

Credit Rating Report on Pally Bikash Kendra (PBK)

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Rating:

Long Term: BBB
Short Term: ST-4
Social Impact: SI-5

Principal Activities:

Micro Financing Programs
Social Development
Programs
Commercial Programs

Established in:

Year 1989

Own Fund:

Tk. 27.57m as on 30th June
2005

Credit Portfolio:

Tk. 91.57m as on 30th June
2005

Members' Savings:

Tk. 23.53m as on 30th June
2005

Active Borrowers:

25.53 thousand as on 30th
June 2005

Active Savings holder:

26.69 thousand as on 30th
June 2005

Executive Director

Mr. Mohammad Hasan Ali

Chairman of the EC,

Mr. Atiqun Nabi

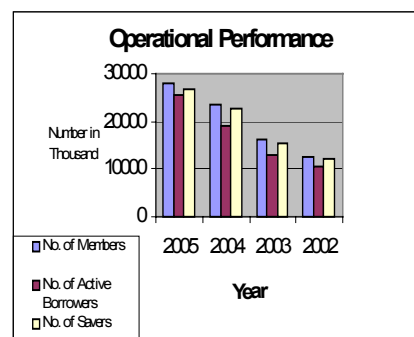
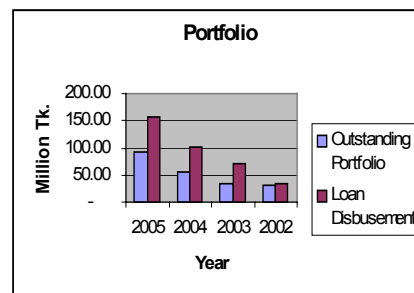
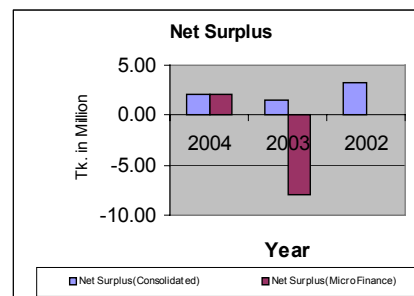
This is a credit rating report on Pally Bikash Kendra (PBK). CRISL's long-term and social impact rating is valid for only one year and short term rating for six months. After the above period this rating will not carry any validity unless the organization goes for rating surveillance on voluntary basis.

	Long Term	Short Term
Entity Rating	BBB	ST-4
Social Impact Rating	SI-5	
Date of Rating	20 th November 2005	

1. RATIONNALE

Credit Rating Information and Services Limited (CRISL) has assigned BBB (pronounced as Triple be) rating to Pally Bikash Kendra (PBK) in the long run and ST- 4 in the short run. CRISL also assigned SI-5 Social Impact Rating in consideration of the impact of its activities in the society. Micro Finance Institutions rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that the organization is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however, considered to have the capability to overcome the above-mentioned limitations. The short term rating ST-4 indicates satisfactory liquidity and other protection factors to qualify an entity to be in investment grade. Risk factors are larger and subject to more variation. The SI-5 Social Impact rating indicates that the MFI activities have satisfactory social impact in terms of changes in the quality of lives of the poor and hard-core people of the society. With sustainable wide network of service delivery system, the MFI is capable of achieving satisfactory social objectives.

The above rating has been done on the basis of the evaluation of a number operational and financial performance areas of PBK for both long and short term vis a vis its organizational and management set up along with its operational activities and environment. The PBK has been operating in 3 districts and delivering both financial and social services to more than 28000 members through its 6 micro credit and 4 social programs. The PBK has moderate soft infrastructure to support its total operation and have a good social impact. The organization has been operating with satisfactory operational performance having satisfactory loan and saving outreach.



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The financial performance of the organization is satisfactory having good internal capital generation from its MF operation. With good risk management system, the organization has been maintaining good asset quality. The risk weighted capital adequacy also supports the organization to achieve the above investment grade. PBK has satisfactory liquidity and sufficient flexibility in organizing fund for immediate need. However, the above rating is constrained by its weak legal status under Societies Registration Act, below average profitability, limited network, limited funding base, limited IT infrastructure, early stage of MIS implementation and average experienced human resources. **CRISL**

2. INSTITUTIONAL PROFILE

PBK was established in 1989 at Pakundia in Kishoreganj District of Bangladesh with the objectives of promoting rural entrepreneurial-based organizations and women's capacity building. The organization started formal functioning in 1990 by organizing women with village-based support groups through introducing both social & economic development programs. PBK was initiated with the formation of a 21 member committee headed by Mr. Mohammad Hasan Ali, the founder Chairman and current Executive Director. PBK aims to improve the socio-economic status of the rural poor, especially women and children and to enhance community capacity and the ability of the poor to control their own lives. The mission of PBK is to ensure the standard of socio-economic condition of the poorest people of Bangladesh by their active participation in environmental friendly rural development activities. PBK is working with the long-term objective of reducing poverty by at least 50% in each Upazilla covered by its operation. The organization plans to achieve this objective by undertaking comprehensive and integrated plans for creation of employment mainly through micro-credit programs. Ensuring primary health care including sanitation and safe drinking water, promotion of women's equality, child development and leadership among poor, protection and improvement of environment and putting emphasis on rural agro-based industries are the other important objectives of PBK. The legal status of the organization is a society registered under the Societies Registration Act 1860 with the Registrar of Joint Stock Companies. In addition it is registered with the Department of Social Welfare and NGO Affairs Bureau in order to carry out its objectives. **CRISL**

2.1 Development Partners

PBK started its operation with financial support from CANADA Fund / CIDA, Oxfam America and Institute of Integrated Rural Development (IIRD). Currently PBK is getting the required financial and/or non-financial support from Palli Karma-Sahayak Foundation (PKSF).

PBK also enjoy partnership with Concern Bangladesh, NGO Forum, BRAC, INAFI, Micro Credit Summit Campaign, CARE and MIX MARKET. **CRISL**

2.2 Organizational Structure

PBK follows a four tier organizational structure for administration and management of its projects & programs. The setups are General Members, participating in the Annual General Meeting (AGM), Executive Committee (EC), Co-ordination Committee (CC) and Project Implementation Team (PIT).

PBK has a 21 member General Body who attends AGM once in a year to approve budget, appoints external auditors, elects EC and provide policy framework of the organization. The General Body members elect a seven-member EC at the AGM for a two-year term at the AGM.

EC meets at least four times in a year to provide policy guidelines, review financial situation, follow-up of the on going activities and policy, review of all other organizational matters and decides on the fund raising issues.

The Executive Director (ED) heads the CC. Higher and mid-level managers are the other members of the CC who meet once in a month to review the progress of on-going activities, identify constraints and to take corrective measures to achieve organizational goal and objectives.

PIT consists of mid and field level managers whose roles and responsibilities include implementation of projects, programs and activities, maintain high level of professional management skills in the area of financial management and control, project and program implementation and internal audit and monitoring. PIT meets once every month **CRISL**

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2.3 Management Structure

In order to run the activities smoothly the PBK follows a three-tier management structure consisting of Unit Office, Regional Office and Project Office including Head Office. Unit Office is the lowest strata of the management structure responsible for implementing various programs.

Program Organizers (PO) are the lowest in the hierarchy of management. Unit office is managed by one Unit Manager, one Accountant and six/seven POs. Regional Manager (RM) monitors and supervises 7 Unit Offices in each operational area. Unit Managers of each unit reports to RM, the RMs report to the Program Manager for implementation of the programs and the Program Manager reports onward to the Executive Director.

3 MICRO FINANCE PROGRAM

3.1 Micro finance Framework

PBK operates its credit & savings programs through unit offices. Each unit office has one unit manager, one accountant, 6-7 POs and some other support staffs. On an average, each unit has about 120 groups and about 2000-2300 clients. Each group has a leader and consists of 25-30 members. The field workers collect savings and loan installments & disburse loan to the group members on a specific day of the week at the pre-scheduled group meeting. Unit manager monitor the activities & ensure smooth operation of all unit level activities. The PO usually visits 17 groups per week and the unit manager monitors the overall operational and managerial activities of the unit.

