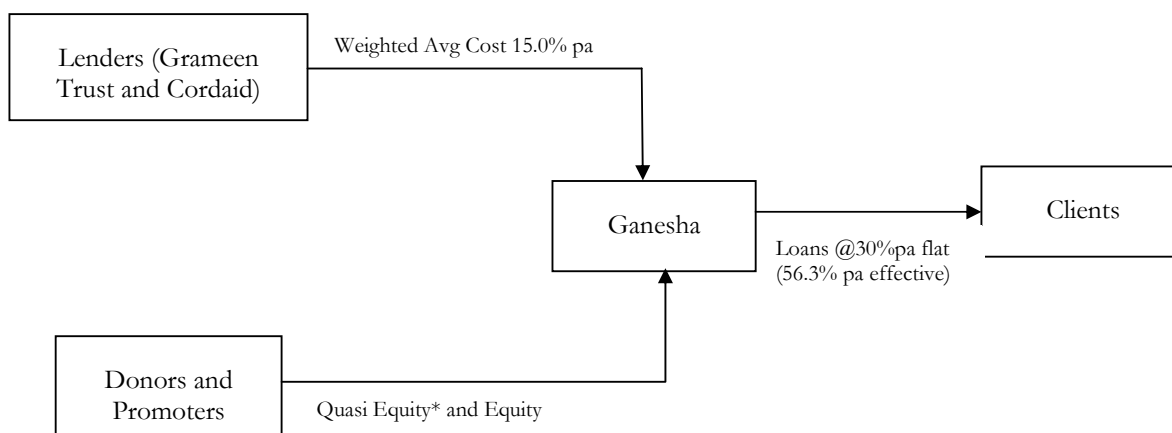
Ganesha started operations with the opening of the Teluknaga branch, located in the suburbs of Jakarta. Ganesha had 9 branches in July 2006 (at the time of the rating visit) and operates in two adjoining districts, Tangerang and Bogor. It has an outreach of 22,277 members. The organisation has 83 staff – 62 loan officers, 9 Branch Managers, 2 Operations Managers, one Expansion Manager and 9 Head Office (HO) staff.

Dr Shafiq Dhanani, founder and Chairman of Ganesha and his wife Dr Elizabeth Sweeting, Director and Manager for HRD and Operations, lead the organisation. Ganesha has recently expanded its senior HO staff. It has an Internal Audit Head and a Finance Manager. Other senior managers include, Manager (Business Expansion) and Manager (MIS and Administration).

The operations at the branches are led by the Branch Managers who are supervised by the two Area Managers for each of the two districts. Book-keeping is done by the Branch Managers. Field Officers are responsible for field operations. The responsibility of the cashier is rotated for six months at a time to each of the Field Officers.



The flow of funds to and from the organisation is depicted in the following diagram:



*Yayasans (Foundations) cannot continue with financing activities after 2008, Ganesha might have to transfer operations to some other entity, but since Yayasans (Not-for-profit entities) are not allowed to transfer their net-worth (capital) to any organisation other than Yayasans with a similar mission, Ganesha plans to get a new legal entity registered, which would be better suited to carry on the financial activities. In order to make the transfer of funds possible to a new entity (probably an NBFC), the contribution from Hivos and the initial Grant from the Promoters is being treated by Ganesha as an interest free loan in its audited books of accounts.

For its operations, Ganesha has obtained loan funds from Grameen Trust and Cordaid.

Following is the detail of loan funds obtained by Ganesha as on 30 June 2006

Source*	Cumulative loan amount received (US\$)	Outstanding 30 June 2006 (US\$)	Rate of interest (%)
Grameen Trust	40,000	29,848	4.00*
Cordaid	253,132	253,132	17.75*
Total	293,132	282,980	WACC-14.80**

*Foreign exchange risk is borne by the lenders

**Calculated by taking average outstanding of two loans as weights.

Apart from these two loans, Ganesha has US\$190,257 from the Promoters as interest free long-term loan and contribution of US\$459,596 from Hivos, which it is treating as an interest free long-term loan.

2.2 Microfinance policies

Ganesha follows the “Grameen Bank’s” lending methodology with certain modifications. Ganesha promotes groups of 20-25 women (centre) following a well-defined process of member identification, formation and regularisation.

For the selection of a new branch, an initial survey is conducted, followed by key informant interviews and collection of secondary data. The secondary data includes poverty evaluation data from the Statistical Information Bureau of Indonesia and population survey data. Based on this



data and the income profile of the area, an analysis of the potential for operations is undertaken. Based on this analysis, a final decision on opening or not opening a branch is taken.

Ganesh targets only poor clients and uses CASHPOR's housing index to ascertain the income standard of the prospective clients. Staff makes a visual survey of the house and allocates points on various housing parameters. Overall score decides the poverty status of the family. Apart from the housing index, staff also shortlists clients on their stated income levels. Loan officers conduct an appraisal of prospective client's house and give score to various housing components. After the person clears the test and her income (as stated by her) is lower than the official poverty line, she becomes eligible to become the member

The loan is disbursed to three members of the group after the Group Recognition Test (GRT), while loan to remaining two is disbursed in the following week. This test checks if the members are aware of group norms or not. The centre undertakes joint liability for all the loans extended to all the members of the centre.

Loan product

Ganesh offers only one loan product. Loans are provided at a flat rate of 30% per annum repaid in 50 weekly instalments. There is a break of 2 weeks during Id. The effective interest rate (IRR) is 56.3%. The maximum first cycle loan amount is IDR500,000 (US\$50). The maximum second cycle loan is US\$80, Third US\$1,100 and the maximum Fourth cycle loan amount is US\$ 1,300. Each member has to place 5% of the loan amount as a deposit with the MFI, which is called the Client Responsibility Fund (CRF). This is a security deposit by the client with the MFI.

3 Observations

3.1 Governance & strategy

Ganesh has good performance on governance and strategy with a grade of **A**. This is a considerable improvement over its performance in July 2004. Ganesh has since included people with substantial microfinance experience on its Board. The organisation's second line of management has improved considerably, though it still needs to be strengthened. Linkages with financial institutions have improved and the organisation has been able to grow well as per its well laid out Business Plan. The organisation's constraint is its legal status of "Foundation" which is allowed to carry on microfinance operations only till 2008.

