Report on The Assessment of Performance of Shushilan Microfinance Program

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Contents

INTRODUCTION

Program context

01 Shushilan, a national non-government organization, started this microfinance intervention as a part of its wider program in Satkhira district in the year 1992. The mission was to improve the conditions of livelihoods of local residents especially the poor. The intervention, providing saving and credit services, is now operating in 150 villages of kaliganj, Shamnagar Munshiganj, located in coastal close proximity to Sundarbans.

02 Program locations along the coastal belts are critically disaster-prone, where the threats of natural hazards like flood, drought and tidal-bores are common. Potholed topographical conditions coupled with high salinity discourage agriculture and villagers therefore, depend on forest products, small business and other alternative options for livelihoods generation. Absolute landless accounts about 40% of local population, 35% are landless and remaining 25% are smallholder marginal farmers[1]. In recent years fish farming has flourished heavily in the area as this activity fits suitably to local conditions. Thus, fish farming has become predominant livelihood activity for many of the local villagers now.

03 The microfinance program operates in a highly competitive environment in which about 10 other microfinance organizations are also providing identical services to local residents including prominent microfinance institutions like BRAC, Grameen, ASA, and so on.

04 Shushilan program received support from Concern Worldwide in the implementation of 'Building Capacity of Shushilan to Project and Promote Livelihoods in Resource Poor Communities' from 2002 to 2007 financial years to improve program quality and livelihood conditions in the program areas. After completion of the project in 2007, an external evaluation was made to assess progresses as a result of Concern's intervention.

05 This review at this stage is planned to assess the situation where the microfinance program stands now, and to assess the progresses made as on date compared to the performance results of 2005-7 evaluation. Therefore, for easy understanding, the results of 2005-7 evaluation will be quoted as the baseline data while comparing with the performance data of the current review as detailed in this report.

06 This review was carried out based on a Terms of Reference, annexed to this report. Participatory approach was followed in the process of the review where management staff of the microfinance program and group members were encouraged to participate in group discussions, on-site visits and branch office visits for sharing views and to draw conclusions. Various documents and reports of the microfinance program were also reviewed to gather information.

The findings of the review are listed below;

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[1] Project Evaluation Report of March 2007

1. Program Performance

1.1 Outreach and Access to credit

07 Until now, the program has out reached to approximately 6,000 households with microfinance services through its group network in 150 villages of Kaliganj, Shamnagar and Munshiganj areas. Members enrolled to the program from these households are mainly women, constituting about 80% of total membership.

08 The growth in membership between 2005-7 and 2009-10 has progressively retarded with the program approach. Total membership dropped during 2006-7 and 2009-10 as some 1000 members were pushed out for their inability to comply with savings and credit regulations. Later, membership increased to its former size as about 1,000 new members joined the program of which 580 were from Bazar Samity.

09 Compared to 2005-7, the outreach of the program has not increased in terms of client-heads but more in terms of geographical coverage in which the services expanded to new areas tapping more of the household members and markets.

Membership	2007-8	2008-9	2009-10
General	5,753	6,088	5,809
Bazar Samity	331	422	580
Total:	6,084	6,510	6,389

Membership (Baseline data)	2004-5	2005-6	2006-7
Total	5,381	6,212	6,464

10 Unlike 2005-7 operational years, members' access to loan service during current years has increased in a stable and progressive fashion but in very slow pace. It seemed that the program remained to be cautious in delivering loan service to the members only whose credit rating has been tested so far. It also appeared that the program could not serve more of the general members due to capital constraints as more of the capital were required to finance large loans for the Bazar Samity members. Bazar Samitys were organized and became functional during 2007-8 operational years and onwards.

11 However, as on date, the program has accommodated almost 50% of the members to access loan service. This indicates that there are yet sufficient rooms for the program to expand savings and credit services to the remaining members who remained unserved but might contribute potentially to program outreach. Nevertheless, the trend in members' access to loan over these two periods can be seen in the table below,

Access to loan	2007-8	2008-9	2009-10
Number of active members	2,652	2,895	3,208
Members' access to loan	43%	44%	50%

Access to loan (Baseline data)	2004-5	2005-6	2006-7
Number of active members	2,480	3,138	3,116
Members' access to loan	46%	50%	48%

1.2 Annual disbursement and Loan size

12 The program has managed to increase annual loan disbursement more than three folds compared to annual base-line figure of 2006-7 operational years. This demonstrates increasing capacity of the program for capital leverage in which the program has successfully mobilized capital resources to meet fast growing investment needs.

12 On average, general income generation activities utilized 65% of total annual disbursement while entrepreneurial and agricultural activities utilized 28% and 7% respectively. Disbursement for agricultural activities did not show any noticeable increase compared to sizeable increases in the small business and entrepreneurial activities over the period.

