

## Credit Rating Report on Shakti Foundation for Disadvantaged Women

**Address:**

Credit Rating Information and Services Limited  
Nakshi Homes, 4th Floor  
6/1A Topkhana Road  
Segunbagicha  
Dhaka-1000, Bangladesh  
Tel: 7173700-1 (PABX)  
Fax: (8802) 9565783  
Email: [crisl@bdonline.com](mailto:crisl@bdonline.com)

**Analysts:**

Mr. Ayub Meor of RAM,  
Malaysia  
Ms. Sabeen Salim of JCR-  
VIS, Pakistan  
Md. Nazrul Husain, Mir  
Farhad Ali and Lutful Kabir  
of CRISL, Bangladesh

**Rating:**

Long Term: A+  
Short Term: ST-3  
Social Impact: SI-4

**Principal Activities:**

Micro Financing Programs  
Social development  
Programs

**Established in:**

Year 1992

**Own Fund:**

Tk. 248.35m as on 31<sup>st</sup>  
December 2004

**Credit Portfolio:**

Tk. 653.12m as on 31<sup>st</sup>  
December 2004

**Members' Savings:**

Tk. 376.16m as on 31<sup>st</sup>  
December 2004

**Active Borrowers:**

121 thousand as on 30<sup>th</sup>  
June 2005

**Active Savings holder:**

131 thousand as on 30<sup>th</sup>  
June 2005

**Executive Director**

Dr. Humaria Islam

**President of the GB,**

Ms. Taheerah Haq

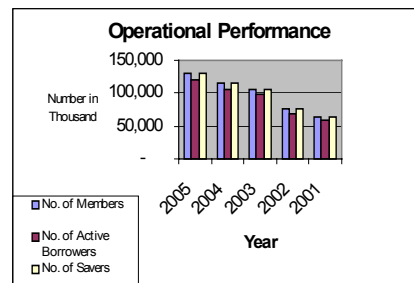
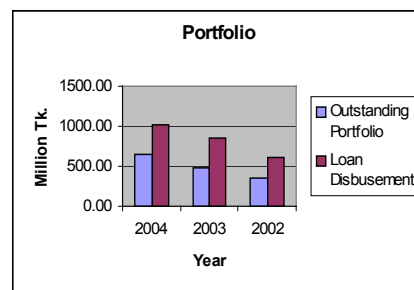
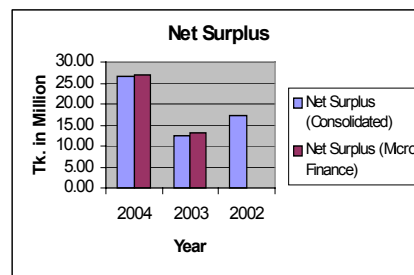
*This is a credit rating report on Shakti Foundation for Disadvantaged Women. CRISL's long-term and social impact rating is valid for only one year and short term rating for six months. After the above period this rating will not carry any validity unless the organization goes for rating surveillance on voluntary basis.*

	Long Term	Short Term
<b>Entity Rating</b>	A+	ST-3
<b>Social Impact Rating</b>	SI-4	
<b>Date of Rating</b>	20 <sup>th</sup> November 2005	

### 1 RATING RATIONALE

Credit Rating Information and Services Limited (CRISL) has assigned A+ (pronounced as "single a plus") rating to Shakti Foundation for Disadvantaged Women, hereinafter called Shakti Foundation, in the long run and ST-3 in the short run. CRISL also assigned SI-4 Social Impact rating grade in consideration of the impact of its activities in the society. 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 an 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. The ST-3 short run rating indicates good certainty of timely payment. Liquidity factors and entity fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to alternative sources of fund is good. Risk factors are small. CRISL also rated the entity in terms of its social impact and assigned SI-4 indicating its good social impact in terms of changes in the quality of lives of the poor and hard-core people of the society. Having good and sustainable wide network of service delivery system it has been achieving its social objectives.

The above rating has been done on the basis of the evaluation of a number of operational and financial performance areas of Shakti Foundation for both long and short term vis a vis its organizational and management set up along with its operational activities and environment. The Shakti Foundation has been operating in 12 districts and delivering both financial and social services to its 0.12 million borrowers through 10 micro credit and 3 social programs. The Shakti Foundation has strong soft infrastructure to support its total operation and has a good social impact. The organization has been operating with satisfactory operational performance having good loan and saving outreach. **CRISL**



## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

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. The Shakti Foundation has satisfactory liquidity and sufficient flexibility in organizing fund for immediate need. However, the above rating is constrained by few institutional and operational weaknesses. **CRISL**

### **2. INSTITUTIONAL PROFILE**

Shakti Foundation for Disadvantaged Women is one of the pioneer micro financing institutions working with urban poor women in Bangladesh with the mission "Socio economic empowerment of poor women who reside in urban slum & squatters settlement." The organization commenced functioning in April 1992 with a registration under Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978 at the initiative of a group of researcher and experts in socio economic development. The Foundation received initial financial supports from donors such as UNICEF, the Ford Foundation and the Royal Netherlands Embassy. Later on Women's World Banking (WWB) supports in urban credit program and SIDA, NOVIB, Citi bank N/A and ADB extended their financial support to three other soft programs. The main objective of the organization is to bring change in the quality of life of women living far below the poverty line in urban slums and squatters. The organization provides services to its members through Urban Credit Program. The major activities under this program are financial interventions to poor women through credit delivery and savings mobilization. Subsequently some non-financial services have also been added as supplementary to this main program. At present the Foundation has been operating through its 64 branches in 12 districts and implementing urban credit programs and providing support services, conducting health & gender awareness and Business development related services. The number of saving holders and micro credit borrowers of the organization stood at 131499 and 121319 respectively as on 30th June 2005. Having the registered office at house-44, road-2A, Dhanmondi R/A, Dhaka-1209, Bangladesh, the organization has been assisting the disadvantaged urban women for their overall development as entrepreneurs, decision makers, leaders and agent as change maker. **CRISL**

#### **2.1 Organizational Structure**

The Shakti Foundation has been set up with two-layer organizational structure comprising of General Body and Executive Committee. As per the by-laws of Shakti Foundation any Bangladeshi can get the general membership of the organization after meeting certain criteria, which inter alia, include the recommendations of two existing members. In practice it has been observed that the general membership has remained confined within the sixteen founder members for last thirteen years. General body elects Executive Committee for three years. In order to run the Foundation smoothly, the Executive Committee has been delegated with all operational powers, which in turn delegated the same to the Executive Director. The Executive Director heads a management team for overall administration of the Foundation. **CRISL**

As regards soft infrastructure, the organization has developed a branch network of 64 branches in 12 districts of the country. The organization has sound infrastructure for Information and communication. All the branches are connected by off-line Wide Area Network (WAN) through mobile phone network. Separate ICT Department manned with 5 persons having sufficient relevant qualification and skill is responsible for maintaining the system. All workstations in Head Office are connected by Local Area Network (LAN) supported by three dedicated servers. Every branch owns its computer, printers and UPS for smooth operation. **CRISL**

#### **2.3 Micro Finance Program**

The Shakti Foundation has started micro-financing in 1992 with the objectives of economic empowerment of poor disadvantaged women living in slums and squatters in the urban areas of Bangladesh through creation of their capital and resource base, leadership and capability development, development of women as entrepreneurs, decision makers and agents in their families and communities. The Urban Credit Program of the organization has been designed on the Grameen Bank model particularly for group organization and financial transaction. The major activity under this program is to provide financial services to poor women for income generating activities. Five members constitute a group and six groups constitute a centre.