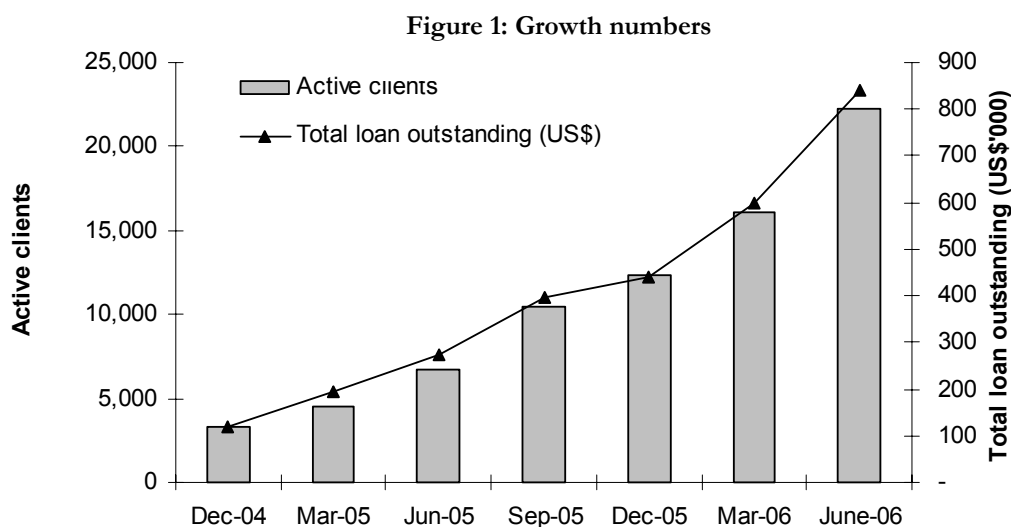
➤ Strategy for microfinance operations

Governance: Ganesh has a highly experienced and professional Board and an Advisory Committee. The members of the Board, five in number, have long experience in the development sector, banking and microfinance. The members of the Advisory Board include Prof David Gibbons, Promoter of CASHPOR and a well known microfinance expert. The Board meets once in each quarter and appears to participate actively in the monitoring of operations, formulation of business strategies and approval of policies. The two founder Directors who also have financial stakes in the organisation are engaged full time in the operations of the organisation.



Second line of leadership: At the time of the last rating in June 2004, an area of concern for Ganesh was the complete lack of a second line of leadership. The organisation has since improved its second line. It has a new team of senior management, which includes Manager (Admin and MIS) and Manager (Business Expansion), both of whom are associated with the organisation since its inception and started as Field Officers. The organisation has a newly recruited Manager (Internal Audit) and Manager (Finance), both with experience in firms of Public Accountants, as Auditors. The Managers are well educated and have a high level of commitment. However, the organisation lacks a second line manager to manage and oversee the overall operations of Ganesh, which are still guided by the Chairman himself.

Expansion: Ganesh's growth in the last three years has been impressive both in terms of clients and portfolio. **Figure 1** depicts client and portfolio growth trends.



During the period year 2005, the number of clients grew almost four times (growth rate, 276%) while in first half of 2006, the number of clients almost doubled (growth rate, 81%). The portfolio growth rate was similar (Year 2005, 266%; Year 2006, 90%).

This growth has been possible due to well defined and standardised operations, which allow Ganesh to open new branches in less time and with even less formal training of the new recruits. Further, Ganesh has been successful in mobilising funds as based on its requirements. Apart from continuous support from Hivos, it managed to receive a commercial loan from Cordaid at reasonable terms (17.5% is reasonable considering the 15% rate of inflation in Indonesia).

The main constraint that Ganesh may face in its growth could be the lack of appropriate personnel and a lack of a strong second line of management. With an increase in size of branch operations and decentralisation of accounting and MIS, the Branch Managers would need to have better management skills and training. The availability of skilled human resources and training staff is a constraint at present.

Plans: Within the next five years, Ganesh plans to have an outreach of ~400,000 clients and a portfolio of US\$ 36.6 million. It plans to establish 200 branches with staff strength in



excess of 1,000. Ganesha plans to raise US\$26 million from commercial loans and the rest from grants to fund its asset requirements. With the current growth rate and capacities, Ganesha can achieve this target, but it would need to have an appropriate legal status to become a large size microfinance institution. Currently, Ganesha is registered as a Yayasan (Foundation). As per the Foundation laws of Indonesia, its registration as a Foundation allows it to carry on operations till 2008. Thereafter, legislation restricting Foundations from carrying out lending operations will come into effect. To overcome this problem, for which Ganesha has been exploring various options, one of the strong possibilities is that it will register as a Non-Banking Finance Company, registration for which is expected to be allowed from 2007. The NBFC registration would require US\$1 million⁵, which would not be a cause of concern since it already has ~US\$650,000 as quasi-equity from promoters and Hivos and more funds are in the pipeline. Recently (after the rating visit), Ganesha has found another option of registering as a venture Capital NBFC, registration for which is open. This would require it to deposit US\$1.1 million in a separate bank account which can be utilised after getting registration. This would enable the organisation to get the support of lending or donor institutions. Any delay in registration due to a delay in the new law coming into force, or on the part of registering authority, could impact the growth of the organisation adversely and is the main risk factor for it.

3.2 Management factors

Ganesha has good management performance, with a grade of **α-**. This reflects the good quality of its accounting and management systems. Its operations are standardised and policies are well documented. Ganesha's performance on this parameter has improved significantly as compared to the last rating, mainly on account of improvement in the senior management's strength and creation of the internal audit function with the appointment of an experienced internal auditor. The organisation's current weakness is a lack of training resources and an inappropriately designed staff incentive system.

➤ Human resource quality and management

Ganesha has a motivated and committed set of field and HO staff. All the staff members except the Chairman and the car driver are women. The senior staff members, as listed in earlier sections, are well qualified and experienced. With the induction of a Finance Manager and Internal Audit Head, Ganesha's Chairman is in a position to delegate accounting and internal audit functions. However, the position of the Operations and HRD Managers, which are presently combined, need to be separated and the HR department needs some specialist trainers.

