



## Ganesha Microfinance Foundation

Teluknaga, Rural Tangerang, Indonesia

<b>Rating Grade</b>	<b><math>\beta+</math></b> Beta Plus	<b>Assessment:</b> Reasonable safety, reasonable systems
<b>Visit dates:</b> 14-16 June, 2004	<b>Operational head:</b> Mr Shafiq Dhanani	
<b>Maximum validity of rating*:</b> till June, 2005		

### Rating

Ganesha Microfin has a reasonable performance on all three aspects of governance & strategy, management and financial indicators. A very high operating expense ratio coupled with a poor return on average assets reduces the otherwise strong performance on other parameters.

**In M-CRIL's view**, on account of high demand for credit as well as overall commendable performance and approach to self-reliance, Ganesha Microfin can absorb grants of IDR920 million (US\$100,000) from HIVOS over the next one year.

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.

- 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

Category	Rating grade <sup>1</sup>
A <i>Governance aspects</i>	$\beta$
B <i>Managerial factors</i>	$\beta+$
C <i>Financial performance</i>	$\beta+$
<b>Overall</b>	$\beta+$

### Key Risk Factors

- 1 **Legal Form:** Legislation restricting Foundations in Indonesia from carrying out lending operations will come into effect from 2007. To overcome the problems associated with its legal status, Ganesha will have to register as a Co-operative or a People's Bank (BPR). This transformation is likely to affect its operations in the future. Also, there is the issue of Mr Shafiq Dhanani, the Chairman, being a foreigner. The BPR/Cooperative Laws of Indonesia do not allow foreign citizens to be promoters. To resolve the problem, either Shafiq has to take Indonesian citizenship or stay out of the formal structure of the co-operative.
- 2 **Negative Return on Assets:** At the present scale of operations, Ganesha Microfin has a negative return on assets. It has been able to acquire donated equity from the Chairman to meet its operational deficit. In case of the chairman discontinuing this support, Ganesha Microfin's operations may run into difficulties, unless it is able to tap other resources.
- 3 **Absence of internal audit function:** There is no separate formal internal audit process in the organisation. Some random checks of records at the groups is done by the Chairman and the Treasurer. This is inadequate for the detection of clerical mistakes and/or fraud.
- 4 **Lack of second line of leadership:** The Chairman presently manages the operations of Ganesha. The rest of the staff comprises field officers and a Deputy Branch Manager. The operations could suffer in case of the prolonged absence of the Chairman.

### Key Programme Strengths

Governance, experience and strategy	Management and operations	Financial
1 Focused and geographically concentrated microfinance operations	1 Strong financial control	1 Excellent portfolio quality
2 Strong emphasis on credit discipline	2 Streamlined operations and efficient recording system	2 High Capital Adequacy
3 Reasonably diversified portfolio		

<sup>1</sup> M-CRIL's grading sheet is attached at the end of the report.

### Organisational Profile

Legal form	Years of m-f Operation	Number of				
		Members	Centres	Staff	Branches	Active borrowers/ staff member
Yayasan (Foundation)	1.5	3,120	121	11	1	~283

### Microfinance programme: Operational highlights

Outstanding borrowings of MFI	Loan portfolio of MFI IDR (million)	Cumulative loans disbursed by MFI IDR (million)	Average loan size from MFI to borrowers IDR (million)
Nil	687.4	1,132.8	~ 0.52
Nil	US\$74,700	US\$123,130	US\$56.5

### Key financial ratios

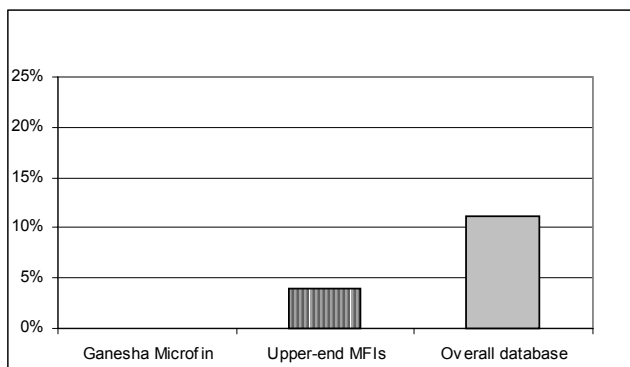
<b>Portfolio at risk (&gt;=60 days)</b>	<b>Cumulative repayment rate</b>	<b>Risk weighted capital adequacy ratio</b>	<b>Weighted average cost of funds</b>	<b>Yield to APR ratio</b>
0.0%	100.0%	163.7%	0.0%	70.6%
<b>Yield on portfolio</b>	<b>Other income to average portfolio</b>	<b>Financial cost ratio</b>	<b>Loan loss provisioning ratio</b>	<b>Operating expense ratio</b>
38.3%	0.7%	0.0%	1.0%	42.5%
<b>Total income to average total assets</b>	<b>Total expenses to average total assets</b>	<b>Return on average total assets</b>	<b>Operational Self Sufficiency</b>	<b>Financial Self Sufficiency</b>
21.6%	32.3%	-10.7%	66.9%	57.6%