The Head Office of PBK is located in Dhaka. The ED is the operational head of PBK and is assisted by the Program Manager & other key staff. One Finance Manager, two Assistant Accounts Coordinators, two MIS officers, two internal controllers (to monitor the activities of the units through checking of pass book, loan statements etc.) and some support staffs are under direct supervision of PBK head office. Some of the unit offices implement microfinance technical support programs sponsored by PKSf are called MFTS unit. MFTS units employed Livestock Technical Coordinator & Livestock Technical Assistants to ensure smooth implementation of MFTS program & monitor the programs related to livestock, poultry & agro-based programs.

3.2 Lending Schemes

PBK started micro-financing in 1993 with the objective of poverty alleviation of the poor women by engaging them in income generating & other activities and to create employment/ self employment opportunities for the poor people by utilizing their capacity & creativity. The PBK offers six types of credit programs with varied terms and conditions.

3.3 Saving Schemes

PBK has a general savings program primarily to make the client self reliant by developing a habit of savings at regular interval and creating its revolving loan fund by using the savings. Clients are allowed to draw 50% of savings after 3 years of membership. According to figures as on 30th June 2005 average savings per member is Tk. 1287.43 or about 42% of the loan portfolio. PBK offers 6% interest on savings program. However, the saving schemes of PBK are not diversified to match with the financial capability of the clients.

3.4 Village Organization or Group Building Process

Group formation takes place after conducting survey and confirmation by higher authority. PBK policies call for selection of members who are hardcore poor, very poor and less poor as selection criteria for the members. Only poor and functionally landless having less than 0.5 acres of land and having age limit between 18-55 years are eligible to form a Group under general MF program. A minimum of 15 and maximum of 35 members may form into a Group but an ideal Group is formed with 25-30 members who are inhabitants of the same village, like minded having similar economic conditions and enjoying mutual trust and confidence. The members in a Group should not be close relatives to each other. Usually one member from each family can become a member of the Group and members of other MF NGOs are not eligible to become a Group member. There shall be a Group Chairman, Secretary and Cashier in each Group who are elected by the Group members at the time of Group formation. Thereafter elections are held every two years for the above positions. Weekly Group meetings are held at a convenient place for group meeting along with PBK. During the group meeting micro-credit related transaction also take place. Issue based monthly meetings and special meetings are also held to discuss various issues such as nutrition, mother & child health, health care, legal aid, polygamy, AIDS, dowry etc.

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3.5 Unit Network

PBK has 14 operational units (two after June 30, 2005) spread over 9 upazillas in three districts of Bangladesh, namely, Kishoreganj, Gazipur and Narshingdi. As on June 30, 2005, PBK activities covered 358 villages under 55 Union Parishads of the operational areas and had 28104 clients under MF program. All the clients of PBK are women.

Products	Product terms & conditions
Rural Micro-Credit (RMC)	<ul style="list-style-type: none"> • Disbursed for one year • Service charge of 12.5% per annum. • Borrowers are required to repay in 45 weekly installments. • Loan amounts range from Tk. 1,000 - Tk. 19,000.
Micro-Enterprise Loan (MEL)	<ul style="list-style-type: none"> • Disbursed for small traders and entrepreneurs • Rate of service charge 12.5% per annum. • Repayment both weekly & monthly installments. • Loan amounts range from Tk. 20,000 - Tk. 2,00,000. • Eligibility criteria: Borrowers having satisfactory repayment track record of 3 years, a permanent resident of the locality within the age range of 18 to 55 years and has proved herself to be a trust worthy and disciplined member is eligible for micro enterprise loan.
Micro Finance Technical Support (MFTS) Loan,	<ul style="list-style-type: none"> • Disbursed for one year/3 years. • Service charge varies from 10% to 12.5% per annum. • Borrowers repay the loan either in 45 weekly installments or 3 years by month installment or 1 time full payment. • Loan amounts range from Tk. 4,000 - Tk. 50,000.
Hard Core Poor (HCP) Program	<ul style="list-style-type: none"> • Loan is extended for hardcore poor • Loan period 1-3 years • Service charge rate 6%-10% per year • Repayment 45/90/140 weeks or as per conveyance of the borrower to pay loan. • Loan amounts range from Tk. 1,000 - Tk. 15,000 depend on type of scheme that borrower willing to undertake. • Eligibility: family owns less than 10 decimal of land, family members are barely able to take one meal a day or two meals a day but can not fulfill other basic needs or female headed household or head of the family who is only source of income is critically ill or handicap.
Consumer Credit	<ul style="list-style-type: none"> • In addition to its micro-credit lending for productive activities/ income generation, PBK has been offering a specialized program of consumer household credit for the very poor and ultra-poor in Bangladesh since 1998. Consumer Credit Loan is extended to the existing members to meet their requirements of home appliances and products like furniture, saree, lungi, mosquito net, Quilt, mattresses etc. The credit size range between Tk. 200.00- Tk. 3000.00 for a period of one year and repayable within 45 weeks. A margin of 6% to 10% is added as service charge.
Disaster Loan	<ul style="list-style-type: none"> • PBK also provide loan during any emergency period like flood, tornado & other natural disasters. • Loan is extended to disaster victims. • Service charge is 0%-1%. • Loan period is 1 year. • Repayment is flexible both weekly & monthly. • Loan range Tk. 1000-3000

4 SOCIAL DEVELOPMENT PROGRAMS

4.1 Health and literacy

PBK offers standard health and literacy training to its micro-credit borrowers. PBK has initiated child education program, on an experimental basis and established 30 Child Development Centers (CDCs) in 1994 in Egarosindur union of Kishoregonj district. Gradually PBK established 318 schools. PBK offer education facilities to hardcore poor families children only with age group between 6-8 years. After graduation from this CDC children got admission in government primary school.

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These education facilities for the poor ensures education for the hardcore poor children who have never gone to school or drop out from the government primary school after 1 year of their schooling. The main objectives of this education system are as follows: bring hardcore poor families children into school, to prepare them for integration into the mainstream school system and bring down the high dropout rate among this group. The 8-member mother's committees that help ensure student and teacher attendance (average student attendance 99.96%). PBK has transferred its knowledge and experiences and has assisted IIRD to replicate its non-formal education model. Through a partnership with BRAC ESP, PBK is also getting financial, logistic and training assistance to implement BRAC's non-formal primary school model.

PBK is also implementing various health intervention projects in partnership with some national & international organizations. The organization has so far distributed 11,433 sets of water and sanitary latrines, 485 tube wells and 455,892 seedlings to keep the client's health sound and their surroundings environment-friendly. Through a joint program with Concern, PBK has been offering AIDS training and disaster management.

4.2 Homestead Plantation

PBK's homestead plantation program offers training and credit to enable rural entrepreneurs, who became very successful by establishing plant nurseries. Wage employment of rural industry and wage employment under consumer product service is two value added MF services of PBK, which proved to be successful.

4.3 Non Financial services

PBK's non-financial services include training, issue based meetings and motivation for awareness building. PBK provides livestock and small business training to its clients under MFTS program. Disaster loan is extended to the members without interest and charges as a part of disaster management program.

4.4 Death Benefit Fund

Apart from loan and savings programs PBK is offering "Death Benefit Fund" for its clients. In case of death of any client a nominee of the borrower gets the benefit. The nominee gets Tk. 1000.00 for each of the times she took the loan. For example, first time borrower's nominee will get Tk. 1000.00 and fifth time borrower's nominee will get Tk. 5000.00. In case of the death of the guardian as guarantor the entire loan amount will be waived. The borrower is required to pay Tk. 5.00 per thousand of loan amount in order to enter into death benefit program.