At the branch offices, procedures are very well defined and are kept simple and standardised. This has allowed new staff to function in an orderly manner. Also, the repayment rate being excellent, staff do not have to be bothered about recovering overdues. However, during M-CRIL's visit to branches, the staff members did not appear to be very well oriented. The accounting vouchers prepared were found to have lots of over-writing and corrections and the route plan (various villages visited by the Field Staff to attend meetings in a day) prepared

⁵ Since the laws / guidelines are all in Bahasa language, M-CRIL has not been able to read any NBFC laws, and this piece of information is as provided by Ganesha



for the field staff by the Branch Manager needed optimisation. Formal classroom training and exposure of the field staff has been quite limited, this is important to groom the Field Staff take up more responsible positions in future.

The staff incentives are based on the number of new clients enrolled by the staff. This system is designed to increase the client base in the newly started branches rapidly and allows the staff of a new branch to get handsome incentives. However, the staff of a saturated branch does not get much in incentives and overall remuneration goes down. The current incentive policy does not encourage initial screening of the prospective clients by the field staff and is also de-motivating for the staff of an old branch. The current policy is not well designed and needs to be reconsidered. However, despite this, staff turnover is not high at Ganesh.

The lack of a formal classroom training and orientation policy for its staff and **lack of trainers at the HR department appear to be limitations.**

➤ Accounting and MIS

The accounting system and MIS at Ganesh is good. Vouchers and a Cash Book are prepared manually at the Branch offices and sent weekly to the district office of Tangerang district for consolidation by the branch offices of Tangerang district. District office and branch offices of Bogor district send the data to the HO where it is consolidated on computerised accounting software. At the field level, collection and disbursement transactions are recorded in members' passbooks as well as the field officer collection sheet. These form the basis of the information flow and data consolidation into the ledgers. Branches prepare a voucher for each day's transactions and send it to the HO weekly. The accounting software generates monthly trial balances from which the Chairman prepares the Balance Sheet and Income Statement. This function can now be delegated to the newly recruited Finance Manager.

Ganesh has been maintaining a conservative 5% loan loss reserve on gross loans outstanding even though its PAR₃₀ is Nil. The income tax for the last year was paid on the profit derived after this high provisioning, however, a discussion of the M-CRIL team with Ganesh's tax consultants revealed that the organisation would not be allowed this exemption as per the income tax laws and Ganesh may have to pay tax later when it is assessed by the income tax authorities. Another point that came up during this discussion was that Ganesh needs to make monthly payments of tax which it was not doing until now. M-CRIL has made an additional provision for tax on the loan loss provision for last year as well as for six months of 2006 in Ganesh's financial statements prepared for analysis after considering an adequate 1% LLR, and not the high 5%.

Ganesh has an MIS software, obtained from Grameen Communication (a Grameen Bank group company). Regular data entries are made into this. However, the consolidated reports generated by it suffer from errors and Ganesh is not getting adequate support in this regard from Grameen Communication's software consultants. The organisation is using MS Excel based spread sheets to generate regular portfolio reports. Data is fed into these sheets from the collection and disbursement sheets and vouchers sent by the Branch Managers. The sheets are well designed. However, these sheets would not be able to provide age wise



reports of overdues. If cases of overdue start appearing, the manual MIS would need to be decentralised, which would require the training of Branch Managers.

Changes in housing quality and changes in assets

Ganesh targets poor clients based on the housing index data collected at every loan cycle. At every new loan request, the field staff visits the borrower's house, and makes a visual survey and completes a "loan proposal" form. Ganesh's scoring system does not consider various household articles inside of the client's house and only a review of the house from outside is considered relevant for scoring. However, some of the clients were found to possess electronic goods and good quality furniture but were still able to get a lower point on the tool. The grading tool needs to be revisited in light of this.

The information in the loan proposal form used for the first loan is used for subsequent loans also, which allows a comparative analysis of the housing score for the clients. The housing and other assets information collected on Ganesh's membership form is very detailed, but only the aggregated score can be entered in the MIS software. Software does not allow the entering of data for subsequent loan cycles and thus does not facilitate temporal comparisons. With an increase in number of clients, a manual analysis of complete housing data (for the purpose of doing an impact study) will be impossible and the organisation would need to analyse the client sample till a software solution is obtained.

Professor Richard Moore of the Business School of California State University and his team conducted an impact assessment survey in 2005. In a sample of 166 clients, the team found an increase of 16% in the housing quality and an increase of 20% in the household income, which indicates a significant improvement in a short span of one year. However, the study was limited to Ganesh's clients and there was no control group to estimate what would have happened to members had they not joined Ganesh.

➤ Tracking system for overdues

The field officers are responsible for collections and follow-up with the defaulting clients, if any. At present, the organisation does not have any arrears owing to a very strong emphasis on credit discipline. The information system for tracking arrears at Ganesh is however, inadequate. Though, the computerised MIS is capable of generating overdue reports (client wise and age-wise), as of now the system is not reliable. The manual MIS is not geared up to provide detailed report on overdues. The report on the overdues should also have date of lending, amount of instalment and the date and amount of last instalment paid. This would allow the MIS Manager at the HO to do an aging analysis, as well as, PAR calculation. In case the incentive system is linked to the repayment rate, staff managing the overdue case should also be mentioned in the overdue report by the Branch Manager.

➤ Financial planning and control systems

Ganesh has good planning and reasonable control systems. Ganesh has prepared a five-year strategic Business Plan for the period 2006-10. The Plan shows the projected growth of the organisation in terms of operational area, portfolio and clients based on a market and an environment analysis. The Business Plan also has plans for Human Resources, Board, Senior Management and loan products. The projected financial statements provide details of the



funding requirements. Ganesh has been revising its Business Plan regularly, based on its performance. The management is inspired by the achievements of large MFIs like ASA Bangladesh. An exposure visit to MFIs in India in 2006, also helped with their business planning.

Ganesh's cash control systems are adequate. The Cash Book is maintained at each of the Branch Offices. A weekly request for cash is sent by the branches to the HO along with the collection and disbursement details of the last week and a disbursement plan for the next week. Cash is transferred electronically through banks. Each branch has its own bank account. However, at some branches, especially in Bogor district, funds for more than a week's demand are kept due to unreliable banking services.

Ganesh's Internal Audit system is in its preliminary stages. The organisation has recently recruited an experienced auditor as Head of the Internal Audit. There is no other audit staff as yet. One branch audit has already been conducted by the new Internal Auditor. Currently the number of branches is small (eight) and Directors personally monitor and control the activities. This will not be possible in a year, when the number of branches will double.

