



Bullock-cart Worker’s Development Association (BWDA)

Villupuram, Tamil Nadu (India)

<p><3rd rating Update> Credit Rating grade</p>	<p>Social Rating grade</p>
<p>α- alpha minus</p>	<p>β+ beta plus</p>
<p>Assessment Recommended; reasonable safety, good systems</p>	<p>Assessment Good adherence to social mission; reasonable application</p>
<p>Visit dates 29 Nov – 5 Dec 2004</p>	<p>Visit dates 29 Nov – 10 Dec 2004</p>
<p>Validity of ratings: till December 2005</p>	
<p>Operational head: Mr C Joslin Thambi</p>	

Credit rating	Social rating
<p>BWDA has maintained its good performance on governance and management while improving its financial performance. In addition to a reasonable growth in outreach, BWDA has also maintained good portfolio quality.</p> <p>In M-CRIL’s view, on account of significant field presence, overall good performance, commendable approach to sustainability and the growth plans of the organisation, BWDA can absorb – from all sources – <u>funds of Rs15.5 crores (including grants of Rs50 lakhs) over the next one year</u> for on-lending to SHGs.</p>	<p>BWDA has good adherence to its social mission to <i>‘empower poor and vulnerable households economically and socially’</i> as reflected in outreach to disadvantaged groups and a substantial number of poor members of its Self Help Groups (SHGs). A moderately supportive approach to client empowerment has resulted in strong group systems but limited financial awareness among group members.</p> <p>The SHG model gives group members the flexibility of directly accessing their group savings for credit, with some scope for bank linkage. BWDA offers standard products, which could be more adaptive to diverse needs and different clientele.</p> <p>BWDA can improve adherence to mission among junior staff; product development and communication with clients need attention.</p>



Category based rating grades¹

Credit Rating	Grades	Social Rating	Grades
A <i>Governance aspects</i>	α-	<i>Social mission and strategy</i>	β
B <i>Managerial factors</i>	α-	<i>Depth of outreach</i>	β+
C <i>Financial performance</i>	α	<i>Client feedback</i>	β+
Overall	α-	Overall	β+

Risk Factors

Credit rating	Social rating
<p>1 Inadequate internal audit: The internal audit function is being developed. The internal audit team conducts random checks of the records for clerical errors, compliance with formats and the accuracy of MIS reports. Although the internal audit team is gradually increasing its scope and rigour, it will take another 6 months before it reaches an optimum level. The current internal audit process is inadequate to prevent risk of misappropriation.</p> <p>2 Large size individual loans: BWDA has introduced collateral based individual lending offered by BFL with large size loans (Rs25,000 to Rs1,50,000). These loans account for 2.7% of the total outstanding portfolio. According to the planned lending, the proportion of large size loans in the portfolio of BWDA is likely to come down to less than 1% of the total portfolio. BFL out-sources the legal opinion on titles of collateral, especially in case of property loans. Nevertheless, relative inexperience of handling such loans exposes BFL to <u>risk of low realisation from collateral</u> in case of defaults.</p>	<p>1 Drought conditions in many districts for past 2-3 years have affected livelihoods; whilst tidal Tsunami effects (post-visit) may lead to welfare requirements and expectations in coastal areas of Tamil Nadu (part of BWDA’s operational area).</p> <p>2 State government initiatives include subsidised lending programmes for Scheduled Castes and a directive to form federations of SHGs. The former undermines credit discipline. The latter increases client transaction costs and is causing some confusion.</p> <p>3 Inadequate systems to track outreach to target group and appropriateness of products and services; no link between staff incentives and social performance.</p>

¹ M-CRIL’s grading sheet is attached at the end



Programme Strengths

Credit Rating	Social Rating
Governance, experience and strategy	Social mission
1 Good credit culture 2 Increased focus on micro finance activities 3 Good second line of leadership	1 Explicit focus on poor and vulnerable households 2 Strategic support to groups to be autonomous
Management and operations	Outreach
1 Good MIS and accounting system 2 Effective system for tracking overdues 3 Stable and experienced staff 4 Strong groups, increasingly becoming self reliant in terms of record keeping and accounting	1 Provision of services to those without access to alternative formal providers or other microfinance providers 2 A substantial number of poor including very poor are SHG members
Financial	Client feedback
1 Good repayment rate and portfolio quality 2 High internal loan circulation 3 Good Capital Adequacy 4 Good performance on profitability and sustainability	1 Transparent group processes with decisions made in consensus 2 Low interest on credit and safe/easy option to save 3 Few drop-outs or broken groups

Supportive context factors: State of Tamil Nadu, South India

- Good infrastructure and communications
- High literacy – including for women
- Relatively supportive cultural environment for women
- State government financed training to SHG leaders (*Mabalar Thittam* programme)



Micro-Finance Risk Assessment and Social Rating

Organisational Profile

(as on 30 September 2004)

Legal form	Years of mF Operation	Model	Number of SHGs	% rural	Number of SHG members	% women
BWDA: Society BFL (BWDA Finance Ltd): Non-banking Finance Company	7 years	SHG	5,183	90%	93,343 [15-20/SHG]	94.3%

Number of Branches	Number of Staff	% women	Active borrowers from MFI ^a	Active borrowers/ Staff member
9	68	84%	26,375	388

^a BWDA loans are technically to the SHGs; the number here refers to SHG members who have MFI loans

Microfinance programme

Internal savings of SHGs (Rs) (not collected by BWDA)	Outstanding borrowings of MFI (Rs)	Loan portfolio of MFI (Rs)	Average loan size from MFI to borrowers (Rs)	Depth ratio ^c
31.5 crores	4.7 crores	5.6 crores ^b	8,790	10.2%

^b of which Rs1.5 crores is under BFL.