## Credit Rating Report on Shakti Foundation for Disadvantaged Women

There are 4723 centers in 1278 slums under 54 Thanas. The growth rate of the credit portfolio of the organization was high as compared to industrial growth. This growth rate was 36.45% in 2004 against industry growth rate of 20.77%. The loan recovery growth rate of the organization is also found good. The loan growth rate of the Foundation is satisfactory. During the year 2004 the organization disbursed Tk. 1.03 billion loan against previous year disbursement of Tk. 842.78 million, representing growth of 21.51% over the year. Life insurance policy is a value added service of the organization for its members. Under this policy the nominee of the member gets maximum Tk. 5000.00 on death. The detailed loan products are as follows:

### Product Details

Products	Description
General Loan	General Loans are given for financial income generation activities (IGA) of the project members ranging from Tk. 5000 to Tk.16000 @ 12% interest and collected over a period of 50 weeks.
Business Loan	Business loans are allowed to facilitate members to scale up their business ranging from Tk. 16,001 to Tk.50,000 @ 15% interest for a term of 50 weeks.
Small Enterprise Development	This loan is for expanding business of the successful entrepreneurs. Quantum of loan is above Tk 50,000 with 15% interest.
Equipment Leasing Loan	This is allowed to give equipment support for expansion of business @ 15% Interest.
Seasonal Loan	This loan is granted for a short period during Eid and Puza as additional working capital from Tk.5000 to Tk.10,000 at 15% interest.
Housing Loan	Housing loan is allowed to the members who have land in their names or jointly with their husband or other family members at 14% interest ranging from Taka 70000 to 500000 for 5 to 10 years
Consumption Loan	Consumption Loan is given to the old members for purchase of household items ranging from Tk.5000 to Tk.20000 at 15% interest.
Ramzan Special Loan	This loan is given for selling the snacks/ iftar items during Ramzan for Tk.1000 and collected after one month with Tk.1030
Health Loan	This is an interest free loan for the treatment of serious illness of the members and their children from Tk.3000 to Tk.5000.
Emergency loan	Interest free Emergency loan is given to the project members who are affected by fire, flood and eviction.

Industry growth rate: represents the growth of top 10 MF NGOs. Refer Table A, Micro Fiancé statistics of MF NGO published by CDF, December 2004

The Shakti Foundation has disbursed its loan in different sectors viz. Trading (54.03%), Processing & Manufacturing (24.84%), Agriculture & Forestry (0.54%), Live Stock (6.09%), Services (4.70%), Pedding (2.77%), Shop keeping (6.83%) and others (0.20%) in 2004. It is worth noting that the organization has any loan product for the hard-core poor. **CRISL**

#### 2.4 Savings Schemes

The Shakti Foundation offers a number of savings schemes to its members. The small weekly savings deposits accrue over the time and create a resource base. Poor members can use it as social security or old age insurance. There are two types of savings in Shakti Foundation namely, Personal Savings (Nijer Tohobil) and Business Savings. Under personal savings members are required to compulsorily save Tk. 20 every week. On the other hand, Under Business Saving scheme members are required to save at the rate of 5% of their total loan amount, which remains as security deposit against loan outstanding. Members can take back their savings after five years or cessation of membership. As regards interest on savings, members are paid at the rate of 5% on the amount of savings. The organization put the surplus amount in different banks as FDR at 6% to 8% interest. The savings of the organization have been increasing over the years in line with increasing number of members. The number of savings holders stood at 114,701 in 2004 from 105489 in 2003, representing growth of 8.73% over the year. **CRISL**

#### 2.5 Branches and Member Selection Procedure

The organization follows structured procedure in setting up new branch in new location. It starts with conducting a detailed survey of the area covering various aspects such as the number of members, women's business, willingness and socio-economic conditions of the residents etc. If the area is found to be suitable, the Branch Manager holds a projection meeting with local commissioner, respectable people, interested women and their husbands of the area. The Branch Manager explains the objectives of Shakti Foundation and invites applications from interested women in prescribed form for its membership. The membership is allowed after due verification and the potential members form group of 5 persons each.

## Credit Rating Report on Shakti Foundation for Disadvantaged Women

The criteria of forming a group includes that the women must be the residents of a slum area, they are capable to invest their own money in the business after taking loan. The monthly income of each women member should be at least Tk.1000 and the family income shall not be more than Tk.3000 per month. After finalization of groups, trainings are organized and the group members get the training on the operation, rules and regulations of the Foundation. After successful training and passing the Group Recognition Test (GRT) the group members become the members of Shakti Foundation. A center (Kendra) constitutes of 15 to 40 members of 3 to 8 groups. Each center is controlled by one center chief and Asst. center chief. Members are required to submit their loan applications through group chairman and center chief who recommends and forwards the applications to the branch offices for granting loan. After having detailed discussions with the Branch Administrative Committee (BAC) disbursements of loan are made in branch offices. Loan repayments are made at the weekly center meetings and amounts collected are deposited to branch office. **CRISL**

### 2.6 Social Programs

Shakti Foundation concentrates not only on economic empowerment but also social empowerment of women is its prime consideration. Under social programs it operates Health Program, Women in Development (WID) Program and Business Development Service. However, expenditure in social programs of Shakti Foundation has been declining in recent years. This expenditure was 7.59% of total expenditure of the organization in 2003, which subsequently reduced to 7.16% in 2004. Health program's expenditure was 5.23% in 2004 (5.51% in 2003) and WID program's expenditure was 1.93% in 2004 (2.03% in 2003) of total expenditure.

**Health Program:** The major activities of the Health program are to improve the health conditions of poor women and their families through awareness building and providing primary health care facilities. This service Shakti Foundation provides through 10 health centers at Dhaka and 2 health centers at Chittagong with 12 qualified Doctors, 3 paramedics, 12 health assistances.

**Women in Development Program:** The major activities of WID program are to develop women's capabilities as entrepreneurs and businesswomen and to incorporate them in decision-making process of the organization and to create gender awareness.