➤ Quality of clients/member groups

Member groups show excellent performance on loan repayment. Visited member groups showed good performance on overall discipline and credit culture. However, the clients were not very well aware of the interest rates charged by Ganesh. The meetings of clients were conducted efficiently. The records of the visited groups and individual clients were updated and documents were in accordance with organisational policies.

Ganesh has the policy, not to extend loans if the housing index score is more than 9, and during M-CRIL's visit, it was observed that most of the clients were from the poorer sections of the village and their housing quality matches with that mentioned in the forms filled up by field staff. The products offered by Ganesh to its target clientele seem appropriate.

Ganesh's client drop-out rate is rising. During the first half of 2006 (January-June 2006), 1,143 clients left the programme, which is significantly higher than drop-outs in the last six months of 2005 (218 clients). The drop-out rate for the year July2005-June2006 was 5.8%, which is reasonable. However, the higher drop-out rate for the January-June 2006 period (17% annualised) is a matter of concern. The organisation does not presently have a mechanism for getting feedback from the exiting clients, which is required, considering the rising number of drop-outs.

➤ Infrastructure

Ganesh has a modest infrastructure base for its microfinance operations (with fixed assets valued at IDR788 million or US\$85,109). This mainly consists of motorcycles for the staff (~70% of the total assets). Other assets consist of computers, a vehicle and furniture. All the offices are in rented premises. Ganesh's present computer software for MIS does not work properly and the organisation needs a more robust software and hardware system for this purpose.



3.3 Financial performance

The financial performance of Ganesha is good with a rating of **A**. The organisation's financial performance has improved significantly as compared to the last rating in 2004. Ganesha has an excellent portfolio quality and repayment rate. It has a positive return on assets and good Operational Self-Sufficiency. Its weaknesses are high operational expenses and a moderate Financial Self Sufficiency.

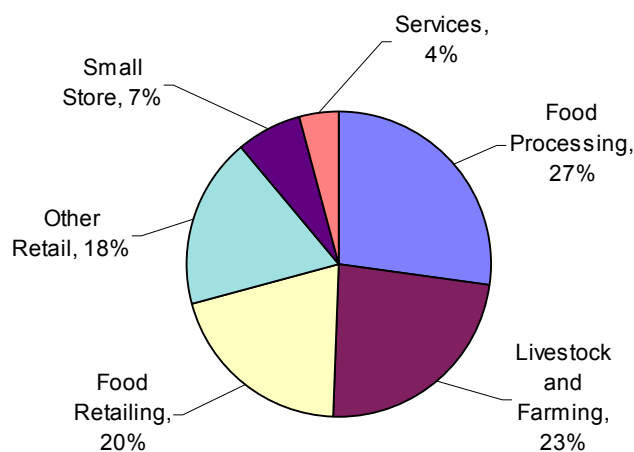
➤ Credit performance and portfolio quality

Ganesha has an excellent portfolio quality with PAR₃₀ 0% and a 100% repayment rate as on 30 June 2006. The strong credit culture and disciplined operations at the field level results in this performance.

Ganesha provides loans for productive activities. The portfolio is well diversified and clients are engaged in various small enterprises. According to the impact study conducted by Prof Richard W. Moore, School of Business and Management, California State University, most of the clients (27%) take loans for small food processing units followed by 23% for livestock and farming. Food retailing is another major business activity with 20% clients engaged in it.

Figure 2 below gives the break-up of business activities for which loans are utilised according to the study, for which data was collected during March-April 2005.

Figure 2: Business activities of Ganesha's clients



Source: *Making a Difference: An Impact Survey of Ganesha Microfinance Foundation, Indonesia*, By Prof Richard W. Moore

➤ Mobilisation of funds

The major sources of funding for Ganesha are contribution from Hivos (treated as interest free long-term loan), loan from Cordaid and interest free loan from the promoters at 39.2%, 21.6% and 16.2% of the total liabilities respectively. Ganesha prefers to treat contributions



from Hivos as interest free loans so that it can transfer funds to a new legal entity to be created in future, as explained earlier in the report.

In May 2006, Ganesh raised commercial borrowings for the first time. It raised Euro 200,000 (IDR2,344 million) from Cordaid at 5% per annum fixed interest, plus a flexible interest rate based on the central bank's one-month rate, which was 12.75% pa in April 2006. Loan repayments are six monthly, payable in 10 instalments. The foreign exchange fluctuation risk is borne by the lender.

Apart from this, Ganesh has received soft loans of US\$40,000 (IDR370.4 million) at 4% per annum from Grameen Trust. The loan repayments are yearly, payable in four instalments.

Apart from Hivos and Cordaid, Blue Orchard and Catalyst Microfinance Investors (CMI) have also shown interest in lending to Ganesh. There was also some progress on negotiation with Danamon Bank for entering into the partnership model. Ganesh management and Danamon Bank officials made a visit to India to meet ICICI Bank and understand the model. The M-CRIL team had also met the concerned bank official and provided some clarifications on the model. Ganesh has recently registered with the MixMarket and this will help it raise funds from other international sources.

Ganesh has been able to raise funds as per its requirements despite its inappropriate legal status. This is mainly due to the reputation enjoyed by the Board of Directors and good performance of the organisation. However, Ganesh needs to also make sure that inflow of funds matches with the outflow and vice-versa. It has been receiving funds in either one-shots or tranches of higher loan amount, also the repayment terms require bigger payments, which are not suitable for Grameen Model MFIs, which have frequent disbursements and repayments. Due to this, the idle funds of the organisation are high at 21% of the total assets. The monthly average idle funds over the year July 2005 to June 2006 are also high at 17.9% of the average assets and 28.3% of the average portfolio. Though the organisation's present average cost of funds is low, it would increase with an increase in proportion of commercial borrowings and higher idle funds can affect the overall profitability.

