

Credit Rating Report on United Development Initiatives For Programmed Actions (UDDIPAN)

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Rating:

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

Principal Activities:

Micro Financing Programs
Social Development
Programs

Established in:

Year 1984

Own Fund:

Tk. 131.15m as on 30th
June 2005

Credit Portfolio:

Tk. 275.24m as on 30th
June 2005

Members' Savings:

Tk. 149.78m as on 30th
June 2005

Active Borrowers:

65.57 thousand as on 30th
June 2005

Active Savings holder:

77.78 thousand as on 30th
June 2005

Director

Mr. Md. Emranul Huq
Chowdhury

Chairman of GB,

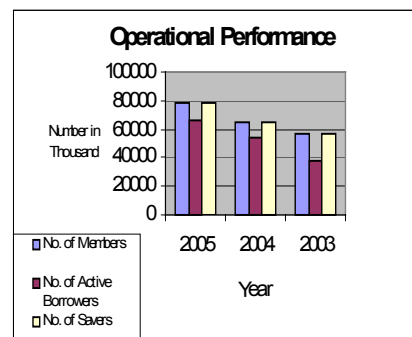
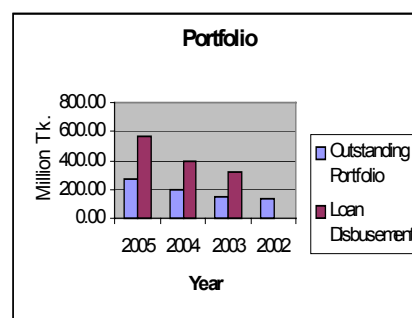
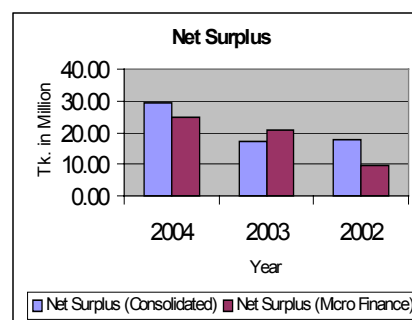
Mr. Md. Shahid Hossain
Talukder

This is a credit rating report on United Development Initiatives For Programmed Actions (UDDIPAN). 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	A-	ST-3
Social Impact Rating	SI-4	
Date of Rating	20 th November 2005	

CRISL has assigned A- (pronounced as a minus) rating to United Development Initiatives For Programmed Actions (UDDIPAN) in the long term and ST-3 in the short term. CRISL also assigned SI-4 Social Impact Rating to UDDIPAN in consideration of the impact of its activities in the society. 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. The Short Term Rating ST-3 indicates 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. The SI-4 Social Impact Rating indicates that the MFI activities have good social impact in terms of changes in the quality of lives 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.

The above rating has been done on the basis of the evaluation of a number operational and financial performance areas of UDDIPAN for both long and short term vis a vis its organizational and management set up along with its operational activities and environment. The UDDIPAN has been operating in a wide area network of 24 districts and delivering both financial and social services to its 77,780 members through its 7 micro credit and 12 social programs. The UDDIPAN 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 good loan and saving outreach. 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



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maintaining good asset quality. The risk weighted capital adequacy also supports the organization to achieve the above investment grade. The UDDIPAN has satisfactory liquidity and sufficient flexibility in organizing fund for immediate need. However, the above rating is constrained by limited funding sources, weak legal structure under Societies registration Act, weakness in IT infrastructure and MIS and weak manual accounting system.

2. ORGANIZATIONAL PROFILE

United Developments Initiatives for programmed Actions (UDDIPAN) is a non-profit service oriented Non-Government Organization. It was established in 1984 as a Private Voluntary Development Organization (PVDO) with the aims at empowerment of disadvantaged people with particular thrust to women and children to enable them to plan, manage and control their own process of development by themselves. The UDDIPAN was set up with the vision "environmentally sound society without poverty, free from exploitation, oppression, injustice and discrimination where children, women and men live with dignity and capable to exercise their rights and will have access to and participation in the main stream in the socio-economic, political, and cultural processes of Bangladesh". The organization has been registered with the Department of Social Welfare, Peoples' Republic of Bangladesh in April 1984, Bureau of NGO Affairs, under the Prime Minister's Secretariat, Peoples' Republic of Bangladesh in February 1989 and Registrar of Joint Stock Companies & Firms under the Societies Registration Act 1860. Like other organizations operating under the Societies Registration Act, the surplus income, if any, in case of winding up, shall not be distributed to its members but shall be handed over to some other societies having same or similar objects. The organization is exempted from income tax under Sec.15 (d) of Income Tax Act.

2.1 Organizational Structure

UDDIPAN has two-layer organizational structure- General Body and Executive Board. The general body consisted of 21 members who are the sponsors of this organization. In order to run the functions of the society, the General Body elects an Executive Board for two years in the Annual General meeting. The above bodies are in line with the General Shareholders and Board of Directors of a limited company operates under the Companies Act. UDDIPAN organizes and operates its program through fortytwo branches around the country. It has grown into a multifaceted development organization covering a total of 2275 villages spread over 307 unions of 79 upazillas in 24 districts of all over the country with various development programs and able to involve a total 77,780 active members up to June 2005. UDDIPAN has also plan to implement UDDIPAN Integrated Development Program (UIDP) in forty-seven new branches in four districts in near future.

2.2 Infrastructure

UDDIPAN has the plan to have its permanent head office at Dhaka and accordingly purchased five Khata land at Mohammadpur, Dhaka. It also purchased 30 decimal land at Sacher in Chandpur district in 2005 and 42 decimal land at Dohajari in Chittagong in 2002 & 2005 with the purpose of constructing its own regional set up which will give the organization permanency in operation. UDDIPAN has also few hard infrastructure at Daudkandi Comilla, Bashkhali in Chittagong, in Pirajpur and Bheramara & Allahar Darga in Kustia districts on its own land for office accommodations and training centers.

