



This report summarises the progress made by Ganesha Microfinance Foundation (Ganesha) until June 2005, particularly in the quarter April-June 2005. This is an assessment of Ganesha's operations based on the information provided by the Ganesha management, and the monitoring visit made by M-CRIL at the end of August 2005. It covered the perspectives of outreach, management and financial performance. The assessment has analysed the updated Business Plan and assessed the funding requirements emerging from the Business Plan.

There were two important issues that were to be addressed in the Monitoring Report: Business Plan and clarity of legal status.

- a) Business Plan: Since the updated Business Plan prepared by Ganesha in May 2005 had some assumptions which were not matching with the facts, Ganesha was asked to prepare a Revised Business Plan.
- b) Ganesha still did not have any solutions to the important question of its legal structure, since, as per the Indonesian laws, Ganesha, as a Foundation (Yayasan), cannot be in the business of extending finance after 2007. M-CRIL asked Ganesha to seek professional legal opinion to resolve this matter.

Since the above two critical requirements of the Monitoring Report were pending, this report was kept on hold for a while. M-CRIL and Hivos finally received details on the two aspects from Ganesha in November/December 2005. The revised Business Plan sent in November still needs correction, and Ganesha is working on this. This exercise is likely to finish by end-January 2006.

1 Summary of main events and progress during April-June 2005

The key events that took place in Ganesha during the period April-June 2005 are as follows

- In April 2005, Ganesha started its lending operations at its third branch in Kronjo. In June 2005, Ganesha established its fourth branch at Sepatan, also in the district of Rural Tangerang, although lending had still not begun till the end of June 2005. By the time of the monitoring visit in August 2005, another branch had become operational at Legok.

Ganesha is now expanding at a rapid pace. Ganesha has added 2,250 clients in one quarter: up from 4,523 at the end of March 2005 to 6,773 at the end of June 2005 (50% growth). During the quarter, the number of centers grew by 54%: up from 212 to 327 and the portfolio grew by 44%, from Indo' Rp1.85 billion (~US\$195,000) to Rp2.66 billion (~US\$274,000).

- The portfolio quality remained perfect, with Portfolio at Risk (PAR) > 4 weeks remaining the same as it was at the end of the last quarter: 0%.
- In early April 2005, Ganesha received from Grameen Trust, Bangladesh, a US\$40,000 soft loan exclusively for on-lending activity in its third branch in Kronjo. By the end of the June quarter, most of it was extended as loans to the clients at the Kronjo branch and, by July 2005, all had been deployed as loans. Ganesha plans to submit another proposal to Grameen Trust for additional funds for the Kronjo branch, as well as to start up new branches.
- Mercy Corps has agreed to assist Ganesha in raising commercial funds. For this, they had a four member team visit Ganesha in May 2005, for undertaking an assessment of the organisation. During M-CRIL's visit during August 2005, there was another very extensive assessment by a six member team from Mercy Corps, Indonesia.
- The Ganesha team grew in size with total staff going up from 21 to 33, to support the two new branches and the branches to be added in the near future. The total staff includes 6 Head Office staff and 2 Branch Managers. The others are all Loan Officers or Probationary Loan Officers.
- Ganesha added a member to its Board. Dr. Helen Todd, Chairperson of Moris Rasik, a Grameen replication MFI in East Timor, has joined the Governing Board of Ganesha. She brings to Ganesha her long management, research and implementation experience in Grameen replication MFIs in Asia.
- Rasin, Ichwan and Rekan, Registered Public Accountants, member of the Alliot group of the UK, submitted the final Audit Report for the 2003 accounts during this quarter. The Audit Report for 2004 was prepared in the next quarter. The two reports were seen by M-CRIL during the monitoring visit in August 2005.
- Although the auditor had finalised the 2003 and 2004 Audit Reports, they had not advised the Ganesha promoters if they were liable to pay any income tax on their interest income from Promoters' loans extended to Ganesha. Also, regarding Ganesha's liability towards tax to be deducted at source on the interest payable, there was no clarity. The loan (till June 2005) was in excess of Rp2 billion, with the accumulated interest payable (from 2003 till June 2005), in excess of Rp520 million. Ganesha was advised by M-CRIL to seek advice from a tax practitioner.

On the advice of the tax practitioner, due to the tax complications involved, the promoters decided to convert their loan back into grants to Ganesha. This required Ganesha to make retrospective changes (from 2003 onwards) to the financial statements, wherein all the interest expense on the loans was removed from the Income and Expenditure statement. In the Balance Sheet, the subordinate loan became a grant and the cumulative interest payable on the loan amount was removed.

The revised financial statements were prepared by Ganesha and submitted to M-CRIL in November 2005. Ganesha has even asked the statutory auditors to prepare revised audited statements, to incorporate the above-mentioned changes. The above changes have resulted in Ganesha's financials looking healthier.

- The revisions to the 2004 operations manual were almost complete, and the revised manual was likely to be ready by July 2005.
- In June 2005, the newly appointed Internal Auditor visited all three branches of Ganesha, to conduct surprise audit checks.
- Ganesha's website www.ganesha-mf.net was developed during this quarter. Ganesha intends to make a lot of information available on the website, to new and small MFIs of Indonesia.
- A benefit/impact survey of Ganesha's microfinance programme was undertaken during this quarter. Professor Richard Moore of the Business School of the California State University led the study. Mr.Christian Banno of Microfinanza Italia and a person from the Bandung's Institute of Technology assisted him in undertaking the study.