➤ Asset, liability and equity composition

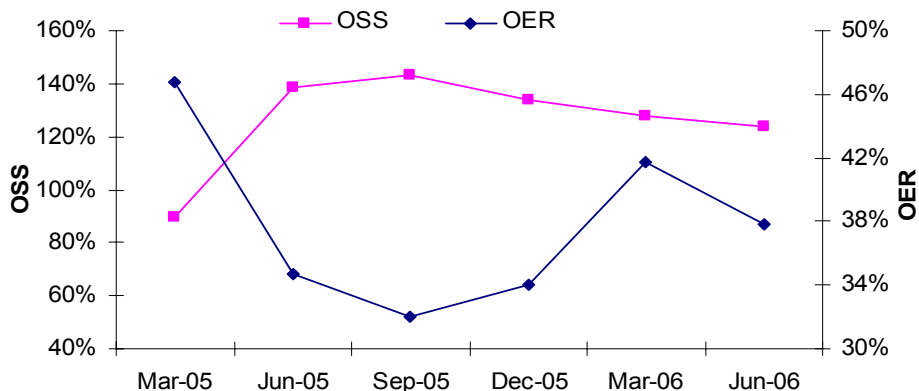
The loan portfolio of Ganesh constitutes 71% of the total assets, which is moderate to low. Cash balances, as stated earlier in the report, are high at 21%. While the rest are fixed assets, and mainly motorcycles for the staff. On the liability side, the organisation has contributions from Hivos, a loan from Cordaid and the promoters' interest free loan. Ganesh's risk weighted capital adequacy ratio is high at 84.9% and shows its potential to borrow more loan funds.

➤ Sustainability and profitability

There has been a significant improvement in Ganesh's profitability and sustainability over the past two years. During the year 2005, the organisation succeeded in achieving full operational self sufficiency as displayed in **Figure 2**.



Figure 2: OSS and OER



For the year ending June 2006, Ganesh had an RoA of 4.4%. Its OSS was a comfortable 123.8%, while the FSS was moderate at 93.1%. Its FSS was lower because of high capital adequacy and a high OER. This indicates that Ganesh needs to reduce its operational expenses to sustain its operations with commercial borrowings. The present OER (for the year July 2005 to June 2006) is high at 37.8%, though it has come down from 42.5% at the time of the last rating. OER has been calculated after considering a salary of US\$1,000 per month for each of Executive Directors and simultaneously treating the amount as donation in kind. Ignoring the salaries to the Directors, the OER of the organisation for the year ending June 2006 is 33.2%, which is still high.

The high OER is due to the relatively high cost of salaries and office expenses due to the opening of new branches. The break-up of OER for the year ending 30 June 2006 is as follows

Table 1: Composition of Operating Expenses

Operating expenses	% of average portfolio
Salaries	19.7%
Travel	2.2%
Administrative/office expenses	11.6%
Depreciation	4.3%
OER as % of average portfolio	37.8%

Ganesh has the policy of limiting the number of clients to 3,000 per branch, which needs to be reviewed in order to achieve lower operating expenses.

The organisation has a Yield (48.3%) to APR (56.3%) ratio of 85.9%. The lower Yield to APR is due to most of loans being new and with a flat rate of interest, the yield is lower than the APR during the first half of the loan period.



4 Comparison of Quarterly performance with targets

For the period April-June 2006, Ganesh continued its good performance. It has been able to achieve the current quarter's targets, which were revised after the second quarter review in 2005. **Table 1** below shows the achievement of the organisation as on 30 June 2006.

Table 1: Performance relative to targets

Performance parameters	Base year (2003) <i>Actuals</i>	2005 <i>Actuals</i>	Apr-June 2006 <i>Target</i>	Achievement	Year-end <i>Target</i>
1 Staff productivity and stability					
Active clients per staff	220	216	220	268	225
2 Growth indicators					
Active clients	2,418	12,335	16,541	22,277	22,222
Loan portfolio (in '000 US Dollars)	62	440.8	678	838.9	1,044
3 Portfolio quality					
PAR ₃₀	0.0%	0.0%	0.5%	0.0%	1.0%
Current repayment rate	100.0%	100.0%	99.8%	100.0%	99.5%
Loan loss rate	0.0%	0.2%	0.31%	0.0%	0.5%
4 Financial performance					
Operating expense ratio	42.5%	34.0%	32%	37.8%	30.0%
Return on average assets	-30.9%	6.4%	8%	4.4%	9.4%
Risk weighted capital adequacy	-17%	127.8%	99.0%	84.9%	76.8%
Operational self-sufficiency	41.2%	133.7%	134%	123.8%	133.4%

Notes:

1. Return on Assets (ROA) and Operational Self-Sufficiency are calculated considering a normal 1% Loan Loss Reserve (LLR), even though the organisation has adopted a conservative policy of having a 5% LLR from the current quarter.
2. The increase in OER is attributable to increased expenses on account of higher administrative and staff development expenses due to the opening of two new branches in Bogor district
3. OER is calculated after providing additional salary for the two Executive Directors (US\$1,000 per month per Director), which is actually not charged to the organisation by the Directors.



5 Conclusions

Strengths	Weaknesses
<p data-bbox="245 443 418 470"><u>Organisational</u></p> <ul data-bbox="245 510 675 646" style="list-style-type: none">✓ Experienced and qualified Board✓ Transparent operations✓ Well laid out Business Plan✓ Good credit discipline <p data-bbox="245 684 375 711"><u>Managerial</u></p> <ul data-bbox="245 741 711 909" style="list-style-type: none">✓ Good MIS and accounting system✓ Committed and well oriented senior management✓ Well documented policies✓ Standardised operations <p data-bbox="245 982 354 1010"><u>Financial</u></p> <ul data-bbox="245 1039 597 1171" style="list-style-type: none">✓ High Capital Adequacy✓ Excellent portfolio quality✓ Positive returns on Assets✓ High OSS	<p data-bbox="829 443 1003 470"><u>Organisational</u></p> <ul data-bbox="829 510 1336 575" style="list-style-type: none">✗ Limitation of the current legal status✗ Inadequate second line of management <p data-bbox="829 684 959 711"><u>Managerial</u></p> <ul data-bbox="829 741 1333 837" style="list-style-type: none">✗ Lack of formal, classroom training and orientation to staff✗ Inappropriate staff incentive system <p data-bbox="829 982 938 1010"><u>Financial</u></p> <ul data-bbox="829 1039 1062 1129" style="list-style-type: none">✗ High OER✗ Moderate FSS✗ High Idle funds



5 Creditworthiness

Ganesh has achieved a rating grade of *alpha (α)*.⁶ In terms of creditworthiness, this implies high safety. Ganesh's performance is good in all the three areas of assessment. It has significantly improved its performance from the last rating in June 2004. In a short time span, Ganesh has done very well to establish a strong programme. The organisation's creditworthiness is limited only by its legal status of 'Foundation'. The organisation has, however, done well to identify a suitable legal form for itself and is waiting for the new NBFC legislation to come into force.