#### Notes

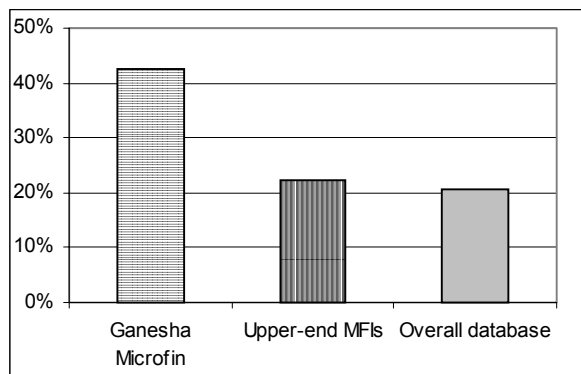
- 1 All figures are estimated for the organisation's microfinance programme as on 31<sup>st</sup> December 2003.
- 2 The members of Ganesha Microfin comprise 3,120 women in a total of 121 centres.
- 3 Ganesha Microfin started its lending operations in April 2003.
- 4 The staff members of Ganesha Microfin are full-time and are dedicated to the microfinance program.
- 5 The ratios of repayment rate and portfolio at risk have been calculated on the basis of an examination of all loan accounts (borrowers to MFI level), cross-verification from office ledgers and during field visits to groups and examination of other office records. The methodology used to measure such ratios is a function of the data with the organisation and the quality of that data.
- 6 Other income includes income that the organisation earns from deposits in Banks.

## Ganesh Microfin – Financial overview

**Portfolio at risk (>=60 days): 31 December 2003**

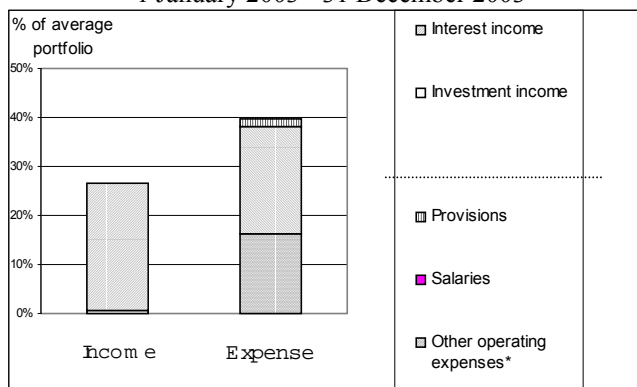


**Operating expense ratio: 1 January 03- 31 December 2003**



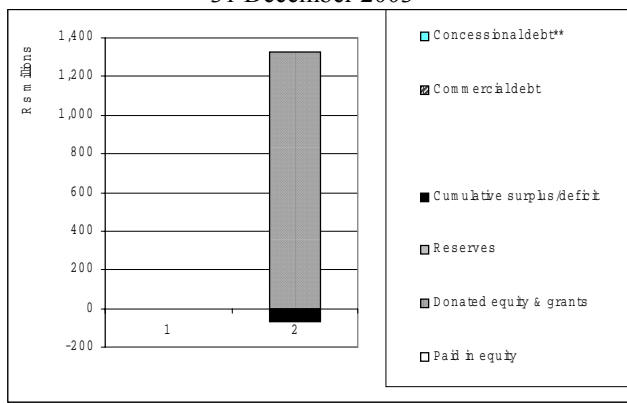
**Note:** 1.  $n_{upper-end} = 10$      $n_{database} = 110$ ;    Database updated as on 30 June 2003.  
 2. Outliers and rated NGOs with no direct lending have been removed for analysis. Upper-end figures reflect MFIs with top 10% scores.  
 3. The upper-end MFIs and overall database ratios represent 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 January 2003 - 31 December 2003**



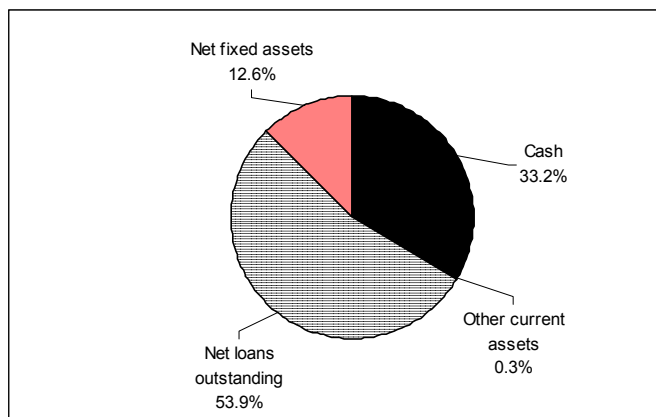
\* Other operating expenses include travel, depreciation and administrative expenses