**Business Development Service:** This program enables women entrepreneurs to manage and control their business. One of the main activities of this unit is to train the women members on business management. Shakti Foundation formed BDS Committee. This committee was set up to develop a group of expert trainers (BDS trainers) from among successful business women to provide business management training who will take business loan and act as mentors to other women who desire to scale up their businesses. **CRISL**

### 2.7 Fund for Members

A number of fund have been created to respond to the various needs of the members, such as: **Clients Welfare Fund:** The client welfare fund is created with 5% surplus income of the organization. **Health Loan Fund:** One fourth of the center savings and donor's grant comprise to make the health loan fund. This fund acts as a revolving loan fund for the health loan; **Health Service Fund:** Every week all members of Shakti Foundation contribute Taka 1 to this fund and for new branches Taka 50 per year. Upon the death of a member, her nominee receives up to Taka 5,000 from the health service fund. Recently it has been renamed as security deposit. **CRISL**

## 3. MICRO FINANCE INDUSTRY IN BANGLADESH

Bangladesh is one of the poorest and densely populated countries of the world. Nearly half of the population lives under the poverty line, out of which 28 million are hard-core poor. The poverty situation has further deteriorated and the UNDP Human Development Index (HDI) has ranked Bangladesh as one of the poorest countries. The existence of continual poverty since independence has been reinforced by high population growth rate, landless people due to 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.

The history of MF in Bangladesh dates back to nineteen sixties, when the world famous MF initiator Prof. Yunus started a personal approach with the poor at Chittagong by extending collateral free credit. 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.

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

The relief organizations were set up immediately after independence to help rebuild the war ravaged country as experienced from Grameen success that poor, are the most reliable as far as loan repayment is concerned and if empowered with money, training and work in groups they will develop themselves into quality borrowers making astonishing recovery rate of over 98%.

Bangladesh is known to be the friendliest country towards MF industry. The legislations passed in 1983 to allow Grameen Bank to operate MF programs and the directives of NGO Affairs Bureau to extend loans to the poor, had given the MF NGOs quasi-legal status. The government encouraged its own banks and agencies 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. Under the above backdrop, 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 (MF) sector during last two decades and the growth of the industry had been remarkable. The successes of larger NGOs in MF sector encouraged many others to join in the micro finance industry. The success and methodology of Grameen Bank have led others to believe that the Grameen style of MF (with a few modifications in some 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. However, in terms of conditions of products and methodology of implementation, most of the larger NGOs have modified their approach in line with their relationship with the beneficiaries and restructured their programs. Now micro-credit is not only helping the poor to improve their financial conditions but also creating awareness among them about the need for education, sound health, reproductive health and women empowerment. **CRISL**

### **3.1 Role of PKSF, GOB and Banking Sector**

In view of higher growth rate of MF activities in Bangladesh and its favorable impact on the poverty alleviation, the demand for fund has increased manifold but the fund from donor agencies available on piece-meal basis is found to be inadequate to meet the growing requirement. In order to narrow down the demand-supply gap of fund 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 company registered under the Companies Act, was established outside the ambit of government bureaucracy. GOB provides 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 GOB agencies have credit programs for the poor as well. The establishment of PKSF, for its strict evaluation and monitoring, has gone a long way in strengthening the growth of MF activities in Bangladesh. This has encouraged many successful NGOs to avail fund from PKSF to finance their expansion programs and thus reducing dependence on donor assisted financing. **CRISL**

### **3.2 Legal framework for MF NGOs in respect of collection of savings and extending credit**

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:

- Societies Registration Act 1860
- Voluntary Social Welfare Agencies (registration and control) Ordinance 1961
- Company Limited by Guarantee and Licensed (under section 28 of the Companies Act 1994)
- Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978
- 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. Efforts are on 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. **CRISL**

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

### **3.3 Micro Finance Practice**

Micro credit program aims at empowering the poor by providing credit, giving training to use in best way and to motivate them to save and repay the loan in easy installments, which they will be able to repay without affecting their standard of living. The target group of people has never been the favorites of the commercial banks and has always been the target of village lenders with ill motives, which make them poorer. Population below the poverty line is more than 40% and about half of them are hard-core poor. Not many of the NGOs have targeted the hardcore poor due to high risk and high delivery cost of operation.

MF program practiced in Bangladesh is fundamentally a savings and credit program. Members have to start depositing between Tk. 2.00 to Tk. 25.00 per week and the regularity of deposit and attendance in group meetings are the preconditions for receiving credit. MF NGOs, Specialized institutions, Banks and Administrative Ministries/divisions had a market share of 44.4% (42.8% in 2003), 31.1 (32.9% in 2003), 16.5% (15.8% in 2003) and 8% (8.4% in 2003) during 2004 respectively. **CRISL**

## **4. CORPORATE GOVERNANCE**

Corporate governance is a blend of law, regulations, enforcement and appropriate voluntary practice by a corporate that permits to attract 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. Shakti Foundation 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:

### **4.1 Legal Status:**

Although the Shakti Foundation has registration under Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978, it does not give the organization any legal status as a corporate entity. The above is considered to be one of the very serious limitations of the organization.

### **4.2 General Body**

The general body of Shakti Foundation consists of only 16 members. The members of the General Body are independent and not employed by the organization. They are giving voluntary services. The General Body elects one President, one Vice President, one Treasurer and one Member Secretary. The Executive Director of the organization is nominated as ex-officio Member Secretary of the above body. The General Body regularly meets once in a year in the Annual General Meeting as per by-laws. There is also provision to meet on emergency special meeting as and when required. The General Body deals with policy issues and do not interfere in routine matters. The policy issues and specific issues dealt with in the annual general meeting. It also approves annual budget, annual report and annual financial reports of the organization and elects the members of the Executive Committee. Although there are provisions in the by-laws to increase the membership, still the membership remained concentrated among the sponsor members.

### **4.3 Executive Committee**

The Executive Committee consists of 8 (Eight) members of whom there are one President, one Vice-President, one Treasurer and one member Secretary. The Executive Committee is elected by the General Body with the responsibilities of supervising all the activities of the Foundation, assisting the ED in case of need, approving the budget of the Foundation as well as different projects under operation deciding on any changes in the activities of the organization subject to the approval of the General Body. It also evaluates the progress report on the activities of organization's projects and examines Accounts, approves the policy of recruitment of the staff. Some of the above functions are delegated to the Executive Director, who looks after the same through different Committees and sub-committees.

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

### **4.4 Management Team**

With the mission of the economic and social empowerment of poor disadvantaged women living in slums and squatters in the urban areas of Bangladesh, the management team of Shakti Foundation is headed by the Founder Executive Director Dr. Humaira Islam. One Deputy Director, one Senior Coordinator, seven Coordinators and four Assistant Coordinators aid her. The top-tier management team of the organization is appeared to be sound. The executives in the top management have wide experience in Micro Financing sector. They are committed to the organization's mission and vision. The management enjoys enough power delegation for the smooth running of its activities. There are 9 functional departments in the Head Office. Functional department includes Programs, HRD, Finance, Audit, PME (Planning, Monitoring and Evaluation), Commerce & Technology, Information Communication & Technology, Field management & Health. The communication between different tiers of management is appeared to be in line with the requirement. Junior officers are holding meeting every week in each center and discuss about the various problems relating to business, health and gender awareness matters. They also disburse and make recovery of loans and savings made by the members. The different departments are working in coordination with each other under the able leadership of the Executive Director. In addition, there are three Committees viz. Purchase Committee, Printing Committee and Budget Committee.