For the period April-June 2005, Ganesha shows a good performance on most indicators apart from performance in the areas of staff productivity and OER. **Table 1** below shows the achievements of the organization as on 30 June 2005, compared to the targets set in consultation with the Ganesha management during the rating exercise undertaken by M-CRIL in June 2004.

Table 1: Performance against Targets

Performance parameters	Base year (2003)	Jan-June 2005		Comparison with targets
	Actuals	Target*	Achievement	
1 Staff productivity and stability				
Active clients per staff	220	240	205	↓
2 Growth indicators				
Active clients	2,418	4,837	6,773	↑
Loan portfolio (in '000 US\$)	74	185	274	↑
3 Portfolio quality				
PAR ₃₀	0.0%	2.0%	0.0%	↑
Current repayment rate	100.0%	99.0%	99.96%	↑
Loan loss rate	0.0%	1.0%	0.04%	↑
4 Financial performance				
Operating expense ratio	42.5%	28.0%	34.7%	↓
Return on average assets	-30.9%	0.0%	7.1%	↑
Risk weighted Capital Adequacy	-17%	103.2%	134.6%	↑
Operational self sufficiency (OSS)	41.2%	100.0%	138.8%	↑

Notes:

1. Based on the minimum performance targets set as part of the rating exercise in June 2004
2. Operating expense ratio (OER) and return on assets are annualised
3. The lower staff productivity is largely attributable to significant recruitment driven by opening of new branches and plans to open more branches. Also, there are 8 probationary loan officers included in the staff count.
4. Ganesha showed significant portfolio growth in this quarter: up from US\$194,678 in March 2005 to US\$274,088 in June 2005 (On 30th June, 2005 US\$ = 9,720 Ind. Rph.)
5. Repayment rate is net of 0.04% write-offs.
6. The higher OER is attributable to increased expenses on account of setting up of two new branches and expenses on setting up a computerised management information system.

7. The higher OSS / Capital adequacy ratio and the Return on Average Assets is mainly because of the conversion of loans from promoters to grant funding from promoters. The corresponding finance cost is not there any more.

2 Staff productivity and stability

Compared to the last quarter, staff productivity has come down. However, this is largely due to a significant increase in staff strength during the April-June 2005 quarter. Also, out of the 33 staff, 8 are probationary loan officers, who are not supposed to contribute much towards business volumes. Once the new branches become fully operational, staff productivity should improve. However, in a continued growth mode, with new branches and fresh recruitment, the staff productivity ratio might remain at low levels.

The number of staff members has gone up from 21 in March 2005 to 33 in this period. Active clients per staff, which were at 215 in March 2005, have come down to around 205 (against a target of 240). Active clients per loan officer at 398 (excluding the 8 probationary loan officers) are slightly lower than the 409 in December 2004, but better than the 377 clients per loan officer reported in March 2005.

The loan portfolio per Loan Officer has improved from US\$15,069 in Dec 2004 to US\$16,123 in June 2005. The improvement is because of a huge 138% growth in portfolio; from US\$120,548 in December 2004 to US\$274,088 in June 2005. Also, each Loan Officer (excluding probationary Loan Officers) now visits an average of 20 centres per week, up from 18 in December 2004 and 19 in the last quarter.

Ganesha recruited nine Trainee Loan Officers in this quarter. The Trainee Loan Officers have a probation period of two months, within which they start recruiting their own members. From three months onwards, they start handling a full load of 14-16 meetings per week.

Since Ganesha had faced problems in retaining the newly recruited fresh first-degree graduates, who had quit Ganesha after they found jobs with the formal banking sector, Ganesha has decided to go for further recruitment of only the lower qualified diploma graduates, who will find fewer alternative employment opportunities and thus would spend a longer time with Ganesha.

As an internal control measure, Ganesha has started following the policy of rotating staff among branches and functions. A deputy branch head cannot remain at a branch for more than 24 months. A Loan Officer can be a Cashier only for 6 months, before becoming a Loan Officer again.

➤ Accountant

Since the beginning of Ganesha's operations, Ganesha has not had a full time Accountant, and the Chairman, Mr. Shafiq Dhanani, has handled most of the accounting work. For the preparation of the annual accounts of 2003 and 2004, Ganesha had contracted the assignment to an external accounting and business services firm, Jakarta Business Services.

From the second quarter of 2005, the MIS Manager, who also had two years' experience in accounting, has been given charge of producing the quarterly accounts, under the guidance of Mr. Dhanani. An accounts/data entry clerk was also recruited in the first quarter.

The MIS Manager/Accountant is also the Branch Manager of the third branch at Kronjo. This results in the quality of accounts/MIS suffering, since there is no full time Accountant/MIS Manager. That is one of the weaknesses that Ganesha has not been able to remove. Ganesha had been advised during the 2004 rating also that there should be a full time Accountant, and the Chairman should not be preparing the accounts/financial statements of Ganesha. With the high growth mode and new branches opening up, there is a definite need for Ganesha's Chairman to focus on operations and let a qualified accountant be responsible for the accounts.

➤ **Internal Audit**

M-CRIL's 2004 rating report had pointed out that the absence of the internal audit function was a key risk factor. In response, Ganesha had hired a person for the post of Internal Auditor. The person hired has no past experience as Internal Auditor. She worked under the direct supervision of Ganesha's Treasurer/Director, and as part of the Internal Auditor's training programme, she managed the large Teluk Naga branch for three months.