In M-CRIL's view, on account of overall good performance, Ganesh can absorb total funds of US\$590,000 in 2006 (including the funds already received) and US\$1.32 million in 2007.

A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. **This rating is valid, subject to no other substantial inflows of loan funds into the organisation beyond the limits specified here** and to no other significant changes in the organisational structure and external operating environment.

⁶ The Rating Grade given measures performance on the rigorous standards established by M-CRIL. The assessment uses an instrument designed specifically for the conditions and nature of MFIs operating in Asia and is comparable with other ratings done by M-CRIL in this region.



Financial statements for Ganisha Microfinance Foundation

Balance Sheet - as on 30 June 2006

30 June 2005		30 June 2006			
Rp '000	Assets	Rp '000	Rp '000	US\$	US\$
	<u>Current assets</u>				
1,428,757	Cash in hand and bank		2,309,018		249,354
27,275	Other current assets		75,139		8,114
	<u>Loans outstanding</u>				
2,664,137	Gross loans outstanding	7,768,262		838,905	
(26,641)	(Loan loss reserve)	(77,682)		(8,389)	
2,637,496	Net loans outstanding		7,690,580		830,516
4,093,528	Total current assets		10,074,737		1,087,985
	<u>Long term assets</u>				
317,861	Net property and equipment	788,114		85,109	
317,861	Total long term assets		788,114		85,109
4,411,389	Total Assets		10,862,850		1,173,094
	<u>Liabilities and Networth</u>				
	<u>Current liabilities</u>				
213,345	Client Responsibility Fund		647,690		69,945
	Accrued Interest		35,950		3,882
56,337	Tax payable		17,268		1,865
	Additional provision for taxation		75,529		8,156
	<u>Short term debt</u>				
-	Short-term loan from promoters	475,400		51,339	
-	Total short term debt		475,400		51,339
269,682	Total current liabilities		1,251,837		135,188
	<u>Long term liabilities</u>				
376,540	Grameen Trust		276,390		29,848
-	Cordaid		2,344,000		253,132
	<u>Long term debt</u>				
1,469,913	Quasi Equity from Promoters	1,761,780		190,257	
1,878,640	Quasi Equity from Hivos	4,255,857		459,596	
3,348,553	Total long term debt		6,017,637		649,853
3,725,093	Total long term liabilities		8,638,027		932,832
	<u>Net worth</u>				
100,000	Paid up equity	100,000		10,799	
	Grants in kind (salary of Directors)	222,240		24,000	
(12,057)	Retained net surplus/(deficit)	316,614		34,192	
328,671	Current net surplus/(deficit)	334,133		36,083	
416,614	Total net worth		972,987		105,074
4,411,389	Total Liabilities and Net Worth		10,862,850		1,173,094

Conversion rate used: 1 US\$= IDR9,260



Income Statement: Statement from 1 July 2005 – 30 June 2006

<u>Income</u>	<u>Rp '000</u>	<u>Rp '000</u>	<u>US\$</u>	<u>US\$</u>
Interest on loans	2,335,285		252,191	
Interest on investments	30,869		3,334	
Other income	16,441		1,775	
Total income		2,382,595		257,300
<u>Financial costs</u>				
Interest on borrowings	43,962		4,748	
Gross financial margin		2,338,633		252,552
Provision for loan losses	54,465		5,882	
Net financial margin		2,284,168		246,670
<u>Operating expenses</u>				
Salaries	728,001		78,618	
Salaries of Executive Directors (adj)	222,240		24,000	
Travel	107,930		11,656	
Administrative/office expenses	435,069		46,984	
Depreciation	205,656		22,209	
MIS	13,240		1,430	
Training	113,244		12,229	
Total Operating expenses		1,825,381		197,125
Net Surplus/Deficit		458,787		49,545
Profit before tax (PBT)		458,787		49,545
Tax		49,125		5,305
Additional provision for tax		75,529		8,156
Profit after tax (PAT)		334,133		36,084



Notes to the financial statements

1. Loan loss provision is provided to maintain a 1% loan loss reserve. A provision for income tax is provided for tax on loan loss provision provided by Ganesh for year 2005 and half year 2006.
2. A salary of US\$1,000 per months to each of the two Executive Directors is provided in the income statement and a simultaneous grant in kind is shown in the Balance Sheet. This is to compute actual OER comparable with other MFIs.
3. Income includes interest income. All loan portfolio related income is recognised only when it is actually received (**cash basis**). Grants allocated to the organisation's microfinance programme are treated as donated equity in the balance sheet (and not regarded as operational income).
4. Conversion rate used: 1 US\$= IDR9,260

Glossary

1. Current repayment rate
Ratio of current principal recovered (net of pre-payments) to the current principal due till the date of measurement.
2. Portfolio at risk (PAR₆₀)
Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date.
3. Yield on portfolio
The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio
Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio
Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio
Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio
Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Average loan portfolio
This represents the average loan outstanding for the year computed on a monthly basis.
9. Average total assets
This represents the average total assets for the year calculated on an annual basis.
10. Operational Self-Sufficiency
Ratio of total income to total costs for the year.
11. Financial Self-Sufficiency
Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. the market interest rate), equity (w.r.t. inflation) and in-kind donations.
12. Risk weighted capital adequacy ratio
Ratio of networth to risk weighted assets (Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%).



Projected Cash Flows and Financial Statements for five years

- The following assumptions and projections - derived from the limited information available from the organisation on its future financial projections – are tentative in nature. These **should not be viewed in isolation nor be regarded as a basis for investing in the future** - only the main risk rating report provides an opinion on investments.
- All assumptions are based on the data gathered during the rating exercise and the savings and credit methodology used by the organisation.

1 Basic Assumptions

(See also Notes to Cash Flow Projections below)

For the year ending:	30-Jun-06	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Number of active loans*	22,277	29,000	56,000	85,000	125,000	180,000
Branches	9	13	25	40	60	80
Average loan size (US\$)	72	83	91	100	110	121
Number of loans disbursed	19,408	23,000	44,414	68,000	100,000	144,000
PAR ₃₀	0.0%	0.2%	1.0%	1.5%	2.0%	2.5%
Loan Loss rate	0.0%	0.1%	0.3%	0.5%	0.7%	0.8%
Loan loss reserve ratio	1.0%	1.0%	1.5%	1.8%	2.3%	2.5%
Current Repayment Rate	100.0%	99.5%	99.0%	98.0%	97.0%	97.0%
CRF as percentage of loan disbursed	5%	5%	5%	5%	5%	5%
OER	37.8%	35.0%	31.0%	28.0%	25.0%	22.0%
Yield	48.3%	49.0%	47.0%	45.0%	43.0%	41.0%
Total employees	83	105	190	280	400	510
Commercial borrowing rate	17.8%	17.0%	16.5%	16.0%	15.5%	15.0%
Concessional borrowing rate	4%	4%	4%	4%	4%	4%

*Ganesh plans to achieve 400,000 active loans by the year 2010 doubling the number of members in each year.