Annual loan disbursement	2007-8	2008-9	2009-10
General (including agriculture)	14,159,000	23,019,500	22,485,000
Bazar Samity	3,435,500	7,648,000	12,973,000
Total:	**17,594,500**	**30,667,500**	**35,458,000**

Annual disbursement (Baseline Data)	2004-5	2005-6	2006-7
Total:	**8,991,900**	**9,326,500**	**10,860,000**

14. As represented in the table below, the initial average loan amount per member remained unchanged during 2005-7 baseline years, but eventually showed significant increases in size (amount) during 2007-10 operational years.

Loan size	2007-8	2008-9	2009-10
Product-wise loan size:			
General	6,495	9,339	8,303
Agricultural	1,542	5,654	4,339
Bazar Samity	32,107	38,049	35,157
Average initial loan size:	**6,273**	**8,180**	**11,050**

Loan size (Baseline data)	2007-8	2008-9	2009-10
Average initial loan size:	**3,712**	**3,999**	**3,997**

15. In general, the increases in average loan size gives the impression that the borrowers have been gaining skills in managing their businesses with increasing volumes of capital, and perhaps managing their debts smartly as well. But it also came to knowledge that group members are taking loans from other programs to manage their businesses and to service their debts. They are doing so because they experienced that the loan amount is not sufficient to meet individual financial needs. In this situation it might be helpful to undertake a review of the Shushilan loan products and improve existing loan terms to suit growing needs of the members. This might have implications as follows;

- Enhance group cohesion and members' attachment to Shushilan program;
- Consolidate members' satisfaction for the services offered to them;
- Gain and retain market share while in competition with other local providers;
- Keep in check the extents of overlapping (although overlapping can not be fully controlled in given conditions in the area).

1.3 Profitability and Sustainability

16. From the standpoint of financial performance, the program up to this stage has been operating with negative margins meaning that the program is yet to breakeven costs. But however, the net margins over current years, as portrayed in the table below, have shown

gradual improvements in the capacity of the program to absorb more of the administrative and management costs.

Margin	2007-8	2008-9	2009-10
Net Margin	-18.40	-8.30%	-6.20%

Margin (baseline data)	2004-5	2005-6	2006-7
Net Margin*	-	-	-

* Not shown in report

17. The profitability of the program measured in terms of OSS (Operational Self-Sufficiency) during the current period has increased two times over baseline figures of 2006-7 operational year. The OSS of 2005-7 was calculated based on program operating costs, excluding the provisions of loan loss. In the calculation of OSS during current years, the estimates of loan loss and financial costs are added to annual operating costs, including a portion of the Central Office overhead, to realistically reflect the capacity of the program to sustain its service in the short-run.

18. In the long-run perspective, annual program costs are further added to costs of imputed capital. Thus, the financial sustainability (FSS) of the program is worked out as 37%, 44% and 48% for current operational years that shows the growing capacity of the program to sustain inflationary erosions. These figures are still higher than the baseline financial sustainability figures to show progresses over the period.

Sustainability	2007-8	2008-9	2009-10
Operating revenue	1,748,475	2,353,888	3,650,962
Admin & Management expenses	3,206,454	2,279,903	2,707,173
Provision, Loan loss (@4%)	703,780	1,226,700	1,418,320
Share of HO overhead	-	350,800	728,620
Cost of capital			439,195
Total operating expenses	3,910,234	3,857,403	5,293,308
Operational Self-sufficiency (OSS)	44%	61%	69%
Financial Self-sufficiency (FSS)	37%	44%	48%

Sustainability (Baseline data)	2004-5	2005-6	2006-7
Operational Self-sufficiency (OSS)	36%	35%	35%
Financial Self-sufficiency (FSS)	34%	32%	32%

19. The trend in the table shows increasing capacity of the microfinance program in the recovery of costs from annual revenue incomes. Annual revenues from the savings and credit services continued to grow progressively and more than proportionately over annual operating costs. Rising trends in this respect are results of the expanding outreach with growing loan portfolio of the program.

20. In is important to mention here that the program has been loosing an average 10%-11% of the scheduled repayment of the annual interest incomes (approximately BDT 218,000 in amount) during each operational years. This amount remained uncollectible at the end of the financial year and perhaps unrealized. Such losses in interest are likely to constrain the revenue-earning capacity of the program.