### **4.5 Human Resources**

Shakti Foundation pursues a set of Service Rules covering major aspects of HR practices and offers a congenial working environment to its human resources. The service terms as set forth, demonstrate a detail guideline and covers major aspects of HR practices. The organization offers a competitive salary package to the employees including retirement benefits. The Shakti Foundation has total 693 employees as on 30th June 2005. This consisted of 14 top-level executives, 66 mid level executives, 532 operational level officers and staff and 81 lower level staff. The above human resources have experience and expertise, which is considered to be in line with the requirement of the organization.

It is notable here that 7 executives in top level out of 14 are women, indicating satisfactory participation of the women executives in decision making process. In addition, there are 234 women staffs in mid tier and 51 staffs in lower tier. Top tier executives including Executive Director have participated different national and international workshop organized by different donors during the year 2004 and 2005. The workshop includes Capital Market, Management Development-TOT & MFI, Micro Marketing & Individual lending in Netherlands, India, Philippine, USA and Colombia. **CRISL**

## **5. INFORMATION MANAGEMENT SYSTEM AND DISCLOSURES**

### **5.1 General MIS**

The Shakti Foundation does not have adequate MIS although the IT infrastructure of the organization is sound. The organization does not have specific formats for regular MIS reporting for management decision and information are provided on requisition basis from various sources. The facilities are not appropriately utilized to generate required reports. However at present, the ICT department is working for the development of strong MIS to facilitate swift decision-making process of the top tier executives. The present facilities can generate some MIS reports for internal and external purpose.

### **5.2 Financial Information System (FIS)**

FIS Software (Accounting Software) has been in operation at Head office and branches to record all financial transactions. The FIS has been providing all the reports needed for the preparation of monthly and yearly accounts such as recording daily transactions, maintaining ledgers, cash and bank statement, trial balance, Income & expenditure statements, Balance sheet, budget variance.

### **5.3 Micro Credit Information System (MCIS)**

All the branches are using the MCIS for monitoring the loan and savings of individual clients. The summary of the reports is used by related units of Head Office. Various reports can be generated from MCIS viz. daily branch summary sheet, daily center collection sheet, periodic attendance report, loan disbursement statement, member wise weekly loan collection, collection of savings, current loan position, current savings balance, yearly savings report, list of overdue borrowers, current aging schedule etc. However the Foundation does not have appropriate system to collate, collect and provide appropriate information.

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

### **5.4 Asset Management System**

All fixed assets of the institutions are centrally recorded and monitored by this software from Head Office.

### **5.5 Medicine Inventory Management System**

This software records all the purchases of medicines and selling it to the clients at cost prices at twelve different medical units of the branches. **CRISL**

## **6. SHAKTI FOUNDATION RISK MANAGEMENT PROCEDURES**

Risk is inherent in every business and management procedures are designed and developed as 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:

### **6.1 Operational Risk**

The Shakti Foundation has been working in Urban area in 12 districts covering 54 Thanas 4723 centers, 1278 slum area dealing with disadvantaged 1,31,499 members through 64 branches for MF activities in 2004 (83 branches up-to September 2005), hence its MF activities carries substantial operational risk. Shakti Foundation has been mitigating the risk through planned internal control system. The organization follows a strong budgetary control system covering all of its activities. The central budget committee with its few subcommittees prepares monthly budgets on the basis of last year's actual and expected programs and activities in the budgeted year and submits the same to the central committee. The Central Committee consolidates the budgets of the branches as well as head office and prepares a master budget of the organization for every year. The budget is required to be approved by the Executive Committee as well as by the General Body. Once the budget is approved and put in operation, the Finance Unit of the organization monitors the monthly budget. They prepare the budget variance analysis every month and submit the same to the Executive Director recommending actions to be taken by the Branches and Head Office.

There is an Audit Department in Head Office consisting of three officers viz. a Co-coordinator, a Manager, and an Assistant Manager. Internal Audit Department has been assigned with the responsibilities of auditing all the branches and Head Office once in a year as per the guidelines of the audit manuals. After completing audit of individual branches, a report in Bengali and the other one in English are submitted to the Executive Director who takes remedial measures. In addition, there are two committees-purchase committee and printing committee looking after the procurement and printing as per organizational guidelines.

The Foundation has its own asset management software through which records of the assets are maintained. The organization has Branch Management Direction Manual, Finance Manual, HRD Manual and the activities are carried out under the guidelines of the above manuals. All the reports are placed in the monthly meeting and Executive Committee meeting in time. Actions are taken as per decisions.

### **6.2 Credit Risk**

The Shakti Foundation operates micro finance business in an organized manner having its comprehensive documented branch management manual. It follows some criteria for selection of borrowers. Preconditions detailed in the branch management manual are followed before approval and disbursement of loan. Attendance records in weekly meetings, past loan records, experience, results of investigation from neighbors and family members etc. are few of the criteria followed for selection of borrowers. Subject to the above conditions stated in loan approval manual, credit proposals are discussed and approved at the weekly meeting of members and 100% of members must endorse the proposal by signing the same. Shakti Foundation has adequate provisioning policy @ 2.5% on outstanding loan. Though its loan write off ratio is very insignificant but adequate loan loss reserve is a good backup for future credit risk mitigation. The Shakti Foundation tries to avoid legal process for overdue collection rather persuasion and social pressure is their instrument to manage delinquency. If the borrowers default in installment payment, the group members will be responsible for refund of loans. Compulsory savings and business savings in Shakti Foundation works as strong collateral against overdue risk.

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

### **6.3 Fund Management Risk**

An MFI like Shakti Foundation having an operational span of large borrowers with very frequent repayment and saving schemes has substantial Fund Management Risk. The Shakti Foundation has structured an appropriate internal control system to mitigate the above risk. The Shakti Foundation follows a predefined guideline for fund management. The branches prepare bi-weekly projected cash flow and forward the same to the head office through online system. The head office subsequently disburses or collects fund if the projected cash flow shows deficit or surplus fund. Branch is permitted to hold highest amount equivalent to next two weeks disbursement in its bank account. Branch remits surplus fund to head office by demand draft or account payee cheque. There is no option for cash transfer from one branch to another branch or head office. Field Officer collects installment and records the same in the client's passbook with due signature. The branch office cross checks the passbooks of the client periodically. In addition, Branch Manager provides a target collection sheet to every loan officer and receives money accordingly. Branch Manager identifies overdue in the collection sheet, if any, on daily basis and communicates personally to recover the overdue amount. The Shakti Foundation put a portion of the fund in short term FDR in order to meet emergency funding need.

### **6.4 Service Charge Rate Risk**

Micro Finance operation with required outreach always goes with the two divergent factor- risk and return. The more you go for outreach financing and services the higher the service delivery cost. However the service charge rate risk is low as the Shakti Foundation has been following the same service charge for the last five years. Therefore, re-pricing risk is nil although yield curve risk exists in view of products different maturity structure. The effective service charge rate of the organization is much higher than the interest rate as mentioned in loan products of micro financing program. The effective service charge rate of Shakti Foundation has adequate caution to absorb service delivery cost.