5.0 COMMERCIAL PROGRAMS

In 1993, CANADA Fund/CIDA assisted PBK to establish Bikash Food Products with an initial capital of Tk. 750,000.00. IIRD offered some initial food aid for this project. PBK erected a warehouse with a capacity to store 350 tons of raw materials & finished goods on a 22 decimal land and opened a bakery with initial employment of 10 hard-core poor women. In response to a gradually expanding market, PBK has already opened a second food unit in BISIC plot in Kishoreganj as the first unit was unable to meet the growing demand in adjoining areas. Thirty Five quality bakery items are being produced at the projects and are being sold mainly in rural and urban areas of Kishoreganj, Netrokona, Mymensingh, Narshingdi and Gazipur. Bikash Food employs 90 persons of which 50% are women. Yearly turnover of Bikash Food was Tk. 28.90 million for the 2005. The Bakeries are running on commercial basis, which opened a good window for income generation and employment generation.

PBK has a plan to invest between Tk. 35 - 50 million to expand and modernize its operation and aims to reach a sales target of Tk. 200.00 million by the year 2008. Currently Bikash Food products are within marketing network in 7 districts of Bangladesh and by 2007 the whole of Bangladesh may come under the sales net. PBK is now exploring the possibility of raising the capital needed for the expansion plan through EEF of Bangladesh Bank or other available sources. PBK has also plan to bring Bikash Food under employee ownership by the year 2008.

6. MICRO FINANCE INDUSTRY IN BANGLADESH

Bangladesh is considered to be one of the most poor and densely populated countries of the world with 28 million hard-core poor population. The UNDP Human Development Index (HDI)

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has ranked Bangladesh as one of the poorest countries. The poverty has been reinforced by high population growth rate, landless people, river erosion, floods and other natural disasters. These have resulted in lower per capita income, high unemployment rate, increasing disparity in urban-rural areas and finally substantial growth in rural to urban migration.

Bangladesh is considered to be the breeding ground of micro finance activities. Prof. Yunus, the initiator of the idea of MF started a personal approach with the poor at Chittagong by extending collateral free credit in late sixties. Its immediate success led the way to the formation of Grameen Bank, the pioneering model for MF in Bangladesh and around the world through Grameen Trust. The relief organizations were set up immediately after independence to help rebuild the war ravaged country experienced from Grameen success story that poor, hitherto believed not to be credit worthy and bankable, are the most reliable as far as loan repayment is concerned and if empowered with money, training and put them in groups could develop into quality borrower with astonishing recovery rate of over 98%.

Having convinced at the success story of Dr Mohammad Yunus's initiative legislations were passed in 1983 to allow Grameen Bank to operate MF programs. The directives of NGO Affairs Bureau to extend loans to the poor had given the MF NGOs quasi-legal status to operate MF programs.. The central Bank also encouraged the schedule banks to run MF operation by replicating models practiced successfully by Grameen, BRAC and other NGOs. The Government went further ahead in setting up of Palli Karma- Sahayak Foundation (PKSF) in 1990 to provide low-cost fund to the NGOs. Based on above, Bangladesh now boasts of having the largest micro finance industry in the world. Most of the dominating and large NGOs operating in Bangladesh have started or strengthened their operation in Micro-Finance sector during last two decades and the growth of the industry had been remarkable. The success and methodology of Grameen Bank have led others to believe that the Grameen style of MF (with a few modifications in cases) is the best way to attract poor and help alleviating their poverty. The MF models in Bangladesh pioneered by Grameen and BRAC are now being replicated around the world.

6.1 Role of PKSF, GOB and Banking Sector

At the backdrop of higher growth rate and favourable impact on the poverty alleviation, the demand for micro finance fund increased manifold. But the fund from donor agencies available on piece-meal basis found to be insufficient to meet the above growing requirement. In order to meet the demand-supply gap and to assist the NGOs to maintain their required growth rate the Government came forward to set up a funding institution titled "Palli Karma-Sahayak Foundation (PKSF)" in 1990. The PKSF, an independent and non-profit NGO registered under the Companies Act of Bangladesh, was established outside the ambit of government bureaucracy. The government allocates fund from the annual budget for the PKSF to act as an apex financial institution for the NGOs to provide fund to support their loan program. At a later stage the successes of MF NGOs have also encouraged some private commercial banks to come forward with MF programs. Some Government agencies have credit program for the poor as well. The establishment of PKSF, its strict evaluation and monitoring, has gone a long way in strengthening the growth of MF activities Bangladesh. The above has encouraged many successful NGOs to avail fund from PKSF to finance their expansion programs and thus reducing the dependence on donor assisted financing.

6.2 Legal framework for MF NGOs for savings mobilization and Credit extension

Non Governmental Organizations dealing with MF had been collecting savings and extending credit to the poor in line with their objective. But the existing laws have not been designed to monitor, regulate and supervise such activities. Currently, MF NGOs are carrying out their activities under one or more of the following regulations:

- a. Societies Registration Act 1860
- b. Voluntary Social Welfare Agencies (registration and control) Ordinance 1961
- c. Institutional aspects of a NGO Limited by Guarantee and Licensed (under section 28 of the Companies Act 1994)
- d. Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978
- e. Co-operative Societies Ordinance, 1984

In view of inadequacy of the above regulations there have been some efforts from various quarters including Bangladesh Bank (with financial support from World Bank) and CDF to recommend proper regulatory framework for MF NGOs. The government initiatives are there to frame regulations under which a single authority would be able to register, monitor and supervise NGO MFIs in place of the existing multi-agencies involvement of the government.

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7.0 CORPORATE GOVERNANCE

Corporate governance is a blend of law, regulations, enforcement and appropriate voluntary practice by the companies/ corporate body that encourages investment in capital, perform efficiently and generate long term economic value for its shareholders/ members while respecting the interest of its stakeholders and society as a whole. The specific areas covered are transparency in disclosure of relevant reliable financial and operational information, information on ownership and control, information on internal processing of management. PBK operates its activities in the unregulated sector as non-profit organization without having well defined ownership structure. CRISL reviews some of the areas as stated below:

7.1 Legal Setup

The organization has been set up with a registration under the Societies Registration Act 1860. This Act is weak in terms of provisions to cover the activities of an organization dealing with MF activities. The PBK is also registered with The Department Social Welfare, Bangladesh and NGO Affairs Bureau, Bangladesh for the purpose of establishing working relationships with them.

7.2 General Body

The governance of PBK is controlled by two bodies, namely, General Council and Executive Council. The General Council is made up of 21 of the PBK's general members. The General Council elects the Executive Council for a two-year term, evaluates and approves the annual budget, prepares development plans, evaluates audit report and the report of the Member Secretary. The General Council is also responsible for appointment of auditors and to fix their remuneration. The membership in the general council remained static although there is provision to include more members with the recommendation of existing members.

7.3 Executive Council

The Executive Council consists of seven members elected for a two-year term at the meeting of the General Council. The Executive Council has the structure of Chairman, Vice-Chairman, Member Secretary, Treasurer and three members. The EC is the policy making body and deciding on PBK's future needs and planning. The EC approves the annual budget, development plan, annual accounts (and get it audited by the appointed auditors) and the report of the Member Secretary. It also frames rules and regulations to monitor the management function including administrative and financial management. The EC may nominate a member from the General Council to fill up a vacancy, forms advisory or other committees as and when required. The EC is empowered to appoint required staff including the Executive Director.

7.4 Management Team

PBK management team is headed by the Executive Director, who is also the ex-officio Member Secretary of the Executive Council. Mr. Mohammad Hasan Ali, a veteran NGO activist of Bangladesh is the Founder and Executive Director (ED) of PBK. Program Manager (PM) Mr. Md. Shahidul Islam is the chief of micro-credit and other programs and has served BRAC, the largest NGO of the country, for long 14 years before joining PBK. He attended many training programs arranged by BRAC at home and abroad during the tenure of his service with BRAC. Mr. Mohammad Solaiman Siddique, a Senior Manager, is heading the Training and Monitoring section and sits at the Head Office at Dhaka. He has undergone many training programs during his tenure of service with PBK and BRAC and has long 13 years of experience with NGOs. Mr. Jhinuk Kumar Nath is the Finance Manager of the organization who has a Masters degree in Accounting and has completed Chartered Accountancy courses. The above management team has clear understanding of the aims and objectives of the organization and has the capability to achieve the same. However CRISL feels that the team needs training in certain areas of management to support their experience and knowledge in the concept of formal management.