**Debt and equity composition:  
31 December 2003**

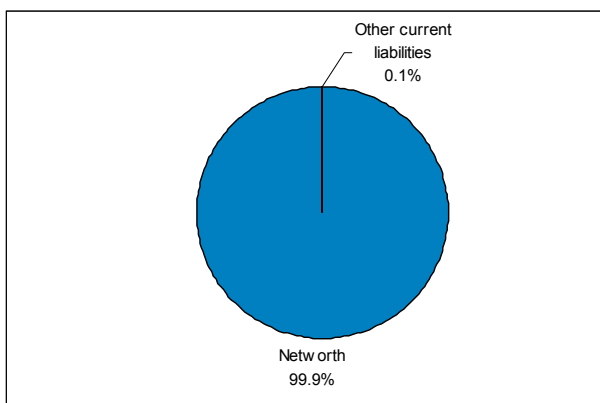


\*\* Concessional debt is borrowing+comp.savings taken at < Bank PLR +50 basis points, & voluntary savings taken at < bank deposit rates

**Asset composition: 31 December 2003**



**Liability & net worth composition: 31 December 2003**



### Country Profile: Indonesia

Indonesia is the world's largest archipelago consisting of more than 17,000 islands of which only 6,000 are inhabited. Indonesia is rich in natural resources with substantial reserves of petroleum, tin, natural gas, nickel, timber, bauxite, copper, fertile soils, coal, gold and silver. The current issues which the country needs to respond to are widespread corruption, rising unemployment, rising poverty and recent acts of terrorism.

Indonesia was considered as an Asian economic super power in the 1980's on account of its superior performance in the area of exports. This notion was quashed in the financial crisis that hit South East Asia in 1997, which eroded confidence in its currency and banking sector. The fallout of the Asian financial crisis was the most severe in Indonesia of all the major countries affected. The economic impact was exacerbated by political and social upheaval. Real GDP contracted by 13% in 1998 and by July 1998 the Rupiah had depreciated by about 80% from the previous year and inflation had accelerated to about 70% per annum. The banking system came under severe stress as many corporate borrowers defaulted on loans, and a general loss of confidence in the banking system resulted in several bank runs.

After five years of political and economic turmoil (1998-2003), Indonesia's economy now seems to have stabilized and is growing slowly. The successful execution of an International Monetary Fund macroeconomic program by President Megawati Sukarnoputri's administration has led to mild economic growth and relative political stability. Indonesia's stock market has performed among the best in Asia, and its sovereign debt has been upgraded from CCC+ to B- by Standard & Poor's.

GDP growth picked up to 4.1% in 2003, a modest improvement over 3.7% the previous year, even though the country was hit by another terrorist attack (in Jakarta) and faced the regional problems caused by SARS and the conflict in Iraq. Inflation slowed to a year-end 5.1%, the reference interest rate fell, and the Indonesian Rupiah firmed against the dollar.

IMF expects the real GDP to grow by 4.8% and 5.0% in the year 2004 and 2005 respectively on account of growth in consumer as well as government spending. Inflation is also expected to be under control at 5.0% and 4.5% in 2004 and 2005 on account of continuing tight monetary policy.

In the medium term, there is continuing concern that Indonesia may be trapped in a relatively low-level growth path, with the economy growing at less than 5%, unless certain key challenges like issues of poor governance and corruption at the state owned enterprises, inefficient legal and regulatory environment, weak banking sector as well as unstable security environment are addressed.

The banking sector of Indonesia is still to emerge from the effects of the financial crisis. Though the proportion of Non Performing Loans (NPLs) has declined from 49% in 1998 to 7% in 2003, the banking sector is still reluctant to lend to corporate borrowers and prefers to keep its assets in the form of government bonds, central bank discount bills (SBI) and consumer loans to individuals, who are better at repaying debt than corporations. Bank loans now constitute only 38% of the total banking sector assets, compared to 71% in 1997. The confidence of the banking sector is further dented by recent cases of fraud at state-owned Bank Negara Indonesia (BNI) and Bank Rakyat Indonesia (BRI) as well as the closure of Bank Dagang Bali and Asiatic Bank..

Rural Tangerang is 40 kilometers from Jakarta – the capital of Indonesia. It has a high density of poor households. Teluknaga sub-district has 27% of households classified as very poor by the National Family Planning Board on the basis of food intake.

## 1 Organisational background

Ganesha Microfin was registered as a Yayasan (Foundation) in 2002. It was started by a group of development professionals in order to provide microfinance services to significant numbers of poor households in Indonesia and graduate them out of poverty.

Ganesha Microfin focuses only on microfinance activities. It has a three-member Board comprising people involved in development activities in Indonesia, China and other South East Asian nations. This committee is the apex decision-making body of the organisation. Members of the Board take an active interest in the functioning of the organisation. Mr Shafiq Dhanani is Chairman of Ganesha Microfin.