2.3 Micro Finance Program

UDDIPAN was established in 1984 with the objectives to mobilize and organize the target people into groups of male and female at village to help them to plan, implement and evaluate the activities undertaken by the groups for their economic development. The other objectives are to eliminate poverty by undertaking employment of the disadvantaged families through women as the local point to develop their leadership, entrepreneurial skills and human resource potentials through HRD and training initiatives,

The growth rate of credit portfolio of UDDIPAN is high compared to industry growth. The growth rate was 39.32% in 2005 and 28.45% in 2004 against industry growth of 20.77% in 2004. The loan recovery growth of the organization is also good. The loan product line of UDDIPAN includes Rural Micro Credit (RMC), Urban Micro Credit (UMC), Micro Finance & Technical Support (MFTS), Micro Finance and Technical Support (MFTS) Micro Enterprise Development Program (MEDP), Micro Enterprise Lending (MEL), Disaster Management Loan (DML) and Hard Core Poor (HCP). Rural Micro Credit (RMC) and Urban Micro Credit (UMC) programs are under UDDIPAN Integrated

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Development Program (UIDP) and those are financed by PKSF. The loan growth rate of UDDIPAN is good. The organization distributed TK. 531.78 million during the year 2005 against the Previous year of TK. 389.03 million representing growth of 36.69% over the year. The detailed loan products are as follows:

Product Details

Products	Description
Rural Micro Credit (RMC)	RMC is given to the members for their income generating activities. The size of the loan is from Tk. 5000 to Tk. 39,000 @ 12.5% interest to be repaid in 45 weekly installments.
Urban Micro Credit (UMC)	UMC is given in only one urban area at Patia in Chittagong districts for income generating activities of members ranging from Tk.5000 to Tk. 39,000 with @ 12.5% interest to be repaid in 45 weekly installments.
Micro Enterprise Development Program (MEDP)	MEDP loan is given to create income & employment for rural disadvantaged community ranging from Tk. 40,000 to Tk. 200,000 @ 12.5% interest repayable in 45 weekly/ 10 monthly installments.
Micro Finance and Technical Support (MFTS)	MFTS loan is given for cattle & poultry farming ranging from Tk. 5,000 to Tk. 39,000 @ 12.5% interest repayable in 45 weekly installments.
Micro Enterprise Lending (ME)	ME loan is allowed to create income & employment for rural disadvantaged community ranging from Tk. 40,000 to Tk. 200,000 @ 12.5% interest repayable in 45 weekly/ 10 monthly installments.
Disaster Management Loan (DML)	This loan is allowed for relief and medical assistance to victims when disaster occurs. This loan is from Tk. 1000 to Tk. 2000 with 1% interest repayable in 45 weekly installments.
Hard Core Poor (HCP)	This loan is for creating employment of the poor members for enhancing their income. The loan size is Tk. 4000 @ 10% repayable in 45 weekly installments.
N.B. Loan recovery starts after one week of disbursing loan.	

2.4 Branch and Member Selection Procedure

The Head Office of UDDIPAN is situated at Mohammadpur in Dhaka city. It has got five regional offices in five different districts and located at Daudkandi in Comilla, Chandpur, Chittagong, Pirojpur Sadar and Bheramara in Kushtia. There are five regional coordinators in these districts who are responsible for implementing the activities of the 24 districts.

Before opening a new center i.e.; village organization, the field workers of UDDIPAN after selecting a village make detailed survey about the socio economic conditions of the respective villagers where the resident posses land below one acre and they give physical labor for not less than 100 days in a year. The monthly income of the family is Tk. 2000 in rural areas and Tk.3000 in urban area. UDDIPAN's field staff then arranges meeting with the residents and discuss about the necessity, aims and objects for opening a center. If it is found suitable then a decision is taken for formation of Village Organization (V.O.).

A small group consisting of five members form a group and such 4 to 6 groups form a committee i.e. village organization. The village organization (V.O.) consists of 20-30 People; 7 members for its management and operations for a period of one year. They elect a management committee with one chairperson, one secretary and one cashier. If any member needs loan she has to discuss the matter with the small group and thereafter with the large group of V.O. in the weekly meeting. When it is found that the use of loan will be beneficial to the applicant and the borrower will follow the rules and regulations of UDDIPAN, then the decision is taken for granting loan and the chairman of the center, CDW, FO and manager give recommendation on the loan application and after that loan is granted. The Branch Manager has got the power to grant loan up to Tk. 5000- to 15,000-. Regional Coordinator from Tk 5001 to 15000 Project co-coordinator (MCS) from Tk. 15,001- to 30,000- and the Director form Tk. 30,001- and above.

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2.5 Savings Schemes

There is only one saving scheme in UDDIPAN. Each member has to keep deposit Tk. 10/- every week as saving. The small weekly savings deposit is creating a resource base over a period of time and has become a social security or old age insurance. The saving deposits are taken from the borrowers to adjust against recovery in case of bad loans. The savings balance has increased to TK. 149.78 million in 2005 against TK. 123.25 million in 2004 representing growth of 21.52% over the year. The members are allowed interest @ 5% on their savings. The members can withdraw their balance amount of savings after keeping reserve equivalent to 50% of their loan outstanding amount at the time of their need. They can take back of their savings at the time of leaving the organization. The clients are required to maintain their saving deposits at the time of taking loan @ 10% of 1st loans, 15% of 2nd loans and 20% for next loans. But these savings are never deducted from the loan-disbursed amount.