7.5 Human Resources and Management

PBK has put in place very recently a Personnel Management Procedure and Policy, which is made effective from May 2005. This policy guide has details of the procedures outlined in chapters such as service conditions, release, resignation, dismissal, redundancy and retirement policy, leave policy, salary, allowances and other perquisites, disciplinary rules, service records, appointment, promotion, transfer and authority aspects of the job. There is provision for appointment of staff under four categories such as regular staff, project staff, contract staff and social worker.

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PBK has 180 employees in its payroll including an 8-member team at the Head Office at Dhaka, which is used for co-ordination and reporting purposes between different institutions, organizations and government departments. Employees are categorized in 15 grades with the topmost Grade- XV is for the Program Manager. The gross pay of the employees ranges between Tk. 1860.00 to Tk. 31,000.00. The recruitment of regular staff is done after advertising the vacancy in newspapers and is open to persons within the age range of 20 to 45 years. The position for project staff is advertised in newspapers and local circular or notification. The persons within the age range of 20 and 35 years are eligible for the positions. The contract staff is selected through personal contacts or notification and persons within the age range of 20 and 65 years are eligible. Social workers are recruited locally by the PM and they will be within the age range of 20 and 45 years. For the first three positions the ED is the recruitment authority. All the regular and project staff has to work for a one-year probation period before being confirmed as a regular employee subject to satisfactory performance. During the probation period the employer may terminate the appointment or the employee may resign from the job without serving any notice to the other party. The employee performances are measured through a confidential report as per a specified format submitted each year by their superiors, which is kept in respective personal files and are used for the purpose of promotion and/or increment in salary and other benefits or any punishment purpose.

8.0 MANAGEMENT INFORMATION SYSTEM

PBK has computerized its operations recently and at its early stage of computerized MIS implementation. The installed system is local based, without interconnectivity with its offices. Information is usually transferred through hard copy or through CD. For the purpose of accounting records PBK is using POFMS software provided by PKSF and for the purpose of record keeping and MIS software developed by Southtech known as Ascend.net is being used, which are found to be adequate for PBK's small operation in three districts. Loans and savings tracking can be done through this software and the controlling office can detect mistakes or frauds at unit office level, if any. The unit office has less possibility now to manipulate records. Backup records are automatically created under the programs to prevent any possible data loss.

Through the effective use of Management Information System (MIS) and Accounting Information System (AIS) cross connection is possible in order to reveal real picture of operational activities. PBK maintains and prepares good number of reports and statements for reporting and monitoring purposes. For the purpose of savings & credit program a daily Group wise cash collection sheet is prepared by the PO, duly counter signed by the Chairman of the Group and the accountant. A computer generated daily cash collectable statement is now being prepared for cash collection from the group members at the group meeting, which shows details of loan installment payments and savings deposits. A pass-book is maintained for each member showing therein the records of loan repayments, savings and the balances. For each of the weekly meetings resolutions are recorded which is duly signed by the Group Chairman.

The PO, UM and RM fills in a daily work assignment checklist after visiting Groups as per specific format and submits the same to respective higher authority. A weekly and monthly summary report on field inspection is also filled in by the UM. A weekly and monthly target and achievement report is also prepared. Unit wise monthly reports are prepared based on the field level reports by the UMs. At office level registers are maintained for entering cash transactions on daily basis and ledgers postings are made in general and subsidiary ledger. In case of the use of computer software these manual records are not kept. Preparation of periodic reports to be submitted to PKSF is mandatory and is being done by the Finance Department.

MIS department prepares separate reports for MFTS programs showing therein the details of PO activities. MIS department also prepares project wise report on activities. A quarterly report is prepared and submitted to Bangladesh Bank as per specific format. Other performance related reports are also prepared by the MIS department for the PM and ED. CRISL found the reports and statements prepared from the maintained records to be adequate for small operation but feels the need for establishing computer based improved networking system between unites to have better and quicker control over unit activities. PBK needs to look at this point in view of current growth pattern and future expansion plan.

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9. PBK RISK MANAGEMENT PROCEDURES

Risk management procedures is an integral part of business process which acts as the safeguard of financial or non-financial assets, promote operational efficiency and effectiveness, ensure compliance with applicable policies and regulations and ensure adherence to prescribed managerial policies. CRISL reviews some of the risk management areas as stated below:

9.1 Operational Risk

PBK operation is limited to only in 3 districts covering 360 villages. It has been carrying out MF activities through 14 unit offices. The small operation like PBK carries less operational risk as compared to larger organizations. In order to mitigate the risk the PBK has installed an effective monitoring system at field level and authority is delegated in most cases to PM & RM. The monitoring activities are done mainly on the basis of guideline provided by a detailed Savings and Credit Procedures Manual. Since the personnel involved in internal monitoring and control are working under the PM, the present system may not be fully effective to mitigate operational risk.

The PBK does not have independent internal audit department except two employees monitoring the activities of the unit offices. CRISL feels that an internal audit department headed by no less than a Senior Manager and reporting directly to the Executive Committee (EC) would have been more effective to check and review the functions of all the activities. The organization does not at present have any audit manual detailing therein the procedures of internal audit. The recent decision by the EC to have an independent audit department under the ED is an encouraging step towards achieving better internal control. PBK recently has prepared written policy guide for sales and purchases to control and monitor the activities of its commercial units but this manual is yet to implemented. An internal audit team, in addition to auditing MF activities, should audit the accounts as per usual practices and as per policy guidelines to be framed.

9.2 Credit Risk

The MFIs in Bangladesh are operating at the vulnerable areas with concentration of poor families. Therefore there is always a Credit Risk. In order to mitigate the above the MFIs are operating through standard rules and procedures and also followed by guidelines of PKSF. The PBK has a well documented Savings and Credit Procedures Manual and selection of borrowers depends on capability of borrowers to repay the loan. Again, the criteria for selection of borrower include regular attendance in weekly meetings (at least 80%), up to date payment of savings and loan installments, experience, results of investigation by the PO from family members etc. Normally client exposure is limited to one credit product only and in few instances consumer credit may be allowed additionally to the eligible borrowers. There is a limit to the number of clients in a single group. The organization follows a specific guideline for provisioning for classified and unclassified loan to minimize its loan loss risk (as per PKSF guideline). Credit risk depends mainly on careful selection of the members and borrowers by following the guidelines in the credit manual. Credit risk of PBK is covered significantly by savings of the members, which is about 42% of the loan disbursed. So, PBK does not have a high credit risk for its loan products.

9.3 Fund Management Risk

PBK follows a well defined guideline for fund management as detailed in the credit manual. PBK transacts its cash through bank only. Each unit office is authorized to keep up to Tk. 0.2 million with them for loan disbursement purposes and any additional cash at bank must be transferred to the project office. Each of the unit offices can keep maximum cash balance of Tk. 1000 only. The unit office prepares cash certificate to show balance of cash in hand and at bank. Any transfer of fund is done by demand draft or pay order and carrying of large amount of cash is strictly prohibited to avoid any sort of risk. While submitting the monthly statement to the project office the unit offices have to enclose bank certificate or statement showing bank balance, which is reconciled by the project office with the financial report. Apart from above measures officers from accounts department, monitoring section and officers on behalf of the management visits bank to check the balances with the statements. PO collects loan installments and records the same in the client's passbook with due signature. The unit managers cross check the passbooks of the clients periodically. In addition, computer generated target collection sheet is provided to every PO and the unit manager receives money accordingly. The unit manager identifies overdue, if any, on daily basis and takes proper steps to recover the overdue.