Ganesh's plan for the number of active loans

For the year ending:	30-Jun-06	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Number of active loans*	22,277	25,000	50,000	100,000	200,000	400,000

M-CRIL feels that it would be rather difficult task to continue doubling the number of clients each year after achieving 100,000 clients. M-CRIL's projections are based on its assessment of the organisation's capacities and risks faced by it.



3 Projected Cash Flow Statements

All figures are in US\$

For the year ending:	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
<u>Inflows</u>					
Opening cash	203,898	132,501	168,488	219,195	345,735
Client Responsibility Fund inflow	95,117	202,042	340,271	550,439	871,895
Grants (interest free loans) from:					
Founders	-	-	50,000	-	-
Hivos Netherlands	150,000	100,000	-	-	-
Commercial Loan	440,000	1,220,000	1,900,000	3,000,000	5,200,000
Interest on loans	393,754	859,190	1,518,299	2,415,628	3,702,784
Other income	7,960	16,992	29,061	47,617	75,652
Repayments from clients	1,175,525	2,710,029	5,015,480	8,240,658	13,240,565
Total Inflow	2,466,254	5,240,754	9,021,600	14,473,538	23,436,631
<u>Outflows</u>					
Disbursements	1,902,343	4,040,840	6,805,427	11,008,779	17,437,905
Client Responsibility Fund outflow	39,272	95,117	202,042	340,271	550,439
Operating expenses (excl. depr.)	265,482	548,540	922,350	1,377,658	1,958,027
Interest paid on External borrowings	75,778	161,728	361,789	649,450	1,073,500
Repayment to lenders	10,000	156,667	416,114	633,333	1,633,333
Fixed assets purchase	30,000	35,000	40,000	35,000	35,000
Income tax	10,878	34,374	54,684	83,312	152,562
Total Outflow	2,333,753	5,072,266	8,802,405	14,127,803	22,840,766
Net cash balance	132,501	168,488	219,195	345,735	595,865



3 Projected Balance Sheets

All figures are in US\$

As on:	31-Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Assets						
Cash in bank	203,898	132,501	168,488	219,195	345,735	595,865
Gross Loan outstanding	440,754	1,167,573	2,497,216	4,279,671	7,026,392	11,174,548
less write-offs	-	-1,168	-7,492	-21,398	-49,185	-89,396
Loan outstanding	440,754	1,166,405	2,489,724	4,258,272	6,977,208	11,085,152
Loan loss reserve	-4,408	-11,664	-37,346	-74,520	-156,987	-277,129
Net loans outstanding	436,347	1,154,741	2,452,378	4,183,752	6,820,221	10,808,023
Other current assets	4,997	13,224	28,227	48,278	79,103	125,677
Net Fixed Assets	58,410	72,639	89,479	107,110	115,332	121,499
Total Assets	703,652	1,373,105	2,738,573	4,558,335	7,360,391	11,651,064
Liabilities and Net Worth						
Client Responsibility Fund	39,272	95,117	202,042	340,271	550,439	871,895
Other current liabilities	8,655	16,882	31,885	51,936	82,761	129,335
Concessional loans	29,447	19,447	9,447	-	-	-
Commercial loans		440,000	1,513,333	3,006,667	5,373,333	8,940,000
Grants (Interest free Loans):						
<u>Promoters</u>	187,703	187,703	187,703	237,703	237,703	237,703
<u>Hivos Netherlands</u>	373,816	523,816	623,816	623,816	623,816	623,816
Shareholder equity	10,654	10,654	10,654	10,654	10,654	10,654
Accumulated net surplus	21,380	54,104	79,486	159,692	287,288	481,684
Current surplus/deficit	32,725	25,382	80,206	127,596	194,396	355,977
Net worth	626,278	801,659	981,865	1,159,461	1,353,857	1,709,834
Total Liabilities and Net Worth	703,652	1,373,105	2,738,572	4,558,335	7,360,390	11,651,064



4 Projected Income Statements

All figures are in US\$

For the year ending:	31-Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Income						
Interest on loans	138,626	393,754	859,190	1,518,299	2,415,628	3,702,784
Other income	3,008	7,960	16,992	29,061	47,617	75,652
Total income	141,634	401,714	876,182	1,547,360	2,463,245	3,778,436
Cost						
Interest on ext. borrowings	854	75,778	161,728	361,789	649,450	1,073,500
Loan loss provision	4,440	7,257	25,682	37,174	82,467	120,142
Write-offs	-	1,168	7,492	21,398	49,185	89,396
Depreciation	14,679	15,771	18,160	22,370	26,777	28,833
Operating expenses (excl. depr.)	86,008	265,482	548,540	922,350	1,377,658	1,958,027
Total Cost	105,981	365,455	761,601	1,365,081	2,185,537	3,269,898
Surplus	35,653	36,259	114,581	182,280	277,708	508,539
Profit Before Tax	35,653	36,259	114,581	182,280	277,708	508,539
Tax	2,929	10,878	34,374	54,684	83,312	152,562
Profit After Tax	32,724	25,382	80,206	127,596	194,396	355,977

5 Key projected performance ratios

For the year ending:	Jun-06	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Operational self-sufficiency	133.6%	109.9%	115.0%	113.4%	112.7%	115.6%
Return on average assets	4.4%	2.4%	3.9%	3.5%	3.3%	3.7%
Operating expense ratio	37.8%	35.0%	31.0%	28.0%	25.0%	22.0%
Financial Cost Ratio	0.9%	9.4%	8.8%	10.7%	11.6%	11.9%
Average outstanding per borrower (US\$)	36	40	44	50	56	62
Portfolio growth rate	192%	165%	113%	71%	64%	59%
Risk weighted capital adequacy ratio	84.9%	65.9%	38.3%	26.6%	19.0%	15.2%