2.6 Social Programs

UDDIPAN has taken several social programs side by side of micro credit programs with a view to develop the social position of the distressed people of Bangladesh by improving their living standard. The expenditure in social programs has been increasing every year. Most of the Social Programs are for a short duration.

Child Development Programme (CDP): The object is to reduce child labour, child trafficking, child marriage, child education and to stabilize child rights. The total beneficiaries are 58,313. The program was started in 1997 and still continuing.

Community Mobilization Programme Involving Imams in Anti Trafficking (COMPIAT): The object is to increase awareness, knowledge and skills of the Imams on anti Trafficking issues to combat human sufferings. This will continue up to June 2006.

Livelihood Empowerment Agro Forestry Program (LEAF): To improve operation of Agro – Forestry technology for women.

Strengthen Household and Access to Bari Gardening Extension (SHABGE) : To improve the livelihoods of poor, marginal female and male members through vegetable gardening and horticulture in an around home stead. However the project was closed in March, 2005.

Arsenic Mitigation and Water Supply Project of UDDIPAN (AMWSPU): This has already been closed.

Grehayan Project (GP): To provide long term soft loan to target beneficiaries in order to build their own houses. This project will continue up to 2012 with the loan of Bangladesh Bank.

Micro Enterprise Development Programme (MEDP): To enable the rural disadvantaged community to create income and employment.

Livelihood Project for Fisheries Households (LPFH): To improve the living standard of fisher – folk and raise awareness.

Disaster, Relief and Rehabilitation Project (DRRP): To render services to flood victims on emergency basis with food assistance and medical support.

Worst Form of Child Labor Program (WFCLP): For preventing and eliminating the worst form of child labor with the assistance of ILO. This has been closed in February 2005.

Maize Cultivation(BREAD – II) : This will continue up to June 2006.

Human Resource Development (HRD): The main object of this project is to enhance knowledge and develop skills of the staff members and beneficiaries by giving training to provide high quality services for the poor.

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2.7 Development Partners

UDDIPAN has been implementing its programs by keeping cordial relation with many national and international Donors, NGOs, Agencies and Forum for improvement of the socio-economic conditions of the poor beneficiaries. The donors & loan providing agencies are PKSF, Save the Children Sweden Denmark (SCSD) USAID through AED (COMPIAT), CARE-DFID Bangladesh (SHABGE), International Labor Organization (WFCLP), Bangladesh Bank (BB), WINROCK International (Maize Cultivation), GOAL (Relief and Rehabilitation), Inter Corporation (IC) LEAF, German Technical Cooperation (GTZ). Bangladeshi NGOs and Networks such as Micro Credit Summit, CDF, NGO Forum, COFCON, ALPET and SARA are also extending full cooperation to implement these programs.

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. 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 are found to be 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 few modifications) 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.

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" in 1990. The PKSF, an independent and non-profit earning 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 programs. At a later stage the successes of MF NGOs have also encouraged some private commercial

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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.

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.

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) respectively during 2004.

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. UDDIPAN 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 General Body

General Body consists of 21 members. Although there is a provision that any person belonging to any nationality is eligible to become a member of UDDIPAN if recommended by two existing members and approved by the Executive Board, the membership remained within the original and sponsor members. The General Body is the supreme policy maker of the organization. The General body meets once in the Annual General Meeting (AGM) The AGM approves the performance, Audited Accounts & Reports of the previous year, budget and work plan for the next year and elect Executive Board for a period of two years. The General Body appoints the Executive Director who is

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the Chief Executive of the Organization. Presently the Director and Member Secretary is the Chief Executive who is responsible for the design, manage, administer, implement, monitor and evaluate the programs and also raise fund.

4.2 Executive Board

Executive Board consists of 7 (seven) members - one Chairman, one Vice-Chairman, one Treasurer and a Director as the ex-officio Member Secretary. The Member Secretary is the Chief Executive Officer of the organization. All the members of the Executive Board are the independent consultants in their respective fields and eminent Social Workers of the country. The Executive Board meets four times in a year and reviews the operation and management issues. The Executive Board is accountable to the General Body. The general members elect executive Board for a period of two years.

4.3 Management Team

With the mission of Socio-economic empowerment of the disadvantaged children, women and men including disabled people of Bangladesh for establishing their rights through social mobilization, consciousness raising, development and promotion of people's organizations, advocacy & lobbying and environment friendly initiatives. The management team of UDDIPAN is headed by the Director Mr. Md Emranul Huq Chowdhury who has been with the organization since 1989 and gained considerable experience on micro finance operation.

In the Head Office there is a senior management team consisting with 7 members headed by the Director. Other six members of the team are Program Coordinator (social development), Program Coordinator (Micro Credit & Savings) Coordinator (HRD), Coordinator (Finance & Admin), senior monitoring officer and Senior Auditor. There are three committees in head Office for proper operation of the organization viz. purchase committee, Senior Management committee and Staff appraisal committee. The senior management committee meeting is held once in a month as and when required for evaluating the performance and giving direction for the operation of the organization.

4.4 Human Resources

UDDIPAN pursues a set of Service Rules covering major aspects of HR practices and offering 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 moderate competitive salary package than peer organizations to the employees including funded retirement benefits.