The Internal Auditor then audited each of the three branches, for one week at a time, checking the field and branch processes. At the time of M-CRIL's monitoring visit, she was managing Ganesha's fifth branch at Legok, which had opened in August 2005. This was to be her on-the-job training for about 4-5 months, after which she is supposed to be full time Internal Auditor.

The audit plan and the scope of work for the audit were found very basic, with not much analysis involved. The audit process was nothing but a simple checklist, prepared by the Ganesha Directors. There had been surprise visits to the three branches, and some client files had been seen to compare the loan application form with the client enrolment form.

The Internal Audit function needs to have a proper internal audit team with full time staff. The rate at which Ganesha is growing and plans to grow, the MFI will continuously add branches and new staff. Then there will be a much bigger need for Ganesha to strengthen its internal controls, wherein a dedicated Internal Audit team will play a very important role. As of now, the appointed Internal Auditor is someone who is also learning Ganesha systems and gaining experience in managing branches. M-CRIL advises that Ganesha should have a stronger audit department, for which the MFI will have to hire immediately someone who has internal audit experience, and not just someone who has experience in managing branches.

3 Growth, outreach and mobilisation of funds

As stated earlier, Ganesha started lending operations in its third branch in Kronjo in April 2005 and established its fourth branch in Sepatan in June 2005. The impact of the new branches opened during 2005 can be seen in the fast growth in outreach during the April-June quarter. In this three-month period, Ganesha achieved commendable growth in loan disbursements. The outstanding portfolio grew from US\$194,678 to US\$274,088 – a growth of 44% driven largely by a good growth in active clients (50% growth). The average loan size has gone down from US\$72 to US\$68.

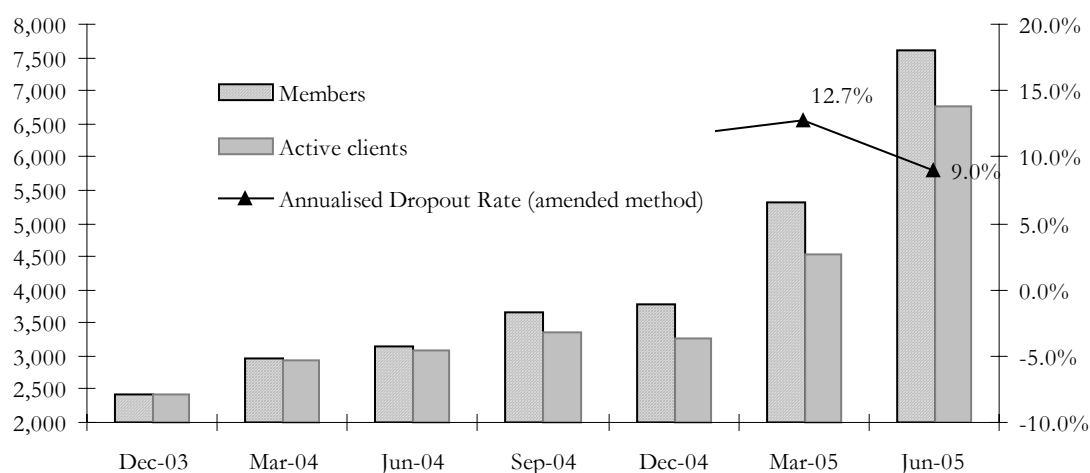
The third branch at Kronjo has already added 908 borrowers in just three months, while the second branch, Rajeg, which started lending in the first quarter of 2005, has doubled its borrowers during the second quarter, to 1,540.

- In April 2005, Ganesha started its lending operations at its third branch in Kronjo. In June 2005, Ganesha established its fourth branch at Sepatan, also in the district of Rural Tangerang, although lending had still not begun till the end of June 2005. By the time of the monitoring visit in August 2005, the fifth branch had become operational at Legok.

Ganesha is now expanding at a rapid pace. Ganesha has added 2,250 additional clients in one quarter: up from 4,523 at the end of March 2005 to 6,773 at the end of June 2005 (50% growth in one quarter). Over one quarter (April-June 2005), the number of centers has grown by 54%: up from 212 to 327. During the quarter, the portfolio grew by 44%, from Rp1.85 billion (~US\$195,000) to Rp2.66 billion (~US\$274,000).

The total number of members increased from 5,309 to 7,597 (43% growth), and the ratio of active clients to total members improved from 85% to 89%. The trend in outreach of the programme is depicted in **Figure 1**.

Figure 1: Growth in Outreach



* Method of computation of member drop-out rate has been amended (**Annex M-CRIL Technical Note on Drop-out Rate**). The current method is drop-outs in the period as a proportion of total members at the end of the period plus the drop-outs in the period. Drop-out rates reflected in the figure are drop-out rates for the preceding 12-month period.

➤ Funds Mobilisation

Ganesha has been resourceful in working towards funds mobilization. Apart from the support from Hivos, they have also managed to raise loan funds from the Grameen Trust. The first loan of ~US\$40,000 has already been used. At the time of the M-CRIL monitoring visit, Ganesha was in the process of applying to Grameen Trust for a bigger loan.

Mercy Corps has agreed to assist Ganesha in raising commercial funds and for this, they had a four member team visit Ganesha in May 2005, for undertaking Ganesha's assessment. During M-CRIL's visit in August 2005, there was another extensive assessment by a six members team from the Jakarta office of Mercy Corps. Mercy Corps intends to assist Ganesha in raising funds

through a guarantee provided to potential lenders, for which Mercy Corps is in touch with the banks in the region.