## 2 Microfinance operations

### 2.1 Background of microfinance operations

Ganesha Microfin started its credit programme in April 2003 with the objective of providing high quality financial services to the rural poor. It follows a modified version of the Grameen model receiving technical support from ASA (Bangladesh), Cashpor (India) and AIM (Malaysia).

Ganesha Microfin started operations with the opening of the Teluknaga branch, located in the suburbs of Jakarta. Ganesha Microfin is presently working in 6 villages in Teluknaga cluster of Rural Tangerang district. It has an outreach of 3,120 members in its microfinance programme. The organisation has a total of 11 staff – 10 field officers and the Chairman-cum-Branch Manager.

### 2.2 Microfinance policies

As a modified Grameen model, Ganesha Microfin promotes homogenous groups of 15-20 women following a well-defined process of group identification, formation and regularisation. 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 operations is taken. Village selection and eligibility criteria are similar to those followed in a conventional Grameen programme.

#### Savings product

Earlier Ganesha Microfin groups started regular weekly savings from the day of formation, the amount being pre-decided by the management. This product was withdrawn in order to comply with directions of Bank Indonesia prohibiting Yayasans (Foundations) from collecting savings from members.

Some of Ganesha's centres have constituted *Arisangs* (chit funds) where one member gets the savings of all the members based on a lottery. *Arisangs* are a part of Indonesian savings culture. This is working well as an alternative savings product for groups who have a surplus.

#### Loan product

Ganesha Microfin offers only one loan product. Loans are provided at a flat rate of 27% per annum repaid in 50 weekly instalments. There is a break of 2 weeks during Id, when all economic activities come to a halt. Generally, the first cycle loan is between Rp300,000 and Rp500,000. Subsequent loans are double the previous amount. Each member has to place 5% of the loan amount as a deposit with the MFI.

### 3 Observations

#### 3.1 Governance & strategy

Ganesha Microfin has a moderate performance on governance and strategy with a grade of  $\beta$ .

➤ Strategy for microfinance operations

Ganesha Microfin performs well on strategic aspects. It has a clear development objective. Operations are focused on microfinance with the organisation adopting a rapid growth and consolidation strategy for its programme. The organization has managed a good growth in outreach (covering ~3,000 members) within 1 year of operations. The operational area is spread over a radius of 5 kms around the branch. The area has a high concentration of population requiring microfinance services.

In terms of coverage, Ganesha Microfin has a moderate level of concentration in Teluknaga cluster of Rural Tangerang district. The client concentration within the villages is quite high.

Ganesha has been registered as a Yayasan (Foundation) since its inception. As per the banking laws of Indonesia, its registration as a Foundation restricts its ability to mobilise savings from its clients. As a result, Ganesha can continue its lending operations till 2007 without any change in its status. Thereafter, however, legislation restricting Foundations from carrying out lending operations will come into effect. To overcome this problem, Ganesha will have to register as a Co-operative or a People's Bank (BPR). The BPR registration requires seed capital of IDR2 billion, whereas Ganesha's present capital is IDR1.05 billion. The other option is to transform into a co-operative. This would entail registering all its clients as members and shareholders of the co-operative. This transformation is likely to affect its operations in the future.

Also there is the issue of Mr. Shafiq Dhanani, the Chairman, being a foreign national. As per the BPR/Cooperative Laws, foreign citizens cannot be promoters. To resolve the problem, either Shafiq has to take Indonesian citizenship or stay out of the formal structure of the co-operative. He could continue to control the operations of the co-operative, through his role as the Foundation Chairperson.

The Board members of Ganesha Microfin are consultants with knowledge of development activities but no prior involvement in microfinance. The Chairman is involved in the operations of the organisation as the Branch Manager. He intends to continue as the Branch Manager for some time to get experience of operational aspects. The Treasurer of the Board is involved in operations as the Quality Control officer. The third Board member is not involved in the activities of Ganesha. The Board needs experienced microfinance

professionals in order to give the organisation direction.

An area of concern for Ganesha is the complete lack of a second line of leadership. The Chairman presently manages its operations. The rest of the staff comprises field officers and a Deputy Branch Manager. The operations could suffer in case of the prolonged absence of the Chairman.

The interest rate being charged by Ganesha Microfin (27% flat) is competitive. The Board feels that the interest rate can be further reduced to 24% (flat) during the next financial year (2005). At present the operational costs are very high (~38%), and a detailed analysis of the costs and product characteristics will be required before a decision on lowering the interest rate can be taken. Although there is no formal insurance product, in one case of a member dying, Mr. Dhanani has written off the outstanding amount.

### **3.2 Managerial factors**

Ganesha Microfin has reasonable management performance with a grade of  $\beta+$ . This reflects the good quality of accounting and management systems and efforts of the management to maintain a good portfolio quality.