UDDIPAN has a team of 1120 staff members of which 669 regular and 451 part-time working in 24 districts. Out of the total staff there are 492 female (44%) and 628 male (56%). There are 11 departmental Chiefs, four Coordinators for Social Development, Micro Credit & Savings, Human Resources and Training and Finance & Administration. There are two managers, one for Finance and the other for computer, two Sr. Monitoring officers and three officers for Communication & Documentation, Nutrition and Audit. All the head of the departments are qualified and well experienced in Micro credit & Social Development works. The branch offices are managed by a manager assisted by 2/3 field organizers (FO), 5/6 Community Development Workers (CDW), one Accountant, 1/2 Service staff. There are 8-10 branch offices under regional coordinator. The regional coordinators are responsible to the coordinators of social development and Micro credit & savings at Head Office. Branch managers supervise the activities of 15-18 village organizations (VO) through 5/6 Community Development Workers (CDW) every week. The CDW conducts a meeting on the fixed day of every week, when the members are to repay their loan amount and deposit their weekly savings. In this meetings the proposals for new loans are also considered. The CDWs deposit the loan and savings amount to the Accountant of branch offices and submit report to the respective field organizers. The organization has good human development policy through providing training on various matters namely micro finance management & operation, savings & credit management, logical framework approach, child right convention, gender development etc to 391 staffs and 427 staffs in 2004 and 2003 respectively. There are 86 Field organizers (FO) & 366 community Development workers (CDW). The staff turnover particularly FO and CDW is 12.17 percent during 2005 against 7.3% during 2004. The increase in turnover rate may affect the loan realization program of the organization.

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5. INFORMATION MANAGEMENT SYSTEM AND DISCLOSURES

The Information system and its management in UDDIPAN is appeared to be poor. Although the organization has few PCS, these are used as stand-alone desktops and used as typewriters. Whatever MIS is done in UDDIPAN, these are being done manually. Branch office sends information to Head Office in the prescribed forms through messengers. These information are consolidated by the program and department chiefs in Head Office. They prepare reports using MS Excel and submit onward to the Director for further action. The organization follows the MIS in order to comply with PKSF rules and it does not have any developmental MIS of its own. It is reported that they have received a software "POMIS" from PKSF in order to convert the manual MIS to a system based MIS. The implementation of the above is under process. In addition, the organization has the plan to bring the Head office and its branches under Wide Area Network (WAN) within next one year.

The financial Information System more particularly the financial accounting system is also weak. They follow simple Chart of Accounts to process the manually prepared vouchers under a double entry system. Manual ledgers are being maintained for recording transactions. The branch transactions are entered in the financial ledger on the basis of statements sent by the branches to the head office. Accounts are audited periodically by the external auditors for limited distribution. UDDIPAN holds Annual General Meetings regularly.

As regards disclosure of information, the organization prepares annual reports covering the activities of the organization during the year for selected distribution among the members. UDDIPAN publishes various leaflets on its programs in order to distribute the same as a marketing tool.

6. 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

UDDIPAN is working mainly in rural areas and extending credit to the poor segment of the society and therefore the credit carries substantial operational risk. In order to mitigate the risk UDDIPAN has been following planned internal control system. At the beginning of the year budget is prepared for each individual branch and the Branches conduct their activities according to the budget. They take prior approval from the Director through regional co-coordinators and program coordinators when any expenditure is required beyond budget. All the branches send the budget variance statements to the Head Office Accounts Department every month. Branch Manager sends a fund requisition to the program co-coordinators of Head Office through regional coordinators and fund is sent to the branch by Bank Demand Draft after taking approval from the Director.

No branch is allowed to keep money in its Bank Account more than one lac Taka at a time. The excess money is sent to Head Office. Monthly Accounts are prepared by all the branches separately and submit it to Head Office every month. A meeting of the field workers is held in Branch Office once in a week when progress of the activities along with weekly distribution of loan are discussed. The CDW submits a statement showing amount of loan to be distributed under his village organization and according to the target, every day money is withdraw from bank for distribution of loan to its clients and money is also deposited to bank which are collected as weekly installment of loans and savings from the clients. Every Branch Office maintains a separate Bank Account for the purpose. They follow three operational manuals viz. Accounting Manual, Credit and Savings Manual and Personnel Management Manual.

In Head Office there is an Audit section having one senior and two junior auditors. The auditors conduct audit of all the branches at least once in a year and submit the internal audit report to the Director. Appropriate action is taken on the basis of the report. All the 42 branches were audited by the auditors during 2004 more than one time.

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6.2 Credit Risk

The UDDIPAN operates micro finance business in an organized manner as per organization's Credit and Savings Management Manual. It follows the set criteria for selection of borrowers. The organization follows the terms and conditions as laid down in the manual before approval and disbursement of loan. Attendance records in weekly meetings, past loan records, experience, results of investigation by CDW (Community Development Workers) etc. are followed for selection of borrowers. On fulfilling the conditions as stated in loan approval manual, credit proposals are discussed and approved at the weekly meeting of members and after getting recommendation of the chairman of the centre, CDW, FO and branch manager. UDDIPAN has provisioning policy @ 1.00% on outstanding loan. Though they have not written off any amount since inception and as such loan loss reserve is a good backup for mitigating future credit risk. UDDIPAN always 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 become responsible for refund of loans. Compulsory savings in UDDIPAN is strong collateral against overdue risk.

6.3 Fund Management Risk

Branches maintain Bank Accounts in the Banks in the locality. Branch Manager withdraws money from the bank for disbursement of loans and other daily expenses. They deposit money to the Banks received as loan installments and members' savings. No branch can keep money in the Bank Accounts more than TK. 100,000 (one Lac) only at a time. The excess amount is sent H.O by D.D. Branches cannot keep more than TK. 500 as cash in hand at the end of the day and excess amount is deposited in the bank. When additional amount is required, the branch manager sends a fund requisition through Regional Coordinator and the fund is sent to the branch from HO by D.D after getting approval from the director. The operations of Bank Accounts are made by joint signature. CDW submits a statement showing amount of loan to be disbursed under his village organization and according to the target money is withdrawn daily from Bank and disbursements are made to the borrowers according to the requirement. Amount received as loan installments and savings from the clients are deposited in the bank same day afternoon. Monthly accounts are prepared by all the branches separately and submit it to HO every month. Staff members' meeting is held one day in a week in each branch.