Ganesha is also a strong candidate for funds from the Triodos Fund.

➤ Client retention

The problem of high client drop-out, as was witnessed in the last quarter, has been arrested during the second quarter of 2005. The number has declined from 292 in the first quarter to only 38 drop-out clients in the second quarter. The quarterly drop-out rate for the 1st quarter (January-March 2005) was 6.5%, whereas this has reduced to 0.50% in the Apr-Jun quarter.

The dip in drop-outs is mainly attributable to Ganesha's strict policy on client attendance at meetings. During the last quarter, the high drop-out was due to Ganesha's decision to close down five centers, where there was widespread absenteeism. During the April-June quarter, the clients knew that unless their center showed discipline, their center would be closed down.

Analysis of the 38 drop-outs was conducted by Ganesha. **Table 3** provides a break-up of the reasons for clients' separation.

Table 3: **Client separation and Reasons**

Reason for Separation	Number of clients separated
Dismissed from the programme	16
Chose to discontinue	20
Death	2
Total	38

The main reason behind voluntary separation of 20 members has been migration or new employment.

4 Portfolio quality and financial performance

Ganesha continues to show good performance on maintaining very good portfolio quality and ensuring timely repayments. As on 30 June 2005, there were nil >30 days loan overdues (PAR₃₀ 0.0% against a target of 2%) and the repayment rate in the period was 99.96% (against a target of 99%). Although Ganesha keeps an informal track of the diversity of its loan portfolio across economic activities, the exact extent of diversification is not known. Ganesha has written off around 0.04% of its portfolio in the second quarter, against 0.11% written off during the first quarter. All the write-offs are on account of client deaths.

The income up to June end was ~IDR479 million (~US\$49,265). The operating expenses were ~IDR326 million (~US\$33,514). The same resulted in a net surplus of IDR134 million (~US\$13,765), after creating provision for losses of IDR19 million (~US\$1,990). The RoA has gone down from 12.5% in December 2004 to 7.1% (against a target of 0%). The December 2004 financials are different from that reported in the last quarter's desk review, because the financials have been revised from 2003 onwards, to remove the interest cost on the promoter's loan fund, which has been converted to grant this year.

Expenses have increased as Ganesha has set up new branches and is in the process of setting up more branches – the operating expense ratio has gone up from 27.3% in December 2004 to 34.7% (against a target of 28%) as on 30 June 2005. The operational self-sufficiency has also declined from 203.7% in December 2004 to 138.8% as on 30 June 2005 (against a target of 100%).

With the change in policy of converting the loan funds from founders to grant funds, the net worth has improved significantly, and this has increased the risk weighted capital adequacy to 134.6% (against a target of 103.2%).

5 Transition to a suitable legal status

As mentioned in the rating report (June 2004), according to the 2001 Law on Foundations (Yayasans) operating in Indonesia, Foundations such as Ganesha will not be allowed to offer micro-credit services after August 2007. Such foundations will have to become cooperatives¹ or rural banks².

Since Ganesha's future status was still not clear, and it was a very important issue for the funding agencies/donors, Ganesha was asked by M-CRIL to seek legal opinion, so that their feedback could be a part of the monitoring report.

Based on this, Ganesha had submitted official proposals for formal legal advice to two reputable legal firms in Jakarta. Ganesha plans to sign a contract with one of them during the final quarter of 2005. (Hivos should check with Ganesha about the latest position). After consultations with the experts, Ganesha has informed M-CRIL about another development. According to this, since the 2001 Law on Foundations was amended in 2004, and became operational only in October 2005, Ganesha has gained another year, until October 2008, to abide by the new organizational rules and permitted activities.

The above law on the Foundations is a binding constraint at present, since Ganesha cannot raise funds without legal certainty to operate legitimately as an MFI in Indonesia.

Options available

There is a clear need for Ganesha to change its legal status to the extent possible. Alternatively, it could collaborate with like-minded institutions that offer microfinance. Based on discussions with the legal firm, some of the new findings are given below:

- Ganesha cannot become a for-profit financial company for the foreseeable future because the Ministry of Finance will not issue new licenses for NBFCs.
- Since two out of three Ganesha founders are foreign nationals, they cannot be owners or shareholders of a BPR. They cannot be full members of a cooperative. So Ganesha must undertake the following steps.
- Ganesha could forge an alliance with a like-minded:

¹ Cooperatives are under the supervision of the Ministry of Cooperatives and Small Enterprises

² Rural banks (BPRs) come under the supervision of Bank Indonesia, the Central Bank

1. Community bank or BPR (Tangerang and Bogor area)
2. Loan and savings cooperative (KOSIPA)
3. Commercial bank using ICICI/Cashpor type partnership

Provided the Ganesha Executive Chair can obtain a secure CEO position in such a BPR or Cooperative, the Ganesha Board can consider transferring its existing business and client base to one or more of these institutions.