#### ➤ Human resource quality and management

Ganesha Microfin has a highly motivated and committed set of field staff. The Chairman as Branch Manager is grooming a field officer to take over as the Branch Manager. Although the Chairman has visited a number of other MFIs in Indonesia and Bangladesh, exposure of field staff to other microfinance implementation and training programmes has been quite limited.

The staff members of Ganesha are drawn from the local area. They have to undergo a test of arithmetic abilities in order to qualify for the job. The new recruits undergo training for a period of 6 months initially. They are paid 75% of the salary during this period. The compensation package for the staff includes an incentive component for enrolling and training new clients.

#### ➤ Accounting and MIS

The accounting system and MIS at Ganesha Microfin is good. The MIS is manual. 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. In addition to the general ledger, a cashbook is also maintained. The Chairman maintains the accounts at present but proposes to recruit a full time accountant with the expansion of operations and start up of new branches. The organisation makes a 2% loan loss provision on gross loans outstanding.

The Chairman intends to computerise the recording system over the next six months. This would involve transferring all client details, their credit history and current loan status. Specialised software for this is being arranged from ASA, Bangladesh. The transition would involve modification of the existing software to suit Ganesha Microfin's needs and an

information dissemination workshop for the field staff to understand the use of the software.

➤ Tracking system for overdues

The system for tracking arrears at Ganesha Microfin is inadequate. While at present the organisation does not have any arrears owing to a very strong emphasis on credit discipline and zero tolerance culture with regard to arrears, the MIS that is used cannot generate information on overdue loans. As the organisation expands, it will need to set up a formal tracking system for overdues.

The field staff follows up any delinquent members and collects repayments. A mechanism of penalties for absence from meetings and delayed payments is being worked out.

➤ Financial planning and control systems

Ganesha Microfin's financial control systems are inadequate. Although daily cash reconciliation is undertaken and accounts are closed by mid-afternoon, the MIS formats do not have automatic checks. There is no internal auditor at present.

One form of control is exercised through surprise field and monitoring visits conducted by the Treasurer of the Board. These surprise visits are a very effective deterrent to any potential deviations and errors in record keeping and the implementation of operational procedures. Loan disbursements are verified directly by the Chairman.

In terms of planning, Ganesha Microfin uses cash flow statements to project future growth. Branch level fund requirements are estimated on a weekly basis and requests for funds are sent to the Chairman. Although budgets are prepared, no variance analysis is undertaken. Actual expenses are compared with the budgets informally.

Ganesha Microfin has plans to establish two more branches in the near future. Decisions on expansion are taken based on the potential for expansion in the new area and the availability of funds for on-lending.

➤ Quality of clients/member groups

Member groups show excellent performance in loan repayment and utilisation. However, visited centers exhibited varying levels of regularity in meetings. This is an area where performance needs improvement. The establishment of a penalty system for absenteeism and missed payments may be required.

Center meetings concentrate largely on financial transactions and are conducted efficiently by the field officers. Members are mostly illiterate and are not trained to maintain accounts on their own; these are maintained completely by the field officers. The groups visited showed a high level of awareness with regard to operational procedures.

➤ Infrastructure

Ganesha Microfin has a very limited infrastructure base for its microfinance operations

(with fixed assets valued at IDR160 million or US\$17,500). This consists of computers, motorcycles, a vehicle and furniture. Ganesha Microfin has adequate infrastructure for its current level of operations but it is insufficient to support its expansion plans.

### 3.3 Financial performance

The financial performance of Ganesha Microfin has been reasonable so far and this has resulted in a rating grade of **β+**. While it has very strong performance on credit operations and a high capital adequacy, it has a negative return on assets. With a focus on strong groups and increasing emphasis on the sustainability the organisation it should be able to improve its financial performance in future.

➤ Credit performance and portfolio quality

Ganesha Microfin has excellent credit performance so far. Its cumulative repayment rate at 100% and PAR<sub>60</sub> at 0% as on 31 May 2004 are excellent. The strong credit culture at the field level results in this performance.

Ganesha Microfin provides loans for productive activities. Its portfolio is well diversified with an estimated 22% in agriculture, 27% in food preparation and sales, 38% in trade and 13% in other activities.

➤ Mobilisation of funds

Other than the funds provided by Ganesha's Chairman, Shafiq Dhanani, for on-lending and meeting the operational expenses' deficit, Ganesha has not raised any funds from anywhere. Shafiq has kept aside US\$300,000 for Ganesha, out of which only US\$150,000, has been used till now. This gives Ganesha scope to absorb substantial borrowed funds for on-lending.

➤ Asset, liability and equity composition

The asset composition of Ganesha Microfin is moderate with about 53.9% of its total assets deployed in loans. There is a high cash balance (33.2%). On the liability side, the organisation has relied on grants from its founders. Ganesha Microfin's risk weighted capital adequacy ratio is very high at 163%.