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 in UDDIPAN is low as the organization has reduced the service charge from 15% to 12.5% at flat rate with effect from 1st July 2004 as per terms & conditions of taking PKSF loan. Therefore, re-pricing risk exists in view of different maturity structure and loan product natures. 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 UDDIPAN has adequate caution to absorb service delivery cost.

6.5 Loan Recovery Risk

One of the major risks of MF program is the 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 very encouraging 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. This system works favorably for the MFI institutions and assisting them to maintain high recovery ratio.

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 relating to micro financing activities is also low in UDDIPAN as the major clients are rural based.

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6.7 Assets-Liabilities Management Risk

It is the best practice for the organization dealing with deposits and lending to have an Asset – Liability Management Committee in order to maximize asset deployment and at the same time to avoid liquidity crisis. A proper Asset – Liabilities management practices is absent in most of the MFIs. In UDDIPAN, the Finance & Accounts Department has been performing the activities on the basis of approved budget and monthly cash flow statement. UDDIPAN do not enjoy any overdraft facilities with any banks to meet emergency cash requirement. It invests fund in FDR with varied periods. The FDR are automatically renewed on the date of maturity. This ensures sufficient financial flexibility.

7. OPERATIONAL PERFORMANCE

The operational performance of UDDIPAN is satisfactory. The organization achieved outstanding performance in operational areas such as size of loan portfolio, savings mobilization and outreach in the last three years. UDDIPAN started micro finance services in different rural areas in the country in 1991. It offers training and technical assistance on nursery development, plantation, micro credit operation, child nutrition and child rights. Its business approach, initiatives and actions have developed over the years through its experience of working with people and reflect peoples' needs, aspiration and capacity building for the society. The total disbursement of loan was Tk. 536.88 million, Tk.389.02 million and Tk.318.87 million in 2005, 2004 and 2003 respectively, representing growth rate of 38% and 22% in 2005 and 2004 respectively, against the loan disbursement growth rate of 16.77% of MF-NGOs in 2004. The outstanding loan portfolio increased to Tk. 275.24 million in 2005 from Tk. 197.50 million in 2004. The growth rate of loan portfolio was 39.33 % in 2005 and 28.45% in 2004 against industry growth rate of 20.77% in 2004. The growth rate of loan portfolio of the organization was very good during the last five years.

The credit portfolio as on 30th June 2005 includes seven different PKSF projects namely, Rural Micro Credit (RMC), Urban Micro Credit (UMC), Micro Enterprise Development Program (MEDP), Micro Finance & Technical Support (MFTS), Micro Enterprise Lending (ME), Disaster Management Loan and Hard Core Poor (HCP) loan and one Grehayan Project under Bangladesh bank's loan whereas it was three credit programs viz. RMC, UMC and MEDP under PKSF in 2004. RMC is the core product of UDDIPAN holding 94.06% of total disbursement during 2004 followed by UMC and MEDP covering 4.45% and 0.30% of total loan disbursement during 2004.

The performance of loan recovery of the organization was also good having Cumulative Recovery Rate (CRR) and On Time Realization (OTR) rate 99.81% and 99.27% respectively in 2005 and 99.77% and 98.99% in 2004. Member drop out rate of UDDIPAN was 17.9% in 2005 against 18.5% in 2004, representing improving trend of drop out rate of the organization.

7.1 Loan Outreach

Loan outreach of UDDIPAN is found to be satisfactory. The number of branches has increased to 42 branches in 11 different districts in 2005 from 21 branches in 9 different districts in 2003. The number of active borrower has increased to 65,574 as on 30th June 2005 from 37,502 as on 30th June 2003, representing growth of 75% over three years. Average loan size of micro credit program was Tk. 8722 as on 30th June 2005 against Tk. 7253.15 as on 30th June 2004, indicating increasing borrowing capability of the members. On the other hand, average outstanding loan balance was Tk. 4196 as on 30th June 2005 against Tk. 3682 as on 30th June 2004, indicating increasing credit risk of the loan portfolio due to increasing average outstanding loan size. The average loan per loan officer was Tk.970,570 as on 30th June 2005 against Tk.858,791 as on 30th June 2004. Average loan handled per loan officer has been increasing over years, indicating soaring trend of overload to the loan officer. Average number of clients per loan officer has also decreased to 238 as on 30th June 2005 from 245 as on 30th June 2004 for opening of new branches.

7.2 Saving Outreach

The savings outreach of the organization is found to be satisfactory. The savings balance was Tk. 149.78 million in 2005 and Tk. 123.79 million in 2004. The growth rate of compulsory savings during the year 2005 was 21% against 16.50% in 2004. The number of savings holder under micro credit program has soared up to 77,780 as on 30th June 2005 from 47663 as on 2001, growth of 63.18% over the five years. Average savings received per holder was Tk. 1030.31 during the year 2005, which was Tk. 975.51 during the year 2004, representing growth of 5.61%. Thus the savings capability of the members of the organization has increased over the year. In the same manner average savings balance has increased during the year 2005 as compared to previous year. Average savings balance was Tk. 1925.70 as on 30th June 2005 against Tk. 1918.97 of previous

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year, indicating about same level of withdrawal of savings. Average savings withdrawal per savings holder was Tk. 689.25 during the year 2005 against previous year savings withdrawal of Tk. 702.77, representing decrease of 1.92%. Outstanding savings per loan officer as on 30th June 2005 was Tk. 544,659 against previous year 583,901, which indicates decreasing trend of average savings balance. The savings portfolio to credit portfolio ratio was 54.52% in 2005 against 62.68% in 2004.