- As soon as possible (as early as 2006), Ganesha should identify and collaborate with partner BPRs and/or Cooperatives to raise funds locally and abroad, and adopt Ganesha mode of operations to build their own client base to complement that of Ganesha.
- As a foundation, Ganesha can invest up to 20% of its assets in a commercial venture such as BPR. However, it can lend or deposit funds in a BPR or commercial company without limitations.
- When the Ministry of Finance issues licenses again, Ganesha can convert itself into a for-profit Non-Bank Financial Company (NBFC).
- By the end of 2005, obtain credible legal advice from a law firm, which has experience in assisting foreign entities to set up financial service companies in Indonesia (proposals have already been submitted to three reputable law firms).
- Ganesha requires on-lending funds as early as 2006 to expand. Since it can still legitimately operate as an MFI until October 2008, while developing strategic alliances with like-minded BPRs, cooperatives and commercial banks, Ganesha is in the position to undertake the following:
 - Obtain a follow-up grant from Hivos to continue expansion and strengthen the institution
 - Borrow funds from the Hivos/Triodos Fund over a two and half-year period (January 2006-July 2008) and repay these loan funds from its operations before the October 2008 deadline.

6 Impact

Changes in housing quality and changes in assets

Since Ganesha had been asked by Hivos to report on the housing index data, they have recently started collecting housing index data at every loan cycle. At every new loan request, the field staff goes to the borrower's house, and updates the housing index on the "loan proposal" form. The latter has now three columns for the housing index, so Ganesha can keep a time series of the data. For instance, if the borrower is requesting her third loan, then historical data on her first loan (before Ganesha intervention) and second loan (before it starts) are retrieved from the membership form and Loan 2 proposal form respectively, and written again on the Loan 3 proposal form.

The housing and other assets information collected on Ganesha's membership form is very detailed, but only the final score is entered in the computer. Moreover, this is a one-off data entry procedure, and the computer programme is not designed to collect and process housing assets information again, so Ganesha's MIS does not have a provision to enter the housing assets data changes over the loan cycles. Thus any sort of trend analysis is not possible as of now.

The computer programme was purchased from Grameen Communications. Ganesha intends to ask the Grameen Communications software team to customize the programme so that (i) more details could be entered, and (ii) data could be entered every loan cycle, and (iii) there is an option to track improvements/changes.

Professor Richard Moore of the Business School of the California State University and his team conducted an impact assessment survey. As per Ganesha, the initial draft report suggests an improvement in the housing index, particularly in the second and third year. The final report was to be received in the third quarter.

M-CRIL saw the detailed forms, with extensive information collected by Ganesha. The policy adopted till now is not to extend loans if the housing index score is more than 9, and during M-CRIL's visit, it was seen that the clients were definitely the poorer clients of the village. The products offered by Ganesha to its target clientele belonging to the poorer section are appropriate to its context.

6 Business Plan

Ganesha had prepared a detailed Business Plan in May 2005 (revising the old Business Plan of 2004-08), and this had been presented to M-CRIL at the time of the monitoring visit in August 2005. The Business Plan, despite being a new one, was still off the mark, since Ganesha's actual growth was far more rapid than was shown in the Business Plan. That, and some errors in the Business Plan, meant that a new Business Plan was required. Ganesha presented the revised Five Year Strategic Business Plan for 2005-09 to M-CRIL in November 2005. On going through the revised plan, there still were clarifications and changes that were required from Ganesha. The Business Plan prepared by Ganesha, suffered from certain errors in calculating the cash earning from operations and calculating the net funds which would be needed from the donors and lenders, after taking into account the repayments to be made to them. Though the organisation could make the relevant assumptions properly, in the absence of a qualified accountant its capacity to work with numbers is still limited.

Without waiting for the corrections from Ganesha, which could further delay the monitoring report, M-CRIL has prepared a Business Plan, which reflects its perception of how Ganesha's projections should look.

The relevant statements are in Annex A, B and C.

The key issue here is staff availability. For Ganesha to grow at the pace that its Business Plan suggests, they need to set up a formal Human Resource Development department. There is a definite need to have training modules for the staff, to have old staff improving their skills and the new staff to be trained adequately, before they are asked to take up the responsibility of achieving the huge numbers projected. Since according to the current projections, the number of branches goes up to 35 in 2008 and further to 54 in 2009, the requirement for staff is very high

(240 in 2008 and 410 in 2009). It would be a big challenge for the organisation to hire and train such a large number of employees and would need great effort on the part of the organisation. Also considering that the governance of Ganesha is being handled well, and raising funds has not been a problem, the biggest challenge will be to have a strong team in place to oversee and make possible its substantial growth plans.

8 Conclusions

During the period April-June 2005, Ganesha showed good performance on growth, with portfolio growing rapidly. In this quarter, Ganesha's number of active clients grew by a good 50%. The total number of members increased by 43%. Ganesha has now set up its fourth branch in the last quarter, taking the number of new branches to three within 2005. Lending operations for the fourth branch began only after June 2005. To support its growth plans, Ganesha has increased its team size, by recruiting new staff and trainees. Even in this high growth period, Ganesha maintained its portfolio quality with PAR₃₀ at 0% and repayment rate at 99.9% (the repayment rate is actually 100%, and the small difference is only on account of clients who died, and whose outstanding is written off).

However, on account of increased expenses towards setting up of new branches and computerised MIS, the costs are still higher than the target of 28% OER: June closed with an OER of 34.7% . With the conversion of the promoters' loans to grants from promoters, there is a big change in some of the ratios: Risk weighted capital adequacy improved to 134.6% and OSS became 138.8% and the return on average assets is now 7.1%.