### **6.5 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 selling collaterals. At 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 95%. 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 above system works favorably for the MFI institutions and assisting them to maintain high recovery ratio. However, legally the MFIs are in the lower end due to informal agreement with clients.

### **6.6 Other Risk**

Foreign currency risk exposure of the organization identified nil since all lending activities found in local currency. But if the local currency is devalued then the organization will be benefited as the foundation received grants in foreign currency.

Political risk related to micro financing activities also identified high in Shakti Foundation since major clients are urban based. Government policy regarding slum removal from urban area displaces clients, which has a negative impact in the asset quality.

### **6.7 Assets-Liabilities Management Risk**

A proper Asset-Liabilities management practices are absent in the organization as there is no independent Treasury Department. However, the Finance & Accounts Department of Shakti Foundation has been performing the activities on the basis of approved budget and monthly cash flow statement. Shakti Foundation does not enjoy any overdraft facilities with any Banks to meet emergency cash requirement; however, significant FDR in different Banks with different maturity ensures sufficient financial flexibility. **CRISL**

## **7. OPERATIONAL PERFORMANCE**

The operational performance record of Shakti Foundation is good. The organization achieved outstanding performance in operational areas such as size of loan portfolio, savings mobilization and outreach in the last five years. The Shakti Foundation started micro finance services in Dhaka city in 1992 and expanded to Chittagong in 1997. The organization has a strong client service understanding and introduces new products based on the requirement of the clients.

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

The total loan disbursement of Shakti Foundation during the year 2004 was Tk.1024.08 million against Tk.842.78 million in 2003 representing growth rate of 21.51%, against MF NGOs and specialized institutions growth rate of 16.77% in 2004. The outstanding loan portfolio has increased to Tk.653.12 million in 2004 from Tk.233.52 million in 2000, representing growth rate of 179.71% over the last five years. The growth rate of loan portfolio of organization was 36.45% in 2004 and 39.49% in 2003 against industry growth rate of 20.77% and 19.5% in 2004 and 2003 respectively. The portfolio growth rate of the organization was very good during the last five years.

The number of active borrowers of the Shakti Foundation has increased to 1,06,785 in 2004 from 51,876 in 2000. In line with the above, the number of branches has also increased to 41 in 8 different districts in 2004 from 34 branches in 6 different districts in 2003. The number of branches has rapidly increased to 83 in 18 districts up-to September 2005. It is worth mentioning here that the Members drop out rate of Shakti Foundation was 19.26% on 2004 against 15.26% in 2003.

Average loan size and Average Loan Balance was Tk. 9590 & Tk. 6116 on 2004 against Tk. 8518 & Tk. 4838 on 2003. Both the average loan size and loan balance have increased over the years. On the other hand, average loan portfolio per loan officer was Tk. 1.54 million on 2004 against Tk. 1.62 million on 2003. Average loan handle per loan officer has been decreasing over the years, which indicates declining trend of overload to the loan officer. Average number of members per loan officer has also decreased to 299 in 2004 from 356 in 2003.

The loan recovery performance of the organization was also good. The loan recovery rate of the organization was 99.64% in 2004 and 99.65% in 2003. The core loan program under Urban Credit Program of the organization disbursed loan Tk. 754.03 million for General Loan (Growth Rate-10.76%), Tk. 136.77 million for seasonal loan (Growth Rate-69.91%) and Tk. 88.63 million for Business loan (Growth Rate-40.31%) in 2004. The loan recovery growth rate was also found good. Cumulative Recovery Ratio (CRR) and On Time Realization (OTR) rate is high in Shakti Foundation. CRR were 99.64% & 99.65% and OTR were 99.65% & 99.75% in FY2004 and FY2003 respectively.

Savings performance of Shakti Foundation has a good positive trend. The organization has total savings portfolio (net savings) of Tk.376.16 million in 2004 against Tk.279.20 million in 2003 representing growth rate of 34.73% whereas industry growth rate is 13.58%. Savings portfolio to Loan portfolio was 57.59% in 2004 and 51.66% in 2000, which shows strong capital base from internal sources. Growth in savings deposit (9.80%) was lower than growth in savings withdrawal (28.28%). CRISL

### **8. FINANCIAL PERFORMANCE AND EFFICIENCY**

The financial performance of Shakti Foundation is satisfactory. The organization earned net income Tk. 26.57 million during FY2004 against Tk. 12.57 million during 2003 with the growth rate of 111.37%. The main reasons for such increase were higher growth rate of service charge and investment income against relatively lower growth rate in operating expenditure. The growth rate of operating income was 20.11% against growth rate off operating and financial expenses of 10.26% during 2004. The operating income of Shakti Foundation was Tk. 111.89 million during FY2004 against Tk. 93.16 million of previous year. The operating and financial expenses were Tk. 89.73 million during 2004 against Tk. 81.39 million of previous year.

Non-operating income was Tk. 8.89 million during FY2004 against 4.45 million of previous year. It is to be mentioned here, Shakti Foundation is a non-profit organization and as such they are exempted from income tax payment.

Service charge on loan is the prime source of revenue of the organization. Shakti Foundation earned Tk. 99.96 million as service charge during FY 2004 against Tk. 83.06 million of previous year, representing growth of 20.34%. Service charge was 82.76% of the total revenue during FY 2004 (85.10% during previous year). The growth of service charges was considerably high due to recent rapid expansion of micro finance program of the organization.

The organization mainly depends on its internal source of income and dependency on external source of fund has been decreasing. Donations & Grants received to total revenue was 5.66% in 2004 against 11.06% in 2000. Shakti Foundation adjusted Tk. 6.83 Million as Donors Grant income (including local donation) in the capital fund instead of as income in income statement during FY 2003-04 (Tk. 6.69 million during previous year), representing growth of 2.11%.

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

The total expenditure of the organization has increased in FY 2004. The total expenditure was Tk. 94.20 million in FY 2004 against Tk. 85.04 million, of previous year representing 10.77% increase. Financial cost during FY 2004 stood at Tk. 17.39 million against previous Tk. 19.13 million in 2003, representing decline of 9.12%. Therefore, cost to income ratio has come down to 78.00% in 2004 from 87.13% in FY 2003. Operating expense to operating revenue ratio has decreased to 64.66% in 2004 from 66.83% in 2003. Other operating expenses have also increased by 14.52% during the same period due to the same reason. Financial expense to Total Revenue ratio has decreased to 15.54% in FY 2004 from 20.54% in FY 2003. It has been observed that the salary has increased considerably (17.28%) during the period due to the recruitment of staff for opening new branches.