8. FINANCIAL PERFORMANCE AND EFFICIENCY

The financial performance of UDDIPAN is satisfactory. The organization earned net income of Tk.16.80 million during FY2005 against Tk.29.41 million during FY 2004 and Tk.17.22 million in FY2003 with the decreasing growth rate of 42.87% in 2005 over FY2004 and increasing growth rate of 71% in 2004 over FY2003. The main reasons for such decrease in 2005 were the decrease in receipt of donors grant due to project phase out, and higher operating & financial expenses for opening of large (21) new branches than the previous year. Again the reasons behind the increase of net surplus in 2004 were higher grant received and less operating & financial expenses than the previous year. The operating income of UDDIPAN was Tk.79.45 million during FY2005 against Tk. 81.07 million in 2004 and Tk.67.90 million in 2003, representing decreasing growth rate of 2.00% in 2005 and increasing growth rate of 19.40% in 2004.

The organization mainly depends on Donation & Grants for its social programs but for micro finance operation they depend only on PKSF loan. UDDIPAN received donations Tk.13.85 Million and Tk.23.59 million in 2005 & 2004 respectively, representing decreasing growth rate of 41.29%. Receipt of Donations & Grants to total revenue was 17% in 2005 against 28.12% in 2004 and 31.68% in 2001, representing decreasing trend on the dependency of donations & grants.

Service charge on loan is the prime source of revenue of the organization. UDDIPAN earned Tk. 62.05 million as service charge during FY 2005 against Tk. 51.85 million & Tk.45.91 million, representing growth of 19.67% & 12.93% in 2004 & 2003 respectively. Service charge was 78.09% of the total revenue during FY 2005, whereas it was 63.95% in 2004. The growth of service charges was considerably high due to recent rapid expansion of micro finance program of the organization as stated above.

Non-operating income was Tk.2.02 million during FY2005 against Tk.2.81 million & Tk. 2.00 million in 2004 & 2003 respectively. Other non-operating revenue income represents sales of stock and others miscellaneous receipt etc. which experienced a decreasing growth of 28% in 2005.

The total expenditure of the organization has increased in FY 2005. The total expenditure was Tk. 64.68 million in FY 2005 against Tk. 54.48 million in 2004 representing 18.72% increase. The operating and financial expenses were Tk.63.62 million during 2005 against Tk. 53.37 million of previous year. The growth rate of operating and financial expenses was 19.20% during 2005. It has been observed that the salary has also increased considerably (19.10%) during the period due to the recruitment of staff for opening new branches. It is worthy to mention here that the reasons behind the high growth rate of operating expenditure are for opening of 21 new branches in 2005 which is about double the total of 2004. Financial cost during FY 2005 stood at Tk. 8.01 million against previous Tk. 6.56 million in 2004, representing growth rate of 22.10%. Therefore, cost to income ratio has soared up to 79.38% in 2005 from 64.95% in FY 2004. Operating expense to operating revenue ratio has increased to 70% in 2005 from 57.74% in 2004. Financial expense to Total Revenue ratio has increased to 10.08% in FY 2005 from 8.09% in FY 2004 because of incurring higher financial cost than previous year. The financial cost has increased due to more loan received from PKSF than the previous year. The organization took loan Tk.85.35 million from PKSF in 2005 against Tk.44.55 million in 2004, representing growth rate of 91.58%.

8.1 Efficiency

Return on Average Equity (ROAE) has decreased to 13.97% in 2005 from 31.17% in 2004 and 25.33% in 2003, compared to peer average of 11.42% in 2004. The Return On Average Assets (ROAA) has decreased to 4.89% in 2005 from 10.64% in 2004 compared to peer average of 2.64%. The Assets Utilization ratio of the organization found lower than the peer average, which were 20.93% in 2005 and 28.13% in 2004 against the peer average of 26.50% during 2004. Surplus margin has decreased during 2005 and stood at 20.62% against 35.05% in 2004. The reason for the above decrease was the opening of 13 new branches in two new districts.

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8.2 Profitability of Micro Credit Program

The financial performance of micro credit program of UDDIPAN is satisfactory. The operating surplus of UDDIPAN was Tk. 24.78 million and Tk. 20.84 million during the year 2004 and 2003 respectively, representing growth rate of 18.90%. Operating surplus and net surplus is the same in UDDIPAN as they do not have donations in micro credit program. The above growth of the organization reported on the basis of higher operating revenue income (17.36%) than the operating expenses (17.08%). Total expenses to total average assets have decreased to 13.52% in 2004 from 14.55% in 2003. Again cost to average portfolio outstanding has also decreased to 9.45% in 2004 from 9.70% in 2003.

9. SUSTAINABILITY

UDDIPAN is a financially self-sustainable development organization. Consolidated operational self-sustainability ratio of the organization stood at 122.84% in 2005 & 148.81% in 2004 against the peer average of 107.24% in 2004. The self-sustainability of micro finance program is also high. This ratio stood at 177.29% in 2004 from 175.49% in 2003. Financial spread of UDDIPAN is found satisfactory although the same has decreased to 22.86% in 2005 from 25.79% in 2004 and still higher than the Peer average, which was 15.14% in 2004. Investment income and fee based income of UDDIPAN was lower than peer average. The investment margin of the organization was 3.75% & 11.61% during 2005 and 2004 respectively against the peer average of 10.56% in 2004. This is due to heavy encashment of FDR in 2005.