[SG/M-CRIL 12 January 2006]

Ganesha Microfinance Foundation

as on 31 December 2004	Balance Sheet	as on 30 June 2005	
<u>US\$</u>		<u>US\$</u>	<u>US\$</u>
	<u>Assets</u>		
	<u>Current assets</u>		
176,555	Cash in hand and bank		148,941
1,226	Other current assets		3,024
	<u>Loans outstanding</u>		
115,339	Gross loans outstanding	274,088	
-755	(Loan loss reserve)	-2,741	
114,584	Net loans outstanding		271,347
292,365	Total current assets		423,313
	<u>Long term assets</u>		
22,110	Net property and equipment	32,596	
22,110	Total long term assets		32,596
314,476	Total Assets		455,909
	<u>Liabilities and Networth</u>		
	<u>Current liabilities</u>		
11,218	Client responsibility fund		21,944
230	Other current liabilities		255
11,448	Total current liabilities		22,198
	<u>Long term liabilities</u>		
	<u>Long term debt</u>		
-	Loan from Grameen Trust	38,739	
-	Total long term debt		38,739
-	Total long term liabilities		38,739
	<u>Net worth</u>		
10,228	Paid up equity	10,228	
115,097	Grant HIVOS	193,276	
151,226	Grant from Promoters	151,226	
-1,311	Retained net surplus/(deficit)	26,417	
27,728	Current net surplus/(deficit)	13,765	
303,028	Total net worth		394,971
314,476	Total Liabilities and Net Worth		455,909

Ganesha Microfinance Foundation

Income Statement

Jan-Dec 2004 (12 months)	For 6 months ended 30 June 2005		
<u>US\$</u>		<u>US\$</u>	<u>US\$</u>
53,089	Interest on loans	47,892	
1,365	Interest on investments	1,175	
10	Other income	198	
54,464	Total income		49,265
	<u>Financial costs</u>		
	Interest on borrowings	-	
54,464	Gross financial margin		49,265
446	Provision for loan losses	1,986	
54,018	Net financial margin		47,279
	<u>Operating expenses</u>		
11,960	Salaries	14,249	
532	Travel	1,612	
5,952	Depreciation	5,160	
6,288	Administrative/office expenses	7,465	
1,559	Staff Development expenses	1,176	
	Management Information System	<u>3,853</u>	
26,290	Total Operating expenses		33,514
27,728	Net Surplus/Deficit		13,765
-	Tax		-
27,728	Profit after tax (PAT)		13,765
27,728	Transferred to Balance Sheet		13,765

Notes to the financial statements

- 1 All loan portfolio related income is recognised only when it is actually received (**cash basis**). Grants are treated as donated equity in the balance sheet (and shown below the line, separating it from operational income).
- 2 Provisioning has been carried out by M-CRIL to maintain a loan loss reserve of 1% commensurate with the portfolio quality of the organisation.
- 3 Financial costs, interest on borrowings and operating costs are calculated on an accrual basis.
- 4 Loan portfolio to the extent of around US\$207 (IDR 2,070,000) has been written-off during 2005 (two quarters).
- 5 Conversion rate used is 1US\$=IDR9,720 for both 2004 and 2005 financial statements.

Glossary

- 1 Portfolio at risk (PAR₃₀)
Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 30 days to the total loans outstanding on a given date.
- 2 Operating cost ratio
Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
- 3 Average loan portfolio
This represents the average loan outstanding for the year computed on a quarterly basis.
- 4 Average total assets
This represents the average total assets for the year calculated on an quarterly basis.
- 5 Loan loss rate
Amount of loans written off during the year as a proportion of average portfolio
- 6 Drop-out rate
Ratio of total drop-outs during the period to the total number of clients at the end of the period plus the drop outs during the period.

Annexure 'A'

Five-years (2005-09) Business Plan for Ganesha Microfinance Foundation

1. Basic Assumptions

For the year ending:	2004 <i>(actual)</i>	2005	2006	2007	2008	2009
Number of active loans	3,274	12,162	22,222	38,462	66,176	107,143
Branches	1	7	13	22	35	54
Total employees	9	60	100	150	240	410
Average loan size (US\$)	34	61	77	94	106	112
Disbursements (US\$ '000)		740	1,700	3,600	7,000	12,000
PAR ₃₀	0.3%	0.0%	1.0%	1.5%	2.0%	2.5%
Loan loss reserve ratio	0.7%	1.0%	1.0%	1.5%	2.0%	2.0%
Loan loss rate		0.1%	0.5%	0.8%	1.0%	1.2%
Current repayment rate	100.0%	100.0%	99.5%	99.0%	98.0%	97.5%
Savings as proportion of loan disbursed	5%	5%	5%	5%	5%	5%
OER	37.8%	32.0%	30.0%	28.0%	27.0%	25.0%
Yield	57.0%	47.0%	45.0%	44.0%	43.5%	42.0%
Commercial borrowing rate	15%	15%	15%	15%	15%	15%
Concessional borrowing rate*	12%	12%	12%	12%	12%	12%

*Interest rate on loan from Grameen Trust is taken at 4% as per the actual agreement between the lender and the borrower.