6 Notes to the projections

1. The Operating expense ratio is based on current levels and is projected based on changes in overall productivity and growth in staff, branches and portfolio.
2. Number of active loan accounts relative to membership is based on the current and historical relationship and projected growth trends.
3. Average loan size to members increases by 15% in 2007 and later by 10% per annum.
4. Repayment from members is taken based on assuming that for each of the first four months of every year, 5% of annual disbursement takes place; disbursement for the remaining eight months is 10% of annual disbursements. Repayments are calculated after factoring in the loans outstanding of last year and the repayment rate for the current year.
5. Interest income is taken as [yield on portfolio*average portfolio for the year]. Yield is assumed to go down with reduction in the rate of interest charged by the organisation as it is able to reduce its OER gradually.
6. Other income is the income that the organisation earns on investments and registration fee.
7. Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
8. Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity.
9. Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].
10. Fixed assets purchase is linked to the number of employees since fixed assets mainly consist of motorcycles for field staff.
11. Income tax rate is considered to be 30%
12. Though Ganesh is likely to be a different entity in future (most probably an NBFC), which would require different capital structure, for the assumptions, no such changes have been considered



Funding requirements and performance benchmarks for Ganesh Microfinance Foundation

Year	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
Funding requirement					
Increase in portfolio (Gross)	726,819	1,330,811	1,789,947	2,768,120	4,197,341
Fixed Assets Purchase	30,000	35,000	40,000	35,000	35,000
Increase in cash balance	-71,397	35,987	50,707	126,539	250,131
Repayment to lenders	10,000	156,667	416,114	633,333	1,633,333
Total (a)	695,422	1,558,464	2,296,767	3,562,993	6,115,804
Internal resources					
Cash from operations (b)	49,576	131,540	208,538	352,825	594,348
CRF (c)	55,845	106,925	138,229	210,168	321,456
Deficit (a-b-c)	590,000	1,320,000	1,950,000	3,000,000	5,200,000
Deficit to be sourced from					
<u>Grants from:</u>					
Founders	-	-	50,000	-	-
Hivos Netherlands	150,000	100,000	-	-	-
Others	-	-	-	-	-
<u>Commercial Loan</u>	440,000	1,220,000	1,900,000	3,000,000	5,200,000
Total	590,000	1,320,000	1,950,000	3,000,000	5,200,000



2 Performance benchmarks for Ganesh

Future financial support to Ganesh from HIVOS should be monitored against pre-set performance benchmarks on critical performance indicators. Based on its Business Plan, the performance of Ganesh against key indicators for the next five years of operation has been projected at the following levels

Performance parameters	Base year June 2006 (actuals)	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
1 Staff productivity and stability						
Active clients per staff	268	276	295	304	313	353
2 Growth indicators						
Active clients	22,277	29,000	56,000	85,000	125,000	180,000
Portfolio in US\$	838,905	1,167,573	2,497,216	4,279,671	7,026,392	11,174,548
Loan portfolio growth rate (%)	192%	165%	113%	71%	64%	59%
3 Portfolio quality						
PAR ₃₀	0%	0.2%	1.0%	1.5%	2.0%	2.5%
Current Repayment Rate	100%	99.5%	99.0%	98.0%	97.0%	97.0%
Loan loss rate	0%	0.1%	0.3%	0.5%	0.7%	0.8%
4 Financial performance						
Operating expense ratio	38%	35%	31%	28%	25%	22%
Return on average assets	4.4%	2.4%	3.9%	3.5%	3.3%	3.7%
Risk-weighted Capital Adequacy	85%	66%	38%	27%	19%	15%
Operational self sufficiency	134%	110%	115%	113%	113%	116%



The performance parameters table above can be translated into **minimum performance standards** as follows

Performance parameters	Base year (Actuals)	Year 2006	Year 2007	Year 2008	Year 2009	Year 2010
1 Staff productivity and stability						
Active clients per staff	268	272	280	290	300	325
2 Growth indicators						
Active clients	22,277	27,000	50,000	75,000	110,000	160,000
Portfolio in US\$	838,905	1,000,000	1,800,000	3,500,000	6,000,000	9,000,000
Loan portfolio growth rate (%)	192%	19%	80%	94%	71%	50%
3 Portfolio quality						
PAR ₃₀	0%	1.0%	1.5%	2.0%	2.5%	3.0%
Current Repayment Rate	100%	98.0%	97.0%	97.0%	96.0%	96.0%
Loan loss rate	0%	1.0%	1.0%	1.0%	1.0%	1.5%
4 Financial performance						
Operating expense ratio	38%	36.5%	33.5%	30.0%	28.0%	25.0%
Return on average assets	4.4%	2.0%	3.0%	3.0%	2.5%	3.0%
Risk-weighted Capital Adequacy	85%	55%	28%	20%	15%	12%
Operational self sufficiency	134%	105%	110%	108%	108%	110%



List of Abbreviations

APR	Annual Percentage Rate
CRF	Client Responsibility Fund
HO	Head Office
FSS	Financial Self Sufficiency
GRT	Group Recognition Test
IDR	Indonesian Rupiah
IRR	Internal Rate of Return
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro-Finance Institution
MIS	Management Information System
NBFC	Non Banking Financial Institution
OER	Operating Expense Ratio
OSS	Operating Self Sufficiency
PAR	Portfolio At Risk
PAT	Profit After Tax
PBT	Profit Before Tax
ROA	Return On Assets



M-CRIL’s Microfinance Rating Symbols

M-CRIL Grade	Description
<p>α++ alpha double plus</p> <p>α+ alpha single plus</p>	<p>Highest safety, very good systems ➤ most highly recommended</p> <p>Very high safety, good systems ➤ highly recommended</p>
<p>α alpha</p> <p>α- alpha minus</p> <p>β+ beta plus</p> <p>β beta</p>	<p>^a High safety, good systems ➤ highly recommended</p> <p>Reasonable safety, good systems ➤ recommended</p> <p>Reasonable safety, reasonable systems ➤ recommended, needs monitoring</p> <p>Moderate safety, moderate systems ➤ acceptable, needs improvement to handle large volumes</p>
<p>β- beta minus</p> <p>γ+ gamma plus</p> <p>γ gamma</p>	<p>Significant risk, poor to moderate systems ➤ acceptable only after improvement</p> <p>Substantial risk, poor systems ➤ needs considerable improvement</p> <p>Highest risk, poor systems ➤ not worth considering</p>