➤ Sustainability and profitability

The organisation's financial sustainability in terms of its Operational Self-Sufficiency of 66% and Financial Self-Sufficiency of 57% is reasonable for nine months of operations. Its relatively weak performance on these aspects is mainly due to high operating costs, which is 42.5% of the average portfolio of the organisation.

In terms of profitability, Ganesha Microfin has a negative return on assets (-10.7%). Since there is only one branch, all the head office overheads (high depreciation on the Chairman's vehicle, high salary of Branch Manager) are being absorbed by just one branch and spread across the earnings from ~3000 members it makes the overall return negative. With two more branches planned during 2005-06, the operations should produce a surplus,

considering that the interest charged by Ganesha Microfin is high at 27% flat – though it is competitive with other MFIs in Indonesia. During the current year, a large number of members will take second cycle loans. This will result in the revenue going up, with the costs remaining constant. The yield (38.3%) to Annualised Percentage Rate (54.2%) ratio is reasonable at 71%, considering the rapid growth in portfolio.

Discussion with Ganesha Microfin management shows that it is conscious of the need for financial sustainability and has drawn up a strategic plan to attain breakeven in the next 3 years by focusing on lowering costs and increasing depth of outreach in its operational area.

## 4 Conclusions

Strengths	Weaknesses
<p><u>Organisational</u></p> <ul style="list-style-type: none"> <li>✓ Focused and geographically concentrated microfinance operations</li> <li>✓ Strong emphasis on credit discipline</li> </ul> <p><u>Managerial</u></p> <ul style="list-style-type: none"> <li>✓ Strong financial control</li> <li>✓ Streamlined operations and efficient recording system</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>✓ High Capital Adequacy</li> <li>✓ Excellent portfolio quality</li> <li>✓ Reasonably diversified portfolio</li> </ul>	<p><u>Organisational</u></p> <ul style="list-style-type: none"> <li>✗ Lack of second line of leadership</li> </ul> <p><u>Managerial</u></p> <ul style="list-style-type: none"> <li>✗ Weak system for tracking overdues</li> <li>✗ Some tendency for absenteeism in group meetings</li> <li>✗ Lack of exposure to professionally run microfinance programs</li> </ul> <p><u>Financial</u></p> <ul style="list-style-type: none"> <li>✗ Negative return on assets</li> </ul>

## 5 Creditworthiness

Ganesha Microfin has achieved a rating grade of *beta plus (β+)*.<sup>2</sup> In terms of creditworthiness, this implies reasonable safety. Ganesha's performance is reasonably good on all the three parameters. While, in a relatively short time span, Ganesha has done very well to establish a strong program, the factors that brings down overall performance are the negative return on assets and a relatively weak Board of Governors. The assets of Ganesha (including loan portfolio) have been completely financed by equity from the Chairman. This gives the organization scope to increase leverage. With a strong equity base, high rate of interest, additional branches and expected growth in revenue due to second cycle loans with the existing members, Hivos can support the Foundation in its efforts to provide microfinance services to the households in Rural Tangerang.

**In M-CRIL's view**, on account of high demand for credit, overall good performance and a commendable approach to self-reliance, Ganesha Microfin can absorb grants of IDR920 million (US\$ 100,000) from HIVOS over the next one year.

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.

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<sup>2</sup> 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 Ganesha Microfin's microfinance operations**

**Balance Sheet - as on 31 December 2003**

<b><u>Assets</u></b>	<b><u>IDR</u></b>	<b><u>IDR</u></b>	<b><u>US\$</u></b>	<b><u>US\$</u></b>
<b><u>Current assets</u></b>				
Cash in hand and bank		419,324,171		45,579
Other current assets 1		4,130,500		449
<b><u>Loans outstanding</u></b>				
Gross loans outstanding	687,434,000		74,721	
(Loan loss reserve)	(6,874,340)		-747	
Net loans outstanding		680,559,660		73,974
<b>Total current assets</b>		<b>1,104,014,331</b>		<b>120,002</b>
<b><u>Long term assets</u></b>				
Net property and equipment	159,129,400		17,297	
<b>Total long term assets</b>		<b>159,129,400</b>		<b>17,297</b>
<b>Total Assets</b>		<b>1,263,143,731</b>		<b>137,298</b>
<b><u>Liabilities and Networth</u></b>				
<b><u>Current liabilities</u></b>				
Other current liabilities		999,960		109
<b>Total current liabilities</b>		<b>999,960</b>		<b>109</b>
<b><u>Long term liabilities</u></b>				
<b><u>Net worth</u></b>				
Grant for operational expenses/liquidity	440,244,092		47,853	
Grant for on-lending	687,434,000		74,721	
Capital grants for fixed assets	201,944,700		21,951	
Retained net surplus/(deficit)	0		0	
Current net surplus/(deficit)	-67,479,021		-7,335	
<b>Total net worth</b>		<b>1,262,143,771</b>		<b>137,190</b>
<b>Total Liabilities and Net Worth</b>		<b>1,263,143,731</b>		<b>137,298</b>