2. Projected cash flow statements

Figures in US\$

For the year ending:	2005	2006	2007	2008	2009
<u>Inflows</u>					
Opening cash	171,612	93,380	95,763	184,414	317,820
Deposits – savings	37,000	85,000	180,000	350,000	600,000
<u>Grants:</u>					
Founders	30,000	-	-	-	-
Hivos Netherlands	150,000	160,000	-	-	-
Others	-	67,000	70,000	33,000	-
<u>Concessional Loan</u>					
Grameen Trust	37,000	-	-	-	-
others	-	250,000	750,000	1,100,000	1,400,000
<u>Commercial Loan</u>					
	-	-	300,000	1,200,000	2,500,000
Interest on loans	132,201	335,128	714,362	1,425,491	2,491,745
Other income	1,559	2,783	5,566	10,019	16,699
Repayments	401,209	1,106,219	2,414,233	4,818,303	8,734,997
Total Inflow	960,581	2,099,510	4,529,924	9,121,227	16,061,261
<u>Outflows</u>					
Disbursements	740,000	1,700,000	3,600,000	7,000,000	12,000,000
Savings withdrawal	9,250	25,500	63,000	140,000	270,000
Operating expenses (excl. depr.)	82,211	209,680	433,603	853,994	1,439,047
Interest paid on external borrowings	740	16,233	93,240	283,747	604,000
Repayment to lenders	-	12,333	95,667	445,667	1,200,000
Fixed assets purchase	35,000	40,000	60,000	80,000	115,000
Total Outflow	867,201	2,003,747	4,345,510	8,803,408	15,628,047
Net cash balance	93,380	95,763	184,414	317,820	433,213

3. Projected balance sheets

Figures in US\$

As on:	2004 (actual)	2005	2006	2007	2008	2009
<u>Assets</u>						
Cash in bank	171,612	93,380	95,763	184,414	317,820	433,213
Gross Loan outstanding	112,109	450,900	1,044,230	2,224,776	4,389,787	7,610,892
Write-offs	-	-451	-5,221	-16,686	-43,898	-91,331
Loan outstanding	112,109	450,449	1,039,009	2,208,090	4,345,890	7,519,561
Loan loss reserve	-734	-4,504	-10,390	-33,121	-86,918	-150,391
Net loans outstanding	111,376	445,944	1,028,619	2,174,969	4,258,972	7,369,170
Other current assets	1,192	1,400	2,500	5,000	9,000	15,000
Net fixed assets	21,491	48,694	74,955	113,964	163,171	234,037
Total Assets	305,671	589,418	1,201,837	2,478,348	4,748,963	8,051,421
<u>Liabilities and Net Worth</u>						
Savings deposits	10,904	38,654	98,154	215,154	425,154	755,154
Other current liabilities	224	432	1,532	4,032	8,032	14,032
<u>Concessional loans</u>						
Grameen Trust		37,000	24,667	12,333	-	-
Others		-	250,000	916,667	1,683,333	2,383,333
Total concessional loans		37,000	274,667	929,000	1,683,333	2,383,333
Total commercial loans		-	-	300,000	1,400,000	3,400,000
<u>Grants</u>						
Promoters	111,874	141,874	141,874	141,874	141,874	141,874
Hivos Netherlands	146,991	296,991	456,991	456,991	456,991	456,991
Others		-	67,000	137,000	170,000	170,000
Total Grants	258,865	438,865	665,865	735,865	768,865	768,865
Shareholder equity	10,000	10,000	10,000	10,000	10,000	10,000
Accumulated net surplus	-1,274	25,678	64,467	151,619	284,297	453,578
Current surplus/deficit	26,952	38,789	87,152	132,677	169,282	266,458
Net worth	294,543	513,332	827,484	1,030,162	1,232,443	1,498,901
Total Liabilities and Net Worth	305,671	589,418	1,201,837	2,478,348	4,748,963	8,051,421

4. Projected income statements

Figures in US\$

For the year ending:	2004 (actual)	2005	2006	2007	2008	2009
<u>Income</u>						
Interest on loans	51,602	132,201	335,128	714,362	1,425,491	2,491,745
Other income	1,327	1,559	2,783	5,566	10,019	16,699
Total income	52,939	133,760	337,911	719,928	1,435,510	2,508,444
<u>Cost</u>						
Interest on external borrowings	-	740	16,233	93,240	283,747	604,000
Loan loss provision	434	3,770	5,886	22,731	53,796	63,473
Write-offs	-	451	5,221	16,686	43,898	91,331
Depreciation	5,785	7,798	13,739	20,991	30,793	44,134
Operating expenses (excl. depr.)	19,768	82,211	209,680	433,603	853,994	1,439,047
Total Cost	25,987	94,971	250,759	587,251	1,266,228	2,241,986
Surplus	26,952	38,789	87,152	132,677	169,282	266,458

5. Key projected performance ratios

For the year ending:	2004 (actual)	2005	2006	2007	2008	2009
Operational self-sufficiency	203.7%	140.8%	134.8%	122.6%	113.4%	111.9%
Return on average assets	0.0%	8.7%	9.7%	7.2%	4.7%	4.2%
Operating expense ratio	22.8%	32.0%	30.0%	28.0%	27.0%	25.0%
Average outstanding/borrower (US\$)	34	37	47	57	66	70
Portfolio growth rate	63%	302%	131%	113%	97%	73%
Risk weighted capital adequacy ratio	239.7%	108.1%	76.9%	45.5%	27.8%	19.6%