Return on Average Equity (ROAE) has increased to 11.49% in 2004 from 6.37% in 2003, compared to peer average of 11.42% in 2004. Considering own fund as equity of the organization, the return on average assets (ROAA) has increased to 4.05% in 2004 from 2.52% in 2003. ROAA of Shakti Foundation was highest in the peer group. **CRISL**

### **8.1 Profitability of Micro Credit Program**

The financial performance of micro credit program of Shakti Foundation is satisfactory. The operating surplus and net surplus of Shakti Foundation were Tk. 17.89 million and Tk. 26.77 million during the year 2004 and the growth rate of operating surplus and net surplus were 108.02% and 106.56% respectively in 2004. Net surplus margin has increased during the year to 23.67% in 2004 from 14.39% in 2003. The above growth of the organization reported on the basis of higher operating revenue income (21.59%) than the operating expenses (18.70%). Net service charge margin ratio has increased from 83.21% in FY 2003 to 85.64% in FY 2004 due to increasing trend of gearing. **CRISL**

## **9. SUSTAINABILITY**

Shakti Foundation is a financially self-sustained organization. The consolidated operational self – sustainability ratio of the organization stood at 118.77% against peer average of 107.24% in 2004 (109.54% in 2003) indicating high self-sufficiency. The micro finance program is operationally is also equally self sustainable. This ratio stood at 120.72% in 2004 from 111.16% in 2003. Financial spread of Shakti Foundation is satisfactory. During 2004 financial spread of the organization has decreased to 14.59% in 2004 from 15.56% in 2003. Peer average financial spread found higher than Shakti Foundation, which was 15.14% in 2004. Investment income and fee base income of Shakti Foundation was lower than peer average. The organization earned 5.10% margin on investment in 2004 against peer average of 10.56%. However, the fee-based income was 1.65% of total operating income in 2004 against peer average of 26.55% as Shakti Foundation has no commercial operation and service oriented activities. Peer average fee base earning is high due to exceptionally high fee income by one of the organizations in the peer group.

Financially the organization is also self-sustainable. Adequate surplus income covers the inflation and subsidy related adjustments. Consolidated financial self-sufficiency ratio was 104.16% in 2004 and 96.68% in 2003. Significant increase in surplus income enhanced the financial self-sustainability ratio of the organization during 2004. The imputed cost of capital was Tk. 14.69 million in 2004 in which inflation adjustment of Tk. 14.69 million (with 6% average inflation assumption) and there is no subsidy adjustment (with average 8% commercial borrowing rate assumption) because they have no subsidized fund. Peer average financial self-sustainability ratio was 102.48% in 2004. However, financial self-sustainability in micro finance program was high. This upward trend indicates that the organization has good capacity to meet both direct and indirect costs. **CRISL**

## **10. ASSET QUALITY**

The quality of the assets of the Shakti Foundation is very good. The value of the fixed and financial assets of Shakti Foundation was Tk. 745 million as on 31st December 2004. Total assets footings includes net properties and fixed assets of Tk. 11.53 million (1.55% of total assets), credit portfolio of Tk. 653.12 million (87.70% of total assets), investment portfolio of Tk. 60.50 million (8.12% of total assets), etc. It may be worthwhile to mention that the organization has purchased a land with two-storied building in Dhaka city at a cost of Tk.14.89 million which will enhance its fixed assets base in future. **CRISL**

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

### **10.1 Quality of Credit Portfolio**

The quality of credit portfolio of Shakti Foundation, as mentioned above is good. The Non-Performing Loan (NPL) ratio of credit portfolio has decreased to 0.36% in 2004 from 0.50% in 2003. The coverage of NPL ratio was 188.14% in 2004 and 153.30% in 2003, includes adequate loan provision. Portfolio at risk ratio is also found low followed by NPL ratio, which was 0.46% in 2004 and 0.55% in 2003. The decrease of 0.09% in 2004 compared to 2003 indicates improvement in asset quality. Portfolio in arrear during 2004 was 0.46% against 0.52% in 2003 i.e. it was also decreased by 0.06% indicating decreasing trend of potential severity of delinquency problem. The organization; however, has written-off its bad loan Tk. 25,353 million in 2004 and Tk. 5,550 in 2003 representing negligible write-off ratio. The loan loss reserve ratio were 2.59% in 2004 and 2.61% in 2003 represents decreasing trend, which indicates improvement in delinquency management. The delinquent borrowers were 0.57% in 2004 and 0.68% in 2003, repressing increasing/ decreasing trend.

The micro finance industry generally avoids the write-off practice, as this may create deterioration of asset quality and overdue risk. In order to follow this system Shakti Foundation has been carrying forward the bad loan though they are making adequate provision for this in their accounts. Shakti Foundation has been making provision of 10% for classified loans (overdue loans not exceeding one year), 20% for substandard loan (overdue loans not exceeding two years but exceeding one year) and 50% for doubtful loan (overdue loans not exceeding three years but exceeding two years) and 100% for Bad Loan (overdue loans exceeding three years).

Write-off practice in micro finance industry leads to further deteriorate asset quality. Management of the organization on the basis of the above experience has been carrying forward the bad loan continuously, of course providing sufficient provision.

Members' savings to outstanding credit portfolio stood at 57.59% in 2004 from 58.33% in 2003, which represents comfortable back up of credit portfolio. Shakti Foundation considers members' savings as security coverage for credit portfolio of the organization. **CRISL**

### **11. FUNDING AND LIQUIDITY**

Shakti Foundation is a non-profit development organization and as such it has no equity stake. Initially the organization started its activities with the support from Donors viz. UNICEF, The Ford Foundation, and The Royal Netherlands Embassy and subsequently from Citi bank N/A. and CGAP (through Women's World Banking). At present the main sources of funding of the organization is members' savings and loans from commercial bank. The Members' savings is considered to be stable and low cost funding. This savings was Tk. 376.16 million in 2004 against Tk. 279.20 million in 2003, representing a growth rate of 34.72%. The borrowing from commercial banks is done on commercial rate, which is considered to be of high cost. The outstanding borrowing from commercial bank was Tk.60.78 million in 2004 against Tk.26.47 million in 2003, representing growth of 44.69%. Though the donation & grants is decreasing over the years; still it is contributing significantly in the funding requirement of the organization.

It is worth mentioning here that although the PKSF has been providing low cost fund to the MFIs, the Shakti Foundation has not been availing such low cost fund due to its stringent conditions and compliances. This has got divergent impacts. Due to non-availing of PKSF fund, the cost of fund has been increasing. On the other hand, the organization is becoming financially sustainable and gaining strength to survive on commercial borrowing which is one of the pre-condition to be ultimately self sustaining.