**Income Statement:** Statement from 1 April 2003 – 31 December 2003

<b>Income</b>	<b>Rp</b>	<b>Rp</b>	<b>US\$</b>	<b>US\$</b>
Interest on loans	133,082,000		14,465	
Interest on Bank accounts	<u>3,371,452</u>		<u>366</u>	
<b>Total income</b>		<b>136,453,452</b>		<b>14,832</b>
<b>Financial costs</b>				
Interest on borrowings		<u>0</u>		<u>0</u>
<b>Gross financial margin</b>		<b>136,453,452</b>		<b>14,832</b>
Provision for loan losses	<u>6,874,340</u>		<u>747</u>	
<b>Net financial margin</b>		<b>129,579,112</b>		<b>14,085</b>
<b>Operating expenses</b>				
Salaries	113,567,833		12,344	
Travel	13,895,600		1,510	
Depreciation	42,815,300		4,654	
Administrative/office expenses	21,664,100		2,355	
Training	<u>5,115,300</u>		<u>556</u>	
<b>Total Operating expenses</b>		<b>197,058,133</b>		<b>21,419</b>
<b>Net Surplus/Deficit</b>		<b>-67,479,021</b>		<b>-6,779</b>

**Notes to the financial statements**

1. The Financial Statements have been prepared after making appropriate modifications to the existing financial statements, using data gathered and assumptions made during the rating exercise. Such modifications have resulted in differences between the income statement and balance sheet prepared by the organization itself and the statements presented above.
2. 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).
3. Loan loss provisioning expense and the corresponding balance sheet entry (loan loss reserve) have been computed based on the quality of the portfolio.

## Glossary

1. Cumulative repayment rate  
Ratio of cumulative principal recovered (net of pre-payments) to the cumulative principal due till the date of measurement.
2. Portfolio at risk (PAR<sub>60</sub>)  
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:	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
Members	2,418	5,400	7,350	11,850	16,150	20,900
Yield on average portfolio	38.3%	33.0%	29.0%	27.0%	25.0%	25.0%
Cost of external funds	0.0%	0.0%	9.0%	9.1%	9.2%	9.3%
Repayment rate from groups	100.0%	99.5%	99.5%	99.0%	98.0%	97.0%
Loan loss reserve ratio	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Number of active loan a/c	2,418	5,400	7,350	11,850	16,150	20,900
Number of loans disbursed		5,327	7,188	11,630	15,795	20,416
Average loan size to borrowers	500,000	575,000	661,250	760,438	874,503	1,005,679

### 2 Projected balance sheets

*All figures are '000 Rupiah*

As on:	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
<b>Assets</b>						
Cash balance	419,324	204,081	287,426	399,559	619,825	883,578
Other current assets	4,131	4,544	4,998	5,498	6,047	6,652
Loans outstanding	687,434	1,872,937	2,910,121	5,443,539	8,619,574	12,989,786
Loan loss reserve	-6,874	-18,729	-29,101	-54,435	-86,196	-129,898
Net loans outstanding	680,560	1,854,208	2,881,019	5,389,104	8,533,378	12,859,888
Net fixed assets	159,129	180,704	251,363	254,490	283,692	307,054
<b>Total Assets</b>	<b>1,263,144</b>	<b>2,243,536</b>	<b>3,424,807</b>	<b>6,048,650</b>	<b>9,442,943</b>	<b>14,057,172</b>
<b>Liabilities and Net Worth</b>						
External borrowings	0	0	320,000	2,340,000	5,355,000	9,755,000
Other liabilities	1,000	1,413	1,867	2,367	2,917	3,522
Donations and equity	1,329,623	2,249,623	3,015,123	3,521,123	3,797,123	3,897,248
Retained surplus/deficit	0	-67,479	-7,500	87,816	185,160	287,903
Current surplus/deficit	-67,479	59,979	95,316	97,344	102,743	113,499
Net worth	1,262,144	2,242,123	3,102,939	3,706,283	4,085,026	4,298,650
<b>Total Liabilities and Net Worth</b>	<b>1,263,144</b>	<b>2,243,536</b>	<b>3,424,807</b>	<b>6,048,650</b>	<b>9,442,943</b>	<b>14,057,172</b>



### 3 Projected Income Statements

All figures are '000 Rupiah

For the year ending:	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
<b>Income</b>						
Interest	133,082	422,461	693,543	1,127,744	1,757,889	2,701,170
Other income	3,371	4,046	4,855	6,069	6,979	7,677
<b>Total Income</b>	<b>136,453</b>	<b>426,507</b>	<b>698,398</b>	<b>1,133,813</b>	<b>1,764,868</b>	<b>2,708,847</b>
<b>Cost</b>						
Financial	0	0	19,200	151,200	400,575	768,600
Loan loss provision	6,874	11,855	10,372	25,334	31,760	43,702
Depreciation	42,815	45,176	62,841	63,623	70,923	76,763
Operating expenses (excl. depr.)	154,243	309,497	510,670	796,312	1,158,867	1,706,282
<b>Total Cost</b>	<b>203,932</b>	<b>366,528</b>	<b>603,082</b>	<b>1,036,469</b>	<b>1,662,125</b>	<b>2,595,347</b>
<b>Surplus/Deficit</b>	<b>-67,479</b>	<b>59,979</b>	<b>95,316</b>	<b>97,344</b>	<b>102,743</b>	<b>113,499</b>