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9.4 Service Charge Rate Risk

Service charge rate of the organization up-to the year 2003-04 was 15%, which was subsequently reduced to 12.50% in the year 2004-05 due to change of policy guideline from PKSF. PKSF is the largest financer for micro financing activities of PBK. The fluctuation of service charge rate depends on the policy of PKSF. The PKSF being a non-profit organization of Government of Bangladesh maintains the interest of poor people and the service charge rate risk from market pressure is insignificant. The effective service charge rate of the organization is much higher than the above mentioned interest rate in micro financing program. PBK also borrowed money for microfinance from commercial bank namely BASIC bank, which constitute 2.5% of total borrowed money.

9.5 Loan Recovery Risk

One of the major risks of MF program is collection of installments with high frequency ranging from week to months. The above risk is further fuelled by the loan default culture prevailing in the banking sector although the banking institutions are stronger entities to collect installments due from clients through legal measures and by selling of collaterals. In contrast to the above background the MF programs being operated by the NGOs without collateral and with high frequency of loan repayments are yielding a recovery rate of above 98%. The MF organizers are offering micro finance through group guarantee with the incentive of further loan if there is no default in repaying the installments. The system works favorably for the MFI institutions and assists them in maintaining high recovery ratio. However, legally the MFIs are in the lower end due to informal agreement with clients.

9.6 Other Risk

Foreign currency risk exposure of the organization is nil since all lending activities are in local currency. There is no regulatory compliance requirement for internal control on routine basis for PBK from the office of the ED. Political risk related to micro financing activities also identified low in PBK since major clients are rural based.

9.7 Assets-Liabilities Management

The organization is moving without having separate treasury department. Therefore, assets-liabilities management practices are not being followed properly in the organization. However, the finance department traditionally matches the assets- liabilities through cash inflow and outflow projection in different maturities. In addition, PBK finances in short term basis by short term borrowing especially from PKSF. The organization purchases fixed assets usually from the internal capital generation. The organization finances in weekly basis whereas borrows fund on the monthly basis. PBK do not enjoy any overdraft facilities with any Banks to meet emergency cash requirement; however, significant amount of FDR in different Banks ensures sufficient financial flexibility.

10. OPERATIONAL PERFORMANCE

The operational performance of PBK is in ascending trend. The organization achieved significant development in different operational areas such as growth of loan portfolio, savings mobilization, outreach etc. during the last three years. However, the operation of the organization is still confined in limited areas. The outstanding credit portfolio of the organization as on 30th June 2005 was Tk. 91.57 million. Growth rate of outstanding portfolio was 37.67% in 2005 and 61.02% in 2004, which are considered to be satisfactory since the industrial growth rate during 2004 was 21.51% considering total 721 MFIs' portfolio as per CDF statistics. PBK achieved significantly higher growth in loan disbursement as compared to growth of the industry. The organization achieved loan disbursement growth rate of 56.66% during the year 2005. This growth rate in 2004 was 42.23% against industrial growth rate of 16.77%, indicating PBK as a fast growing organization. Loan disbursement of the organization during the year 2005 was Tk. 157.55 million against Tk. 100.60 million in previous year. The loan recovery performance of the organization is found to be satisfactory having 99.88% Cumulative Recovery Rate (CRR) and 99.57% On Time Realization (OTR) rate as on 30th June 2005. Member drop out rate of PBK was 5.98% as on 30th June 2005. This rate was 8.24% as on 31st December 2004, representing improving trend of drop out rate of the organization.

10.1 Loan Outreach

The outreach of the organization in terms of loan disbursement is average since the geographical coverage, number of active borrowers, etc. is much lower than the other leading organization in the

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country. The number of micro credit units stood at 14 as on 30th June 2005 in 3 different districts, which is much lower than the other leading organization in the country. The number of active borrowers stood at 25,527 as on 30th June 2005, which is also significantly lower compared to the other leading organizations. However, PBK achieved significant growth in both unit network and active borrowers during the last two years. Seven units and 14981 active borrowers were added during this period, representing 100% growth rate of unit and 142.05% growth rate of active borrowers.

Average loan size of micro credit program was Tk. 3,938.85 as on 30th June 2005 against Tk. 3,352.50 as on 30th June 2004, indicating increasing borrowing capability of the members. On the other hand, average outstanding loan balance was Tk. 3,584.00 as on 30th June 2005 against Tk. 3,484.00 as on 30th June 2004, indicating stable credit risk exposure to single borrowers. Loan handling capabilities of the loan officers have increased during the last two years. The average outstanding portfolio per loan officer was Tk. 915,335 as on 30th June 2005 against Tk. 683,095 as on 30th June 2004, indicating improving performance of loan officer. In line with the above, the loan monitoring pressure of the loan officer has increased significantly since average loan handled (as per disbursement) per loan officer has increased to Tk. 1.61 million as on 30th June 2005 from Tk.1.32 million as on 30th June 2004. In the same manner average number of clients per loan officer has also increased to 279 as on 30th June 2005 from 247 as on 30th June 2004.

10.2 Saving Outreach

The savings outreach of the organization is found to be average. The number of savings holder under micro credit program stood at 26,698 as on 30th June 2005. This number of savings holder is significantly lower than the leading organization in the country. The savings holder is 4.58% higher than the active borrower of the organization. The growth rate of savings holder is higher than the growth rate of overall industry. During the year 2004 this rate of PBK was 48.09% against industrial growth rate of 9.80%. However, the growth rate of savings holder has slashed down to 17.32% during 2005. Average savings received from single savings holder was Tk. 672.55 during the year 2005, which was Tk. 551.00 during the year 2004, representing growth of 22.06%. Thus the savings capabilities of the members of the organization have been increasing. In the same manner average savings balance (based on outstanding figure) has increased during the year 2005 as compared to previous year. Average savings balance was Tk. 1287.43 during the 2005 against Tk. 1035.00 of previous year. Average savings withdrawal per savings holder was Tk. 266.40 during the year 2005 against previous year savings withdrawal of Tk. 356.48, representing decreasing trend of 25.27%. Outstanding savings per loan officer was Tk. 381,908 during the year 2005 against Tk. 336,468 of previous year.

11. FINANCIAL PERFORMANCE AND EFFICIENCY

Financial performance of PBK is average. The organization earned net surplus of Tk. 2.12 million as on 30th June 2004 against previous year's surplus of Tk. 1.45 million, representing 46.61% higher income over the year. During the year 2004 the NGO earned total revenue of Tk. 20.64 million against Tk. 18.47 million in the previous year, representing growth rate of 11.74%. In the same manner, net revenue income from operation (after deducting financial cost) was Tk. 18.58 million in 2004 against Tk. 16.79 million of the previous year, representing growth of 10.66% over the year. However, the organization has been experiencing decreasing trend of gross income from operation. This income has decreased to Tk. 1.44 million in 2004 from previous year's gross income of Tk. 1.99 million, negative growth of 27.63%. Increasing trend of overhead of PBK is responsible of the above decreasing performance since the growth rate of net revenue income from operation was lower than the growth rate of operating expenses. Huge increment in non-operating income of the organization pushed the net surplus up during the year 2004. Non-operating income of PBK soared up to Tk. 1.51 million in 2004 from Tk. 0.06 million in 2003, representing growth of 24.17 times.