While analyzing the liquidity related ratio of the organization it has been found that the operation of SFDW has been moving with satisfactory liquidity position. Current ratio of the organization stood at 1.90 times in 2004 against 1.97 times in 2003. Liquidity position was lower than some of its competitors. In line with the above, quick ratio stood at 2.06 times in 2004 and 2.20 times in 2003. Times interest earned ratio of SFDW was 2.73 times in 2004 and 1.84 times in 2003, representing satisfactory position. Liquid assets of the organization (cash & cash equivalent) stood at Tk. 76.31 million as on 30<sup>th</sup> June 2004 indicating satisfactory financial flexibility. **CRISL**

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

### **12. CAPITAL ADEQUACY**

The capital base of Shakti Foundation is strong. The equity stood at Tk. 248.35 million in 2004 from Tk. 214.17 million in 2003. The growth rate of retained earnings in 2004 was 36.28%. Equity multiplier (asset to equity) of Shakti Foundation has been increasing, as the assets growth is higher than the internal capital generation growth. Internal capital generation ratio of the organization was 11.49% in 2004 against peer average of 11.42%. Equity multiplier ratio stood at 3.00 times in 2004 from 2.65 times in 2003 against Peer average of 4.61 times in 2004, which indicates increasing trend of outside borrowing of the organizations in the peer group. The risk weighted capital adequacy ratio was 34.80% in 2004 against peer average of 27.78%. The organization borrowed 1.76 times against its equity in 2004 (1.42 times in 2003), which is less than the peer average of 2.83 times. Total liabilities to equity ratio has also been increasing from 1.31 times in 2001 to 2.00 times in 2004 against peer average of 3.61 times representing satisfactory financial position of Shakti Foundation. Both short and long term gearing ratios have been increasing. Shakti Foundation's short term gearing ratio is higher than long term gearing, which indicates more dependency on short-term sources of funding. Short term gearing of Shakti Foundation was 1.66 times against peer average of 2.69 times in 2004. The long-term gearing ratio of Shakti Foundation was 0.48 times against peer average of 1.08 times in 2004. Internal capital generation of Shakti Foundation has increased in 2004 due to lower financial cost and higher service charge than the previous year. **CRISL**

### **13. REGULATORY COMPLIANCES**

NGOs operating in Bangladesh have been controlled and monitored by a large number of government agencies for its activities. The donor agencies also set a number of criterions to be followed in using its grants and donations. In addition to the above the Bangladesh Bank has set up a "Micro Finance and Reference Unit (MRRU)" in order to bring the MFI units under a regulatory framework in order to ensure transparency and accountability into their operations. The MRRU provided six part guidelines to report in prescribed formats to the above unit of the central bank. The six part guideline includes 1) Governance/ management 2) MIS for Credits and savings 3) Financial guidelines 4) TOR for internal Auditor 5) TOR for external Auditors and 6) performance i 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 30<sup>th</sup> June 2004 indicating reasonable financial flexibility. indicators and standards.

### **14. SOCIAL IMPACT**

The Shakti Foundation has a number of social programs in addition to its micro finance activities, aimed at ensuring socio-economic advancement of the beneficiaries. It orders to see the result for itself, the Shakti Foundation carried out two surveys- one in Sept to December 2003 and again in September- December 2004. With the main objectives of looking at the extent of impact, CRISL conducted a survey on 41 beneficiaries in two districts namely Comilla and Chittagong. The survey revealed that the monthly income of the beneficiaries have increased to almost double as reported by 57% respondents while the savings habit has increased for 42% respondents and standard of living also improved to a great extent. While looking at the impact on literacy, 39% respondents could only sign their names before taking loan. After availing the services of the Foundation, the above rate has increased to 78%. On the point of sanitation, 96% respondents use latrines of their own out of which 75% respondents use sanitary latrines and 25% use Pacca Latrines. In the decision making process of taking loan 27% respondents decided on their own while 34% respondents are influenced by their husbands, 29% mutually and 10% were motivated by NGO activist. There have been major improvements in decision making process on the issue of family planning, child bearing, educating children, purchasing of household goods, savings withdrawal, investment and children's wedding. In most cases decisions were taken by both husband and wife but for investment wives assumed dominating roles. Ninety 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 86% of the respondents confirmed

## **Credit Rating Report on Shakti Foundation for Disadvantaged Women**

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 80% respondents and about 96% opined that their social status has improved. The result of the above CRISL study is in line with the study of Shakti Foundation, however, varies in degree. As per the study of Shakti Foundation there have been specific improvements in socio-economic status of the members. Improvements were reported in the number of women earning members, attendance in non-formal education schemes, number of literate per family, number of improved houses with sanitary latrines, number of water users from tube well, decision making by women members, infant and maternal mortality rates, women led business/trade etc. CRISL believes that the overall social impact due to MF programs was positive in various socio economic aspects of the members. **CRISL**

### **15 SWOT ANALYSIS**

The SWOT analysis of Shakti Foundation reveals the followings:

#### **Strengths**

- Adequately capitalized
- Strong sustainability
- Satisfactory financial and operating performance
- Good geographical diversification
- Satisfactory IT infrastructure
- Satisfactory internal control

#### **Weaknesses**

- Substantially weak legal status
- Dependence on high cost funding
- Weak Management Information System
- Concentrated membership
- Target group in urban area

#### **Opportunities**

- Enough untapped market
- Enter into the formal financial market as MF bank

#### **Threats**

- Unregulated sector
- Political influences

### **16. PROSPECTS**

Micro-credit programs in Bangladesh have a direct impact on 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. They 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

**Credit Rating Report  
on  
Shakti Foundation for Disadvantaged Women**

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 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 the fortunes of millions more around the world in future. Shakti Foundation is a fairly large organization and is on the right track through its programs. CRISL believes that if the weaknesses are addressed and follows strategic planning, it would be able to achieve its objectives in a sustainable manner. **CRISL**

**End of the Report**

**Credit Rating Report**  
**on**  
**Shakti Foundation for Disadvantaged Women**

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

RATING	DEFINITION
<b>AAA</b> Triple A (Highest Safety)	<b>INVESTMENT GRADE</b> 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.
<b>AA+, AA, AA-</b> (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.
<b>A+, A, A-</b> 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.
<b>BBB+, BBB, BBB-</b> 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.
<b>BB+, BB, BB-</b> Double B (Inadequate Safety)	<b>SPECULATIVE GRADE</b> 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, 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.
<b>C</b> (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.
<b>D</b> (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

**Credit Rating Report  
on  
Shakti Foundation for Disadvantaged Women**

**SHORT TERM – MICRO FINANCE INSTITUTIONS**

ST-1	<p><b>Highest Grade</b></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><b>High Grade</b></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><b>Good Grade</b></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><b>Satisfactory Grade</b></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><b>Non-Investment Grade</b></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><b>Default</b></p> <p>Institution failed to meet financial obligations</p>

**Credit Rating Report**  
**on**  
**Shakti Foundation for Disadvantaged Women**

**SCALES AND DEFINITIONS**  
**SOCIAL IMPACT RATING**

SI-1	<p><b>Highest Grade</b>  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><b>Higher Grade</b>  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><b>High Grade</b>  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><b>Good Grade</b>  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><b>Satisfactory Grade</b>  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><b>Average Grade</b>  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><b>Below Average</b>  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><b>Poor Grade</b>  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  
Shakti Foundation for Disadvantaged Women**

**CONSOLIDATED BALANCE SHEET**

(Figures in Tk. Million)