^c Depth ratio refers to the average loan balance as a percentage of GNP per capita. This measure is used internationally as a proxy indicator for depth of poverty outreach. A depth ratio of <20% signifies outreach to 'poor or low-end clientele'

Key financial ratios

Portfolio at risk (>=60 days)	Cumulative repayment rate	Risk weighted capital adequacy ratio	Weighted average cost of funds	Yield to APR ratio
1.3%	97.6%	23.3%	10.0%	88.7%
Yield on portfolio	Other income to average portfolio	Financial cost ratio	Loan loss provisioning ratio	Operating expense ratio
16.3%*	5.2%*	11.6%*	0.33%	7.4%*
Total income to average total assets	Total expenses to average total assets	Return on average total assets	Operational self sufficiency	Financial self sufficiency
17.4%*	15.7%*	1.6%*	110.7%	101.8%

Notes

- All figures are estimated for the BWDA's microfinance programme as on 30 September 2004. Some of the financial ratios have been annualised (marked with *)
- Figures for BWDA's microfinance programme includes lending under BWDA Welfare Scheme (BWS), which is its old lending programme, and also lending under the BWDA Finance Limited (BFL), the new legal entity
- BWDA has a total staff of 141. For microfinance activities, the number of staff members is estimated at 68 (including 59 field staff). Apportioning the staff on activity basis gives 17 staff for BFL (including 15 field staff) and 51 staff for BWDA NGO microfinance operations (including 44 field staff).
- Loan loss provisioning has been done by M-CRIL based on the portfolio quality. A Loan Loss Reserve of 1% of the outstanding portfolio has been maintained.



Micro-Finance Risk Assessment and Social Rating

Outreach – operating area

State	Districts	Within districts
Tamil Nadu HDI 0.531 Rank in India: 3	Two districts on list of ‘150 most backward’ in India; though all above average development ranking for infrastructure, literacy	Covers some poor pockets, drought affected areas

Outreach – client profile

Client household information, based on sample survey of recent client households [N=240]

Household access to formal financial services		Disadvantaged groups	
Bank savings account	Bank credit	SC/ST	Woman headed households
18%	13%	15% [State – 20%]	14%
Below Poverty Line			
International: \$1-a-day at PPP ^a	Local – State ^b	‘Very poor’ ^c	
Depth: 33%	26%	4.5%	
Number of SHG members:	~ 31,000	~ 4,100	

^a International poverty line: \$1.08 per capita/day at purchasing power parity available for end 2003 (= Rs14.99, World Bank 2004); adjusted to rural and urban costs in Tamil Nadu based on State poverty line data. State equivalents estimated at Rs12.90 rural, Rs20.01 urban

^b Local poverty line: rural Rs11.86, urban Rs18.78 for Tamil Nadu; available for 1999-2000 (GOI, 2002) and updated to 2004 using CPI for rural agricultural workers and for industrial workers

^c ‘Very poor’ category derived from PRA methods and index scoring of quality of life indicators

Client feedback

Financial awareness	Group systems	Satisfaction	Exit
<ul style="list-style-type: none"> ☑ Know own savings ☑ Women encouraged to visit banks 	<ul style="list-style-type: none"> ☑ Strong group discipline and agreement; regular meetings ☑ Transparent transactions 	<ul style="list-style-type: none"> ☑ Safe place to save ☑ Low loan interest rate ☑ Flexibility within groups (internal lending) 	<ul style="list-style-type: none"> ☑ Low rate of drop-out (~5%)
<ul style="list-style-type: none"> ☒ Low awareness of BWDA products & processes 	<ul style="list-style-type: none"> ☒ High dependence on leaders without rotation of leadership ☒ Low member awareness of group records/accounts 	<ul style="list-style-type: none"> ☒ Delays in access to credit ☒ Standard MFI products; do not match range of credit needs ☒ Savings not withdrawable^a 	<ul style="list-style-type: none"> ☒ No systematic interviews with dropouts

Sources: FGDs in sample clusters and sample survey of recent clients, more than 6 months with BWDA. n=179

^a Savings are non-withdrawable for groups less than 2 years old, but partially withdrawable for groups after 2 years



Micro-Finance Risk Assessment and Social Rating M-CRIL's Microfinance Rating Symbols

M-CRIL Grade	Credit Rating description	Social Rating description
α+++ alpha triple plus	Highest safety, excellent systems ➤ most highly recommended	Strongest adherence to social development values and mission with highly effective application
α++ alpha double plus	Highest safety, very good systems ➤ most highly recommended	Very strong adherence to social development values and mission with highly effective application
α+ alpha single plus	Very high safety, good systems ➤ highly recommended	Very strong adherence to social development values and mission with effective application
α alpha	High safety, good systems ➤ highly recommended	Very strong adherence to social development values and mission with effective application
α- alpha minus	Reasonable safety, good systems ➤ recommended	Very strong adherence to social development values and mission with fairly effective application
β+ beta plus	Reasonable safety, reasonable systems ➤ recommended, needs monitoring	Good adherence to social development values and mission; reasonable application
β beta	Moderate safety, moderate systems ➤ acceptable, needs improvement to handle large volumes	Moderate adherence to social development values and mission, moderate application
β- beta minus	Significant risk, poor to moderate systems ➤ acceptable only after improvement	Low adherence to social development values and mission
γ+ gamma plus	Substantial risk, poor systems ➤ needs considerable improvement	Weak adherence to social development values and mission
γ gamma	Highest risk, poor systems ➤ not worth considering	No social development values or mission; very weak adherence to social mission