6 Notes to the projections

1. Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion plans of Ganesha.
2. Yield on portfolio is expected to decrease with a gradual reduction in the rate of interest charged to the clients.
3. Other income is the income from investments and upfront charges from the clients.
4. 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.
5. In the projections the net worth figure includes grants, equity, retained surpluses and current surplus.
6. Savings are at the rate of 5% on disbursements. This is as per the loan product specification of the organisation.
7. Repayments to lenders are assumed to be in three equal instalments starting from the subsequent year.
8. Except loan from Grameen Trust, which has 4% rate of interest, concessional loan is assumed to bear 12% rate of interest.
9. No interest is paid by the organisation on the savings collected from the clients. The policy is assumed to continue for the next five years.
10. Fixed assets requirement is projected to increase in proportion to the increase in number of branches
11. Return on assets is the net surplus (after operational and financial costs) as a proportion of total assets. With an increase in total external borrowings as a percentage of total funds of Ganesha, the return on assets is reducing sharply over the years.
12. For projections and comparison with 2004 financials currency conversion rate is assumed at 1US\$=IDR10,000

Annexure 'B'

Funding requirements for Ganesha Microfinance Foundation

1. Funding requirements for Ganesha

Figures in US\$

Year	2005	2006	2007	2008	2009
Funding requirement					
Increase in portfolio (Gross)	338,791	593,781	1,185,767	2,181,697	3,265,003
Fixed Assets Purchase	35,000	40,000	60,000	80,000	115,000
Increase in cash balance (decrease)	-78,232	2,383	88,651	133,405	115,394
Repayment to lenders	-	12,333	95,667	445,667	1,200,000
Total (a)	295,559	648,498	1,430,085	2,840,769	4,695,396
Internal resources					
Cash from operations (b)	50,809	111,998	193,085	297,769	465,396
Savings (c)	27,750	59,500	117,000	210,000	330,000
Deficit (a-b-c)	217,000	477,000	1,120,000	2,333,000	3,900,000
Deficit to be sourced from					
Grants from:					
Founders	30,000	-	-	-	-
Hivos Netherlands	150,000	160,000	-	-	-
Others	-	67,000	70,000	33,000	-
<u>Concessional Loan</u>					
Grameen Trust	37,000	-	-	-	-
Others	-	250,000	750,000	1,100,000	1,400,000
<u>Commercial Loan</u>					
	-	-	300,000	1,200,000	2,500,000
Total	217,000	477,000	1,120,000	2,333,000	3,900,000

Notes to the funding requirements

1. Funding requirements are based on the projection shown in Annexure 'A'
2. Funding requirements plan prepared by the organisation had certain errors. M-CRIL has prepared the plan, which reflects M-CRIL's perception of the Ganesha's growth prospective, keeping most of Ganesha's other assumptions intact.

Annexure 'C'

1. Performance benchmarks for Ganesha

Future financial support to Ganesha from HIVOS should be monitored against pre-set performance benchmarks on critical performance indicators. Based on its business plan, the performance of Ganesha against key indicators for the next five years of operations have been projected at the following levels

Performance parameters	Base year (Actuals)	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
1 Staff productivity and stability						
Active clients per staff	220	210	225	240	260	275
2 Growth indicators						
Active clients	2,418	12,162	22,222	38,462	66,176	107,143
Portfolio in US\$	73,974	450,900	1,044,230	2,224,776	4,389,787	7,610,892
Loan portfolio growth rate (%)		302%	131%	113%	97%	73%
3 Portfolio quality						
PAR ₃₀	0%	0.0%	1.0%	1.5%	2.0%	2.5%
Current repayment rate	100%	100.0%	99.5%	99.0%	98.0%	97.5%
Loan loss rate	0%	0.1%	0.5%	0.8%	1.0%	1.2%
4 Financial performance						
Operating expense ratio	43%	32.0%	30.0%	28.0%	27.0%	25.0%
Return on average assets	-10.7%	8.3%	9.4%	7.1%	4.7%	4.2%
Risk-weighted capital adequacy	164%	108.9%	76.8%	45.5%	27.9%	19.7%
Operational self sufficiency	67%	138.7%	133.4%	122.3%	113.3%	111.9%

2. Minimum performance standards

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

Performance parameters	Base year (Actuals)	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
1 Staff productivity and stability						
Active clients per staff	220	210	220	230	240	260
2 Growth indicators						
Active clients	2,418	12,000	20,000	34,000	60,000	95,000
Portfolio in US\$	73,974	440,000	950,000	2,000,000	4,000,000	6,800,000
Loan portfolio growth rate (%)		295%	116%	111%	100%	70%
3 Portfolio quality						
PAR ₃₀	0%	0.0%	1.5%	2.0%	2.5%	3.0%
Current Repayment Rate	100%	100.0%	99.0%	98.0%	97.5%	97.0%
Loan loss rate	0%	0.1%	0.75%	1.0%	1.5%	1.8%
4 Financial performance						
Operating expense ratio	43%	32.0%	31.0%	29.0%	28.0%	26.5%
Return on average assets	-10.7%	8.0%	9.0%	6.5%	4.0%	3.5%
Risk-weighted Capital Adequacy	164%	100.0%	70.0%	40.0%	25.0%	18.0%
Operational self sufficiency	67%	138.2%	133.1%	120.6%	111.2%	109.8%

List of Abbreviations

APR	Annual Percentage Rate
BPR	Bank Perkreditan Rakyat
FSS	Financial Self Sufficiency
FI	Financial Institution
HO	Head Office
IDR	Indonesain Rupiah
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro-Finance Institution
MIS	Management Information System
NBFC	Non-Bank Financial Company
OER	Operating Expense Ratio
OSS	Operating Self Sufficiency
PAR	Portfolio At Risk
PAT	Profit After Tax
PBT	Profit Before Tax
ROA	Return On Assets