Service charge is the main source of revenue for PBK. During the year 2004 the organization earned service charge from micro financing program of Tk. 12.80 million against previous year's earnings of Tk. 10.49 million, a growth of 22.02%. The above growth of the organization is satisfactory. Like other similar organizations, the service charge is the major contributor to total revenue for PBK which was 62.01% in the year 2004 against 56.79% in the previous year. Income from commercial operation has increased significantly during the year 2004. The NGO earned Tk. 1.82 million from commercial operation in 2004 against previous year's earnings of Tk. 1.41 million, representing growth of 29.07%. Thus the contribution of income from commercial operation

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has increased to 8.81% of total revenue from 7.63% of previous year. In the same manner, fee based income (income from service charge of head office, pass-book selling, loan form selling, admission form selling, etc.) has increased to Tk. 3.17 million in 2004 from Tk. 1.66 million in 2003, indicating growth of 90.96%. Fee based income is considered as stable source of earning for the organization. Service charge income of head office from different projects was 87.06% of total fees during the year 2004. The contribution of fee-based income in total revenue was 15.35% in 2004 against 8.98% of previous year. This earning is identified satisfactory for PBK. However, the donation and grants of the organization has decreased during last four years. The organization received Tk. 2.68 million in 2004 against Tk. 3.28 million in previous year, representing negative growth of 18.29%. The industry has been facing decreasing trend of donation & grants from the last five years.

Operating expenditure of the organization has increased significantly during the year 2004. The above stood at Tk. 17.15 in 2004 against Tk. 14.80 million of previous year, representing growth of 15.87%. Therefore, cost to income (net revenue income from operation to operating expenses) ratio has reduced to 90.44% in 2004 from 92.18% in 2003, indicating increasing efficiency of the organization. Per 100 Taka loan disbursement cost of the NGO has also decreased to Tk. 20.03 in 2004 against Tk. 28.07 in previous year, indicating increasing efficiency of the organization. However, some of the organization in the peer group is more efficient than the PBK. It is expected that the loan delivery cost of PBK will decrease further along with its growing loan portfolio. Small portfolio as compared to the other peer organizations is responsible for the above relatively high delivery cost of the organization. During analyzing the head of expenses it has been found that the financial cost of the NGO has been increasing with the increasing pace of the outside borrowing. Financial cost has increased to Tk. 2.06 million in 2004 from Tk. 1.68 million in 2003. However, under operating expenses salary & allowances has been found stable during the year 2004.

While analyzing the profitability of the organization it has been observed that the return in terms of surplus margin, equity (own fund) and assets is much lower than some of its competitors (national level NGOs). Surplus margin has increased to 10.41% during the year 2004 from 8.46% during the year 2003. However, Return on Average Equity (ROAE) considering own fund as equity of the organization gone up during the year 2004 to 7.97% from 6.49% in 2003. In the same manner, Return on average assets (ROAA) has increased to 2.89% in 2004 from 2.67% in 2003. However, asset utilization rate of PBK was found satisfactory. This rate has been decreasing since the last three years due to higher growth rate of assets than the growth rate of revenue income. This ratio reduced to 23.99% in 2004 from previous year's rate of 27.69%. Asset utilization rate in 2002 was much higher, which was 33.03%.

11.1 Profitability of MF Program

It has been observed that the micro financing program of PBK is also average. The organization earned Tk. 3.17 million surplus income from the micro-financing program as on 30th June 2005. The surplus income has increased by 57.71% over the year. Net surplus margin of the organization was 14.54% in 2005 against 14.66% of previous year, indicating stable performance. Net service charge margin ratio has been increased from 91.29% in 2005 to 88.47% in 2004. The organization maintains high margin ratio due to low cost of funding from PKSF.

11.2 Commercial Undertakings' Performance

PBK has earned net profit of Tk. 1.82 million in 2004 from one manufacturing unit and other non-manufacturing commercial activities. The earning growth rate of commercial undertakings was 29.07% over the year. PBK has one manufacturing unit in food sector. This unit made loss of Tk. 0.05 million during the year 2004. However, previous year's profit was Tk. 0.27 million. The turnover of the project was Tk. 20.83 million in 2004 against Tk. 19.27 million in 2003. Cost of good sold was Tk. 17.30 million in 2004 against Tk. 15.58 million in previous year. The growth rate of cost of good sold was higher than the growth rate of turnover. On the other hand, non-manufacturing commercial activities of the organization earned Tk. 1.87 million in 2004 against Tk. 1.14 million in 2003, representing growth of 64.03%. Non-manufacturing commercial activities of the organization include marketing of mosquito curtain, quilt & mattress, bed sheet, sanitation set, broiler sales, etc. produced by the members.

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12. SUSTAINABILITY

PBK is operationally a self-sufficient organization. However, consolidated operational self-sufficiency ratio of the organization has deteriorated during the year 2004. This ratio was 103.01% during the year 2004 against previous year ratio of 108.10%. Operation self-sufficiency of some of the competitors identified significantly higher than PBK. Micro financing program of the organization is also operationally self-sufficient. Operation self-sufficiency ratio of micro financing program was 116.83% in 2004. Financial spread of PBK was found to be satisfactory. However, this ratio has decreased during the year 2004 to 25.61% from 27.48% of previous year. Investment income margin is below average. During the year 2004 this ratio has slashed down to 1.86% as compared to previous year margin of 20.89%. However, fee-based income (as mentioned above) to operating income margin was satisfactory.

Financially the organization is yet to achieve the self-sufficiency considering consolidated accounts; however, micro financing program is financially self-sufficient. Surplus income did not cover up the inflation and subsidy related adjustments, which make an organization financially self-sufficient. Consolidated financial self-sufficiency ratio was 94.15% in 2004 and 99.98% in 2003, representing deteriorating situation of the organization due to increasing subsidized fund borrowing from PKSF. Significant increase in inflation and subsidy adjustment decreased the financial self-sufficiency of the organization during the year 2004. The imputed cost of capital during the year was Tk. 1.89 million which includes inflation adjustment of Tk. 1.03 (with 6% average inflation assumption) and subsidy adjustment of Tk. 0.85 million (with average 8% commercial borrowing rate assumption). However, financial self-sufficiency ratio of micro finance program was 100.75% in 2004, which is satisfactory.

13. ASSET QUALITY

PBK is a medium size non-profit development organization with total assets footing of Tk. 84.77 million as on 30th June 2004. Total assets of the organization have increased by 37.06% over the year. The overall asset quality of the organization is found to be good. Total assets footings includes net properties and fixed assets of Tk. 10.77 million (12.70% of total assets), credit portfolio of Tk. 54.88 million (64.74% of total assets), investment portfolio of Tk. 7.81 million (9.21% of total assets), etc. The growth rate of fixed assets, credit portfolio and investment portfolio was 36.67%, 61.02% and (26.18) % respectively in 2004. The asset quality in credit portfolio was found to be good. Investment portfolio has also been identified as of good quality since the organization invested as term deposit in different Banks.

13.1 Quality of Credit Portfolio

The quality of credit portfolio of PBK, as mentioned above, identified good. Gross Non-Performing Loan (NPL) ratio of credit portfolio as on 30th June 2004 was 0.96% against 0.1.55% in 30th June 2004, showing improving asset quality. NPL coverage ratio was 194.89% during the year 2005 (157.94%-2004). NPL coverage ratio in 2003 was 114.31%, indicating improving coverage by the classified loan provision. During the year 2005 gross NPL ratio further decreased to 0.68%. Portfolio at risk ratio also found low in line with NPL ratio, which was 0.81% in 2004. This ratio further decreased to 0.63% during the year 2005, indicating improved asset quality. Portfolio in arrear of PBK stood at 0.82% in 2004, which subsequently decreased to 0.63% in 2005, indicating improving situation of overdue position against outstanding portfolio of the organization. However, delinquency ratio of PBK has increased significantly during the year 2005, which is alarming. This ratio has increased to 2.13% during the year 2005 from 1.13% in 2004. The organization; however, do not usually write-off its bad loan. Provisioning policy of PBK includes 1% general provision on unclassified loan whereas 6%, 60% and 100% specific provision on substandard, doubtful and bad loan respectively. Arrears up-to 180 days were considered as substandard loan and arrears above 180 days and up to 365 days were considered doubtful loan. On the other hand, arrears above one year were considered as bad loan, representing conservative policy than some of the organization in peer group. Members' savings to outstanding credit portfolio stood at 42.92% in 2004 from 56.13% in 2003, representing deteriorating savings back up of credit portfolio. Members' savings considered as security coverage for credit portfolio of the organization.