ASSETS	2004	2003	2002
<b>Total Non Current Assets</b>	<b>11.53</b>	<b>10.53</b>	<b>7.05</b>
<b>Net Properties &amp; Fixed Assets</b>	<b>11.53</b>	<b>10.53</b>	<b>7.05</b>
Fixed assets-at cost	24.66	21.47	15.58
Less: Depreciation	13.14	10.94	8.53
<b>Total Credit Portfolio:</b>	<b>653.12</b>	<b>478.65</b>	<b>343.14</b>
<b>Short Term Credit Portfolio:</b>	<b>653.12</b>	<b>478.65</b>	<b>343.14</b>
Loan to members	653.12	478.65	343.14
Loan to Subsidiaries			
<b>Investment Portfolio:</b>	<b>60.50</b>	<b>67.33</b>	<b>64.61</b>
Long term investment in FDR			
Short term investment in FDR(ST)/Others	60.50	67.33	64.61
Investment in Long Term Assets			
<b>Other Current Assets:</b>	<b>19.51</b>	<b>10.47</b>	<b>14.31</b>
Interest receivables on Fixed Deposits(FDR)		0.05	0.49
Interest receivables on Micro Finance		(0.00)	0.00
Advances & Prepayments	2.68	2.47	0.02
Suspense Account/(Cash Defalcation)	0.61	0.02	0.14
Pre-operating Expenses			
Stock and Stores(Inventories)	0.10	0.07	0.07
Other Assets	0.31	0.86	2.12
Cash & Bank Balance	15.81	7.00	11.46
<b>Total Current Assets</b>	<b>733.13</b>	<b>556.45</b>	<b>422.06</b>
<b>TOTAL ASSETS</b>	<b>744.66</b>	<b>566.97</b>	<b>429.11</b>

**Credit Rating Report**  
**on**  
**Shakti Foundation for Disadvantaged Women**

<b>OWN FUND AND LIABILITIES</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Own fund /Equity</b>	<b>248.35</b>	<b>214.17</b>	<b>180.60</b>
Capital Fund / Fund Account	68.80	47.60	37.92
Health loan Fund	24.44	23.65	
Revolving Fund	139.21	130.43	130.43
Donors' Unspent Reserve Fund	2.09	0.88	3.12
Fixed Assets Fund	1.96	3.58	3.90
Fixed Assets Replacement Fund	9.67	6.35	5.06
School Fund	0.18	0.18	0.18
Fund for Medicine	2.01	1.49	-
<b>Outside Borrowing:</b>	<b>60.78</b>	<b>26.47</b>	<b>7.05</b>
<b>Financial Institution Borrowing:</b>	<b>60.78</b>	<b>26.47</b>	<b>7.05</b>
Loan from Bangladesh Bank			
Loan from Commercial Bank	60.78	26.47	7.05
<b>Other Long Term Liabilities:</b>	<b>50.57</b>	<b>43.19</b>	<b>31.09</b>
Clients' welfare fund	18.44	17.71	9.69
Staff welfare fund	7.20	5.31	5.04
Debt Management Reserve	16.89	12.48	8.84
Security deposit - Staff	0.57	0.22	0.06
Sundry Fund	7.47	7.47	7.47
<b>Savings:</b>	<b>376.16</b>	<b>279.20</b>	<b>210.03</b>
Member's savings/Deposit	229.45	165.37	100.60
Business savings	15.53	12.66	11.80
Members' fund	131.18	101.16	97.63
<b>Other Current Liabilities:</b>	<b>8.81</b>	<b>3.95</b>	<b>0.34</b>
Loan from provident fund	6.61	1.45	
Interest Payable on Loan	1.21	0.53	
Provident Fund	0.00	0.00	0.00
Others Liabilities	0.99	1.97	0.34
<b>Total Current Liabilities</b>	<b>384.96</b>	<b>283.15</b>	<b>210.37</b>
<b>TOTAL OWN FUND &amp; LIABILITIES</b>	<b>744.66</b>	<b>566.97</b>	<b>429.11</b>

**Credit Rating Report**  
**on**  
**Shakti Foundation for Disadvantaged Women**

<b>CONSOLIDATED INCOME STATEMENT</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Service Charge Based Earnings:</b>	<b>99.96</b>	<b>83.06</b>	<b>65.00</b>
Service charge from financing activities	99.96	83.06	65.00
Other service charge/interest income			
<b>Less: Financial Cost</b>	<b>17.39</b>	<b>19.13</b>	<b>16.51</b>
Interest on member's / Business savings	14.66	18.05	14.98
Interest on borrowed fund/Service Charge	2.72	1.08	1.53
<b>Net Service Charge</b>	<b>82.57</b>	<b>63.93</b>	<b>48.49</b>
<b>Fee Based Income:</b>	<b>1.84</b>	<b>1.72</b>	<b>1.15</b>
Income from General Activities (Fees/Rent/Food)	1.07	1.00	0.00
Income from health related services	0.77	0.72	1.15
<b>Investment Income:</b>	<b>3.26</b>	<b>1.68</b>	<b>5.09</b>
Interest on Investment/Deposits(FDR)	2.66	1.68	5.09
Interest on Bank Deposits/Savings	0.60	-	-
<b>Donation Based Income:</b>	<b>6.83</b>	<b>6.69</b>	<b>6.90</b>
Grants/Fund/Donation Received	6.55	6.69	6.90
Contribution/Credit Support	0.28	-	-
<b>Net Revenue Income from Operation</b>	<b>94.50</b>	<b>74.02</b>	<b>61.63</b>
<b>Total Operating Expenses:</b>	<b>72.34</b>	<b>62.25</b>	<b>44.73</b>
Salary and allowance	44.51	37.95	28.90
Hardship allowances	3.60	2.96	-
Office Rent/Accommodation	3.81	3.58	2.49
Traveling, Conveyance and Allowances	2.01	1.76	1.20
Staff Motivational/Development Expenses	-	0.02	0.20
Training/ Workshop/Seminar/Meeting Expenses	1.97	2.24	1.77
Consultancy/Audit Fees	-	-	0.40
Telephone, Telegraph and Postage	0.03	0.03	0.03
Fuel and Car Expenses / Maintenance	-	0.09	0.08
Printing, Stationeries & Office Supplies	0.04	-	-
Computer and Software Development	0.01	-	0.21
Depreciation	3.48	3.48	1.75
Sundry Expenses	12.89	9.79	7.02
Institution Capacity Building		0.35	
Medicine			0.70
<b>Gross Income from Operation</b>	<b>22.16</b>	<b>11.77</b>	<b>16.89</b>
<b>Less: provision for loan losses</b>	<b>4.47</b>	<b>3.66</b>	<b>1.40</b>
General Provision			
Specific provision			
<b>Net Income from Operation</b>	<b>17.69</b>	<b>8.11</b>	<b>15.49</b>
<b>Non-Operating Income:</b>	<b>8.89</b>	<b>4.45</b>	<b>1.80</b>
Sale of Assets			
Other Receipts and Transfer	8.89	4.45	1.80
<b>Net Surplus/(Deficit)</b>	<b>26.57</b>	<b>12.57</b>	<b>17.29</b>