### 4 Projected Cash Flow Statements

All figures are '000 IDR

For the year ending:	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
<b>Inflows</b>					
Opening cash	419,324	204,081	287,426	399,559	619,825
External borrowings	0	320,000	2,100,000	3,620,000	5,910,000
Repayments from members	1,877,786	3,715,882	6,310,090	10,636,304	16,161,220
Grants	920,000	765,500	506,000	276,000	100,125
Interest income	422,461	693,543	1,127,744	1,757,889	2,701,170
Other income	4,046	4,855	6,069	6,979	7,677
<b>Total Inflow</b>	<b>3,643,617</b>	<b>5,703,861</b>	<b>10,337,329</b>	<b>16,696,731</b>	<b>25,500,016</b>
<b>Outflows</b>					
Disbursement	3,063,290	4,753,065	8,843,508	13,812,340	20,531,431
Repayments to lenders	0	0	80,000	605,000	1,510,000
Operating expenses (excl. depr.)	309,497	510,670	796,312	1,158,867	1,706,282
Interest paid on borrowings	0	19,200	151,200	400,575	768,600
Fixed assets purchase	66,750	133,500	66,750	100,125	100,125
<b>Total Outflow</b>	<b>3,439,536</b>	<b>5,416,435</b>	<b>9,937,770</b>	<b>16,076,907</b>	<b>24,616,438</b>
<b>Net cash balance</b>	<b>204,081</b>	<b>287,426</b>	<b>399,559</b>	<b>619,825</b>	<b>883,578</b>

## 5 Key projected performance ratios

For the year ending:	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
Operational self-sufficiency	67%	116.4%	115.8%	109.4%	106.2%	104.4%
Return on average assets	-10.7%	3.4%	3.4%	2.1%	1.3%	1.0%
Operating expense ratio	42.5%	27.7%	24.0%	20.6%	17.5%	16.5%
Average outstanding/borrower (Rupiah)	284299	346,840	395,935	459,370	533,720	621,521
Portfolio growth rate	-	172.5%	55.4%	87.1%	58.3%	50.7%
Risk weighted capital adequacy ratio	163.7%	115.3%	103.2%	67.2%	47.1%	33.0%

## 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. Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment (credit rating).
3. Number of active loan accounts relative to membership is based on the current and historical relationship and projected growth trends.
4. Average loan size to members increases by 15% every year.
5. 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.
6. Interest income is taken as [yield on portfolio\*average portfolio for the year]. Yield movements are projected to increase over time to levels closer to the effective interest rate of the organisation. For Ganesha Microfin the yield declines after one year based on suggested changes in the interest of loans.
7. Other income is the income that the organisation earns on investments and registration and fee income and increases by 20% initially tapering to 10% in year 5.
8. Disbursements are taken as the [number of loans disbursed during the year\*average loan size to borrowers].
9. 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. Increase in members is taken at rates between 30-100% per year since Ganesha Microfin is a new organisation and it is expected to expand rapidly at the outset.
10. Repayments to lenders ranges from 25-33% of current outstanding debt depending on the expected source of funds and the present and future expected liability structure.
11. Interest paid is taken as the [average cost of external funds \* the average external borrowing liability figure].
12. Fixed assets purchase is estimated based on likely requirements of the organisation.
13. In the projections the net worth figure includes donations and equity, retained surpluses and current surplus.



## M-CRIL's Microfinance Rating Symbols

M-CRIL Grade	Description
$\alpha+++$ alpha triple plus	Highest safety, excellent systems ➤ most highly recommended
$\alpha++$ alpha double plus	Highest safety, very good systems ➤ most highly recommended
$\alpha+$ alpha single plus	Very high safety, good systems ➤ highly recommended
$\alpha$ alpha	High safety, good systems ➤ highly recommended
$\alpha-$ alpha minus	Reasonable safety, good systems ➤ recommended
$\beta+$ beta plus	Reasonable safety, reasonable systems ➤ recommended, needs monitoring
$\beta$ beta	Moderate safety, moderate systems ➤ acceptable, needs improvement to handle large volumes
$\beta-$ beta minus	Significant risk, poor to moderate systems ➤ acceptable only after improvement
$\gamma+$ gamma plus	Substantial risk, poor systems ➤ needs considerable improvement
$\gamma$ gamma	Highest risk, poor systems ➤ not worth considering