14. FUNDING AND LIQUIDITY

PBK is working as a development organization without having an equity stake. At present, the sources of funding of the organization include members' savings, PKSF fund and borrowing from

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commercial Banks. Thus, funding base of the organization is not diversified. In addition, degree of dependency on PKSF fund is significant. Total assets are financed by the equity of 32.38%, PKSF fund of 29.98%, members' savings of 27.76% and others. PKSF provides low cost fund to the listed members at the interest rate of 4.50%. Members' savings is another major source of funding which considers as stable and low cost fund for the organization. This savings was Tk. 23.53 million in 2004 against Tk. 19.06 million in 2003, presenting growth of 23.45%. The outstanding borrowing from PKSF was Tk.25.42 million in 2004 against Tk.11.85 million in 2003, representing growth of 114.51%.

While analyzing the liquidity related ratio of the organization it has been found that the operation of PBK has been moving with satisfactory liquidity position. Current ratio of the organization stood at 2.50 times in 2004 against 2.23 times in 2003, showing increasing liquidity status. Liquidity position was significantly better than some of its competitor. Quick ratio of PBK was also higher than some of its competitors. This ratio stood at 2.60 times in 2004 and 2.51 times in 2003. Times interest earned ratio of PBK was 2.33 times in 2004 and 2.04 times in 2003, representing satisfactory position. Liquid assets of the organization (cash & cash equivalent) stood at Tk. 9.38 million as on 30th June 2004 indicating reasonable financial flexibility.

15. CAPITAL ADEQUACY

The PBK being a Social development organization does not have capital as such. However, its retained earnings (capital fund) and disaster management fund, not being attached to any specific liability, may be considered as its capital for all analytical purpose. Based on the above the capital base of PBK is quite adequate. The above equity base stood at Tk. 27.57 million as on 30th June 2004. The growth rate of retained earnings of PBK was 7.40% in 2004. This growth rate of retained earnings is much lower than some of its competitors. Equity multiplier (asset to equity) of PBK has increased due to higher asset growth from outside borrowing than the growth of internal capital generation. Equity multiplier ratio stood at 3.09 times in 2004 from 2.41 times in 2003, indicating significant increase. It is observed that the equity multiplier of some of the competitors in the same industry has been increasing over the year, indicating increasing trend of dependency in outside borrowing of those organizations. The Risk Weighted Capital Adequacy Ratio (RWCAR) is found to be strong, indicating comfortable position of the organization. However, RWCAR has reduced to 43.79% in 2004 from 57.69% in 2003. RWCAR of PBK as compared to other competitors is identified good. However, internal capital generation of the organization was much lower as compared to some of the competitors of PBK. This ratio was 7.97% in 2004 against 6.49% in 2003.

The organization borrowed 1.78 times against its equity in 2004 (1.20 times in 2003), which is less than the peer average of 1.86 times. Total liabilities to equity ratio has also been increasing. This ratio stood at 2.09 times in 2004 against peer average of 2.08 times, representing satisfactory position of PBK. Short term gearing ratio identified stable; however, long term gearing ratio showed increasing trend. Short-term gearing was 1.09 times in 2004 against 1.06 times of previous year, indicating stable situation. However, long-term gearing soared up almost double. Long term gearing in 2004 was 1.07 times against 0.56 times in previous year. Overall gearing position of PBK found satisfactory since total gearing was 2.16 times.

16 SOCIAL IMPACT

The PBK has a number of social programs in addition to its MF programs, aimed at ensuring socio-economic advancement of the beneficiaries. Although the organization does not have its own study on the impact of its socio-economic programs on the members, CRISL conducted a survey on 35 beneficiaries at Kishoreganj district. The survey revealed that the monthly income of the beneficiaries have increased as reported by 94% respondents while the savings habit has increased for 54% respondents and standard of living also improved to a great extent. While looking at the impact on literacy, 39% respondents could read and write before taking loan. After availing the services of the PBK, the above rate has increased to 61%. On the point of sanitation, 97% respondents are using sanitary and pacca latrine while the balance respondents are using Katcha latrine. In the decision making process of taking loan 8% respondents decide on their own while 63% respondents are influenced by their husbands and 12% respondents were motivated by NGO activist. There have been major improvements in decision-making process on the issues of family planning, child bearing, educating children, purchasing of household goods, savings withdrawal,

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investment and children's wedding. In most cases both husband and wife took decisions jointly. Eighty three percent of the respondents were confident enough to maintain the family in absence of husband or other household head. Awareness about women's right and empowerment improved as 69% of the respondents confirmed their own decision to cast vote. Most of the respondents engage themselves in social activities than before and are prepared to join programs involving women's right, if necessary. The MF loan has improved the lifestyles and family income for more than 94% respondents and about 63% opined that their social status has improved. The result of the above CRISL study reveals improvements in socio-economic status of the members. CRISL believes that the overall social impact due to MF programs was positive in various socio economic aspects of the members.

15 SWOT ANALYSIS

Strengths

- Operationally self-sustainable
- Good asset quality
- Lower member drop out ratio
- Satisfactory liquidity position
- Experienced top & mid-level management team

Weaknesses

- Weak legal status with Societies Registration Act
- Below average profitability
- Limited unit network
- Limited funding base
- Limited IT infrastructure
- Early stage of MIS
- Average experienced human resources

Opportunities

- Huge expansion opportunities
- Enter into the formal financial market as MF Bank

Threats

- Unregulated sector
- Entrance of competitors in the market

18. PROSPECTS

Micro-credit programs in Bangladesh have changed the lives of millions of people, mainly women. It is now a proven fact that the combined strength of the small borrowers in the field of income generation, job creation and savings mobilization is huge enough to call the NGO sector a parallel banking economy. The collection of small amount of savings has always been the strength of micro-credit programs, which provided some sort of shield against non-payment in addition to generation of fund for NGO activities. MFIs are now providing new programs to attract more borrowers and the growth in lending activities during last few years has been phenomenal. The MFIs in Bangladesh are either following the main strategy of microfinance activity or micro-credit plus other non-lending activities such as skill training, social awareness, education, health, agriculture etc. For the NGOs the Micro-credit programs have assumed the central role because of the demand from members for financial services and the growth rate of 20.77% in 2004 in lending activities proves the point. The programs of micro-credit is proving more and more viable for the NGOs as it generates extra fund to support additional activities without going for borrowing. Most of the larger NGOs have programs with own fund now, which allow them to undertake expansive programs. NGOs are increasingly becoming financial institution now with effective rate of interest of more than double the commercial rate in some instances, mainly due to high product delivery cost. An effective regulatory framework, which is now under process of implementation, will make them more accountable and less risky for national interest. To sum up the prospect of the sector we may quote some of the comments made by Muhammad Yunus in a largely attended and recently telecast T.V. program CNN Connects, which was participated among others by former US president

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Bill Clinton, Queen of Jordan, some Nobel Laureates and specialists in different fields from around the world. He mentioned that half a billion dollar in lending ranging from US\$ 120.00 to US\$ 200.00 by Grameen Bank to 5 million borrowers did not require legal documentation or collaterals. He hoped that with proper management and with proven recovery rate of more than 99%, the micro-credit programs promise to change fortunes of millions more around the world in future.