The fee-based income was 2.34% of the total operating income in 2005 and 1.02% in 2004. It is much lower than peer average as UDDIPAN has no commercial operation and service oriented activities. The organization is also financially self-sustainable. Adequate surplus income covered the inflation and subsidy related adjustments. The Consolidated financial self-sustainability ratio was 107.94% in 2005 and 132.35% in 2004 against the peer average of 102.48% in 2004. However, considerable decrease in surplus income reduced the financial self-sufficiency ratio of the organization during 2004. The imputed cost of capital was Tk. 8.87 million in 2005 in which inflation adjustment was Tk. 5.60 million (with the assumption of 6% average inflation) and subsidy adjustment was Tk.2.30 million (with the assumption of average 8% commercial borrowing rate). The financial self-sufficiency in micro finance program was high, which stood at 146.36% in 2004 from 145.81% in 2003 indicates that the organization has the capacity to meet both the direct and indirect costs.

10. ASSET QUALITY

The asset quality of UDDIPAN is very good. The value of the total assets of UDDIPAN was Tk. 385 million as on 30th June 2005. Total assets include properties and fixed assets of Tk. 30.71 million (7.97% of total assets), credit portfolio of Tk. 275.17 million (71.47% of total assets), investment portfolio of Tk. 47.62 million (12.37% of total assets), etc. It may be worthwhile to mention that the organization has purchased lands of total 2.27 acres in Dhaka and 7 other branches valuing more than Tk.5.00 million.

10.1 Quality of Credit Portfolio

The credit portfolio quality of UDDIPAN, as mentioned above is good. The Non-Performing Loan (NPL) ratio of credit portfolio has decreased to 1.00% in 2005 against 1.22% and 1.35% in 2004 & 2003 respectively. The coverage of NPL ratio was 38.69% in 2005 and 45.89% in 2004, which covers adequate loan provision. Portfolio at risk ratio is also found low followed by NPL ratio, which was 1.86% in 2005, and 2.29 % in 2004. This was decrease by .43 % in 2005 compared to 2004, which indicates improvement in asset quality. Portfolio in arrear during 2005 was 1.24% against 1.79% in 2004 and 2.09% in 2003 which indicates decreasing trend of potential severity of delinquency problem. The organization; however, has no written-off policy. Average performing assets of the organization was Tk.310.26 million in 2005, whereas it was Tk.251.86 million in 2004 & Tk.201.47 million in 2003 showing growth in assets utilization.

The loan loss reserve ratio has decreased to 2.23% in 2005 against 2.58% in 2004. The delinquent borrowers were 3.36% in 2005 against 4.31% & 7.44% in 2004 & 2003 respectively represents improvement in delinquency management.

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The micro finance industry generally avoids the write-off practice in case of bad loans, as this will create deterioration of asset quality and overdue risk. UDDIPAN has been following the system and carry forward the bad loan though they are making sufficient provision for this in their accounts. UDDIPAN has been making provision of 1% if the recovery has not been made available within fifty weeks, 50% provision, if the recovery exceeded fifty weeks but below hundred weeks and 100% provision, if the recovery has not been made available within hundred weeks.

UDDIPAN considers members' savings as security coverage for its credit portfolio. Members' savings to outstanding credit portfolio stood at 54.43% in 2005 from 62.68% in 2004 and 69.12% in 2003, which represents comfortable back-up of credit portfolio. It should be mentioned here that decreasing trend increases risk for the organization. The credit program has also high dependency on borrowed fund. PKSF fund to credit portfolio was 31.02% in 2005 against 22.56% in 2004, which shows dependency on borrowed fund is increasing than savings.

11. FUNDING AND LIQUIDITY

Being a non – profit development organization, UDDIPAN has no equity stake. The main sources of funding of the organization are members' savings and loans from PKSF. The Members' savings is low cost funding and increasing every year. This savings was Tk. 149.78 million in 2005 against Tk. 123.79 million in 2004 and Tk.106.27 million in 2003 representing growth rate of 21% and 16.48% in 2005 & 2004 respectively. The borrowing from PKSF at subsidized rate of 4.5% is much lower than the rate of commercial bank. The outstanding borrowing from PKSF was Tk.85.35 million in 2005 against Tk. 44.55 million in 2004, representing growth of 92%. Though the donation & grants is decreasing over the years; still it is contributing significantly in the funding requirement of the organization especially for social programs.

The liquidity position of the organization is good. The current ratio was 2.33 times in 2005 against 2.23 times in 2004 & 2.12 times in 2003 and the quick ratio was 2.64 times in 2005 against 2.54 times in 2004 & 2.49 times in 2003, which are representing a strong back up capacity to meet the current liabilities. Times interest earned ratio of UDDIPAN was 3.84 times in 2005 and 5.54 times in 2004, representing satisfactory position. Liquid assets of the organization (cash & cash equivalent) stood at Tk. 75.37 million as on 30th June 2005 and Tk. 75.29 million in 2004 indicating satisfactory financial flexibility. **CRISL**

12. CAPITAL ADEQUACY

The equity of UDDIPAN was at Tk.131.15 million in 2005 against Tk. 109.32 million in 2004. Internal capital generation ratio of the organization was 13.97% in 2005, against 31.17% in 2004 against peer average was 11.42% in 2004. it has decreased in 2005 due to higher financial cost and less receipt of donations than the previous year. Equity multiplier ratio stood at 2.97 times in 2005 from 2.73 times in 2004, against Peer average of 4.61 times in 2004, which indicates increasing trend of outside borrowing of the organizations. The Risk Weighted capital adequacy ratio was 40.62% in 2005 and 45.53% in 2004 against peer average of 27.78%. The organization borrowed 1.82 times against its equity in 2005 (1.58 times in 2004), which is less than the peer average of 2.83 times. Total liabilities to equity ratio has also been increasing from 2.04 times in 2005 from 1.73 times in 2004 against peer average of 3.61 times representing satisfactory financial position of UDDIPAN.