End of the Report

**SCALES AND DEFINITIONS
LONGTERM – MICRO FINANCE INSTITUTIONS**

RATING	DEFINITION
AAA Triple A (Highest Safety)	INVESTMENT GRADE Micro Finance Institutions rated in this category are adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of MFIs.
AA+, AA, AA- (Double A) (High Safety)	Micro Finance Institutions rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.
A+, A, A- Single A (Adequate Safety)	Micro Finance Institutions rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.
BBB+, BBB, BBB- Triple B (Moderate Safety)	Micro Finance Institutions rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that a MFI is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however considered to have the capability to overcome the above-mentioned limitations.
BB+, BB, BB- Double B (Inadequate Safety)	SPECULATIVE GRADE Micro Finance Institutions rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates a MFI as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.
B+, B, B- Single B (High Risk)	Micro Finance Institutions rated in this category are adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time, continuance of this would depend upon favorable economic conditions or on some degree of external support.
C (Very High Risk)	Micro Finance Institutions rated in this category are adjudged to be with very high risk of timely repayment of financial obligations. This level of rating indicates entities with very serious problems and unless external support is provided, they would be unable to meet obligations in a timely fashion.
D (Default)	Micro Finance Institutions rated in this category are adjudged to be either currently in default or expected to be in default. This level of rating indicates that the entities are unlikely to meet maturing financial obligations and calls for immediate

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SHORT TERM – MICRO FINANCE INSTITUTIONS

ST-1	<p>Highest Grade</p> <p>Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.</p>
ST-2	<p>High Grade</p> <p>High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.</p>
ST-3	<p>Good Grade</p> <p>Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.</p>
ST-4	<p>Satisfactory Grade</p> <p>Satisfactory liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.</p>
ST-5	<p>Non-Investment Grade</p> <p>Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.</p>
ST-6	<p>Default</p> <p>Institution failed to meet financial obligations</p>

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**SCALES AND DEFINITIONS
SOCIAL IMPACT RATING**

SI-1	<p>Highest Grade Highest social impact in terms of change in the quality of life of the poor and hard-core people of the society. Having exceptionally strong and sustainable wide network of service delivery system, the MFI achieved highest social objectives</p>
SI-2	<p>Higher Grade Higher social impact in terms change in the quality of life of the poor and hard-core people of the society. Having very strong and sustainable wide network of service delivery system, the MFI achieved higher social objectives</p>
SI-3	<p>High Grade High social impact in terms of change in the quality of life of the poor and hard-core people of the society. Having strong and sustainable wide network of service delivery system, the MFI achieved high social objectives</p>
SI-4	<p>Good Grade Good social impact in terms of change in the quality of life of the poor and hard-core people of the society. Having reasonably strong and sustainable wide network of service delivery system, the MFI achieved good social objectives</p>
SI-5	<p>Satisfactory Grade Satisfactory social impact in terms of change in the quality of life of the poor and hard-core people of the society. Having sustainable wide network of service delivery system, the MFI achieved satisfactory social objectives</p>
SI-6	<p>Average Grade Average social impact in terms of change in the quality of life of the poor and hard-core people of the society. Having small network of service delivery system, the MFI achieved average social objectives</p>
SI-7	<p>Below Average Below social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having non-sustainable wide network of service delivery system, achieved below average social objectives</p>
SI-8	<p>Poor Grade Poor social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having non effective service delivery system, the MFI could not achieve any social objectives</p>

**Credit Rating Report
on
Pally Bikash Kendra (PBK)**

CONSOLIDATED BALANCE SHEET

ASSETS	Figures in Million Taka		
	2004	2003	2002
Total Non Current Assets	12.40	9.32	4.09
Net Properties & Fixed assets:	10.77	7.88	3.91
Fixed assets-at cost	16.29	12.33	6.34
Less: Depreciation	5.51	4.45	2.43
Total Credit Portfolio:	54.88	33.92	30.18
Short Term Credit Portfolio:	54.88	33.92	30.18
Loan to members	54.88	33.92	29.94
Loan to Subsidiaries			0.24
Investment Portfolio:	7.81	10.58	5.08
Short term investment in FDR (ST)/Others	6.23	9.20	4.90
Investment in Long Term Assets	1.58	1.38	0.18
Other Non Current Assets:	0.05	0.06	
Leasehold Properties	0.05	0.06	
Other Intangible Assets			
Other Current Assets:	11.26	9.41	7.69
Interest receivables on Fixed Deposits (FDR)	0.63		
Advances & Prepayments	1.96	0.37	0.09
Accounts Receivable	0.61	1.29	
Trade Debtors	0.38	0.67	
Others Receivables	0.05	0.15	0.07
Suspense Account/(Cash Defalcation)	0.00	0.00	0.09
Pre-operating Expenses	0.28	0.10	
Stock and Stores(Inventories)	3.37	2.51	0.55
Other Assets	0.84	0.31	0.07
Cash & Bank Balance	3.15	4.01	6.82
Total Current Assets	72.36	52.53	42.78
TOTAL ASSETS	84.77	61.85	46.87

**Credit Rating Report
on
Pally Bikash Kendra (PBK)**

OWN FUND AND LIABILITIES	2004	2003	2002
Own fund /Equity	27.57	25.67	19.00
Capital Fund / Fund Account	25.23	24.08	15.68
Disaster Management Fund	0.22	0.14	
Excess of Income Over Expenditure	2.12	1.45	3.32
Outside Borrowing	25.42	11.85	9.77
PKSF Borrowing:	25.42	11.85	9.77
Long term PKSF borrowing	25.42	11.85	9.77
Others PKSF borrowing			
Other Long Term Liabilities:	2.97	0.76	0.36
Gratuity fund	0.62	0.42	0.33
Provident Fund	1.60		
Debt Management Reserve	0.43	0.26	
Emergency Relief and Rehabilitation Fund			0.04
Staff Savings	0.17	0.00	
Security deposit - Staff	0.10	0.07	
Sundry Fund	(0.06)	0.01	
Savings :	23.53	19.06	13.11
Member's savings/Deposit	23.53	19.06	13.11
Other Current Liabilities	5.40	4.51	4.62
Interest Payable on Savings			3.70
Interest Payable on Loan		2.46	
Outstanding Liabilities	3.23	0.12	0.04
Provident Fund		1.35	
Payable to Different Project	0.81	0.05	0.71
Provision for Expenses	0.13	0.05	
Current Account	0.28		
Others Liabilities	0.94	0.47	0.18
Total Current Liabilities	28.93	23.57	17.74
TOTAL OWN FUND & LIABILITIES	84.77	61.85	46.87

**Credit Rating Report
on
Pally Bikash Kendra (PBK)**

CONSOLIDATED INCOME STATEMENT:

	2004	2003	2002
Total Operating Income	20.64	18.47	14.34
Service Charge Based Earnings:	12.80	10.49	8.91
Service charge from financing activities	12.79	10.49	8.91
Other service charge/interest income	0.00		
Less: Financial Cost	2.06	1.68	1.48
Interest on member's / Business savings	1.42	1.22	1.07
Interest on borrowed fund/Service Charge	0.64	0.46	0.41
Net Service Charge	10.74	8.81	7.43
Fee Based Income:	3.17	1.66	1.59
Income from General Activities (Fees/Rent/Food)	3.17	1.66	1.59
Operational Income			
Income from health related services			
Investment Income:	0.17	1.64	0.45
Interest on Investment/Deposits(FDR)	0.16	1.31	0.45
Interest on Bank Deposits/Savings	0.01	0.33	
Income from Commercial Operation :	1.82	1.41	-
Manufacturing undertaking	(0.05)	0.27	
Non manufacturing undertaking	1.87	1.14	
Donation Based Income:	2.68	3.28	3.40
Grants/Fund/Donation Received	2.66	3.28	3.40
Contribution/Credit Support	0.02	0.00	0.00
Net Revenue Income from Operation	18.58	16.79	12.86
Total Operating Expenses:	17.15	14.80	9.97
Gross Income from Operation	1.44	1.99	2.89
Less: provision for loan losses	0.83	0.60	0.71
Net Income from Operation	0.60	1.38	2.18
Non-Operating Income:	1.51	0.06	1.14
Sale of Assets	0.34		1.01
Other Receipts and Transfer	1.17	0.06	0.13
Net Surplus	2.12	1.45	3.32