Long term gearing ratio is increasing and 0.90 times in 2005 from 0.69 times in 2004 against peer average of 1.08 times in 2004. Again short term gearing ratio is decreasing, which shows 1.25 times in 2005 from 1.31 times in 2004, against peer average of 2.69 times in 2004. UDDIPAN's short term gearing ratio is higher than long term gearing, which indicates more dependency on short term sources of funding.

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 a six part guidelines to report in prescribed formats to the above unit of the central bank.

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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 indicators and standards.

14. SOCIAL IMPACT

The UDDIPAN has a number of social programs in addition to its micro finance activities, 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 47 beneficiaries in two districts, namely, Comilla and Chittagong. The survey revealed that the monthly income of the beneficiaries have increased as reported by 91% respondents while the savings habit has increased for 79% respondents and standard of living also improved to a great extent. While looking at the impact on literacy, 27% respondents could only sign their names before taking loan. After availing the services, the above rate has increased to 59%. On the point of sanitation, 70% respondents are using sanitary latrine while the balance respondents are using Kacca latrine. In the decision making process of taking loan, 10% respondents decide on their own while 22% are influenced by husbands, 27% by both husband and wife and 41% respondents were motivated by NGO activist. There have been 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. Sixty six 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 62% 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 70% respondents and about 51% 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

- Strong sustainability
- Moderate financial and operating performance
- Strong clients relationship

Weaknesses

- Limited funding sources
- Weak legal status under Societies Registration Act
- No IT infrastructure
- Weak Management Information System
- Strong dependency on borrowed fund
- Poor and Manual Accounting System

Opportunities

- Enough expansion opportunity
- Enter into the formal financial market as MF bank
- Enough expansion opportunity to serve hard core poor

Threats

- Unregulated sector
- Competition

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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. The MFIs in Bangladesh are either following the main strategy of micro finance 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 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. SUDDIPAN 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.

End of the Report

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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>

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CONSOLIDATED BALANCE SHEET

ASSETS	2004	2003	June, 2002
Total Non Current Assets	21.80	20.95	21.42
Net Properties & Fixed Assets	18.53	20.95	21.42
Fixed Assets-at cost	25.28	27.53	26.31
Less: Depreciation	10.97	8.62	6.41
Land	4.22	2.04	1.52
Live Stock			
Total Credit Portfolio:	197.50	153.75	140.74
Long Term Credit Portfolio:			
Short Term Credit Portfolio:	197.50	153.75	140.74
Loan to members	197.50	153.75	140.74
Investment Portfolio:	42.61	40.33	7.78
Short term investment in FDR (ST)/Others	42.61	40.33	7.78
Other Non Current Assets:	3.26		
Loan to Staff	3.26		
Other Current Assets:	36.27	39.45	24.71
Total Current Assets	276.37	233.53	173.24
TOTAL ASSETS	298.17	254.48	194.66

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OWN FUND AND LIABILITIES	2004	2003	2002
Own fund / Equity	109.32	79.37	56.59
Capital Fund / Fund Account	108.32	78.89	56.59
Disaster Management Fund	1.00	0.48	
Outside Borrowing	48.83	50.19	32.91
Financial Institution Borrowing:	4.28	4.59	4.83
Loan from Bangladesh Bank	4.28	4.59	4.83
PKSF Borrowing:	44.55	45.60	28.08
Long term PKSF borrowing	44.55	45.60	28.08
Other Long Term Liabilities:	16.18	14.87	17.23
Staff welfare fund	0.22		
Gratuity fund	3.93	3.90	2.58
Provident Fund			
Debt Management Reserve	5.09	3.94	8.26
Motor & Bi-Cycle Replacement Fund	3.36	3.74	3.33
Emergency Relief and Rehabilitation Fund	1.14	1.14	1.13
Security deposit - Staff	1.23	0.94	0.71
Security Deposit - Group Member	1.22	1.22	1.22
Savings :	123.79	106.27	86.25
Member's savings/Deposit	123.79	106.27	86.25
Members' fund			
Other Current Liabilities	0.06	3.78	1.76
Outstanding Liabilities	0.02	3.78	1.52
Bank Overdraft			
Provident Fund	0.01		0.24
Current Account			
Others Liabilities	0.03		
Total Current Liabilities	123.85	110.05	88.01
TOTAL OWN FUND & LIABILITIES	298.17	254.48	194.74

**Credit Rating Report
on
United Development Initiatives For Programmed Actions (UDDIPAN)**

CONSOLIDATED INCOME STATEMENT:

CONSOLIDATED INCOME STATEMENT:

	2004	2003	June, 2002
Total Operating Income	81.07	67.90	34.85
Service Charge Based Earnings:	51.85	45.91	18.25
Service charge from financing activities	51.85	45.91	18.25
Other service charge/interest income			
Less: Financial Cost	6.56	6.76	0.69
Interest on member's / Business savings	4.90	6.25	
Interest on borrowed fund/Service Charge	1.66	0.51	0.69
Net Service Charge	45.29	39.15	17.56
Fee Based Income:	0.83	0.66	0.24
Income from General Activities	0.83	0.66	0.24
Investment Income:	4.82	1.96	0.24
Interest on Investment/Deposits(FDR)	4.82	1.96	0.24
Interest on Bank Deposits/Savings			
Donation Based Income:	23.59	19.37	16.12
Grants/Fund/Donation Received	23.59	19.37	16.12
Contribution/Credit Support			
Net Revenue Income from Operation	74.51	61.15	34.16
Total Operating Expenses:	46.81	45.93	16.88
Gross Income from Operation	27.70	15.22	17.28
Less: provision for loan losses	1.11		0.40
Net Income from Operation	26.59	15.22	16.88
Non-Operating Income:	2.81	2.00	0.85
Net Surplus/(Deficit)	29.41	17.22	17.73