21. Currently, the program utilizes approximately 24% of its capital borrowed from the commercial bank. It pays 10.5% service charge (cost of capital) to the bank on the borrowed

capital. It is not sure if the remaining margin of 2.0% (12.5% interest on loan – 10.5% service charge) is sufficient to cover costs in a situation when the program is loosing a portion of the interest income and capital annually. It is necessary that the management makes an investigation to assess the performance of the commercial fund being utilized so far, to help understand the feasibility of such commercial borrowings at this stage of program development. This also might help the management to obtain operational data that could be used to negotiate and decide on the terms for commercial capital in future

22. Taking these issues into consideration as mentioned above, there is likelihood that the extent of profitability of the on-going program can be further increased by,

- *Strengthening the default management at branch levels to minimize loses in interest income during financial year;*
- *Mobilizing own capital (equity) to ensure maximum returns from the portfolio during financial year*.
- *Increase volume of annual disbursement of loans to increase scale.*

23. However, the profitability of the microfinance program will critically depend on the internal financial policy of Shushilan in which currently a 12.5% rate of interest is used for loans on flat basis. Any changes in existing interest policy (eg. in the rate and method of interest) by Shushilan, or adjustments in the interest policy by external regulatory agencies like Bangladesh Bank or Microfinance Regulatory Authority (MRA) will certainly have consequences in the level of profitability of this microfinance program.

1.4 Cost efficiency

24. The cost efficiency indicator has also showed episodic declining trend exhibiting evidences of decreasing costs of the savings and credit services. It can be seen from the following table that during current years the program has been successful to reduce its costs to the extent of nearly one third of the costs of baseline years.

Cost Efficiency	2007-8	2008-9	2009-10
Operating Cost Ratio	0,27	0.13	0.12

Cost Efficiency (Baseline data)	2004-5	2005-6	2006-7
Operating Cost Ratio	0.31	0.34	0.34

25. The trend of decreasing cost is indicative of growing ability of the program to provide cost effective service to members and to compete with local service providers in providing service.

1.5 Staff productivity

26. During current years, the caseload in terms of portfolio value per Loan Officer has shown increases but at the same time the caseload in terms of number of active borrowers per Loan Officer has declined. This is apparently due to the reason that the program now concentrates more on large loans than small loans. The borrowers of large loans are less in number compared to the number of borrowers of small business loans. Deployment of additional field officers is also a factor that reduced caseload per field officer in 2009-10 operational year.

Caseload	2007-8	2008-9	2009-10
Borrower per Loan Officer	140	138	118
Loan portfolio per Loan Officer	575,980	815,684	857,555
Active member per Branch Manager	663	723	642

Caseload (Baseline data)	2004-5	2005-6	2006-7

Member per Loan Officer	130	165	164
Loan portfolio per Officer	341,305	405,622	417,742
Active member per Branch Manager	620	627	623

27. However, the staff size with the inclusion of 6 new Loan Officers in 2009-10 did not bring on proportionate increases in the value of portfolio and in the number of active borrowers. Therefore, the productivity of staff remains underutilized.

28. This is an issue which needs attention of the management. Caseloads have direct implications on cost and income. Higher staff productivity ensures higher return from portfolio and low operating costs. Therefore, deployment of field staff will have to be planned in a way that each additional staff will bring additional revenues from the expanding portfolio to cover additional staff costs.

2. Product performance

29. This section brings about a brief analysis of the performance of existing loan products, taking into consideration of members' access to loan service, loan size, incidence of default, written off amount (of annual disbursement) and contribution to revenue incomes. For simplicity, the loan services are categorized into three main products,
(a) General loan, (b) Agriculture Loan, and (c) Bazar Samity Loan

2.1 General loan for small-scale income generation activities

30. General loan product has been made available for a variety of household-based income generation activities of the village group members. Such loan financed activities include handicraft, retailing, fishery, and the like. Average loan size is BDT 8,300. Loan period is 1 year, repaid in weekly installments with 12.5% annual interest on principal.

31. Apparently, this loan product has had significant contributions to addressing the financial needs of the local communities in which 72% to 76% of the total borrowers, especially the women from poor households, became predominant users of this service.

32. This product also takes on substantial share of the revenue income generated by the program, contributing to 59% to 78% of total interest revenues annually.

33. The loan principals in this category has been repaid at an average rate of 96% over the years under review, presuming that approximately 4% of the loans remained unrealized at the closing of the financial years and possibly causing an average loss of BDT 684,930 in loan capital per year over the period 2007-8 to 2009-10).

34. In a similar manner, the interest amounts that remained uncollected at the close of each financial year, has possibly caused an average annual loss of BDT 161,700, affecting the extents of profitability as well as sustainability of the microfinance program.

35. The trend of borrowers' access to this loan service has declined from 76% of 2007-8 to 73% in 2009-10 operational year with a corresponding decline in the revenue contributions from 78% to 59% over the same period. The trends are shown in the table below,

Year	Average Loan size	Percentage of total borrower	Repayment Rate	Written off amount (in %)	Contribution to annual interest income

2007-8	6,495	76%	92%	5.2%	78%
2008-9	9,339	72%	96%	1.7%	69%
2009-10	8,303	73%	95%	2.6%	59%

36. However, this loan service still remains as an important service to impact on the largest segment of the poor members accessing credit and also on profitability of the program.

2.2 Bazar Samity Loan for entrepreneurial activities

37. This product line was introduced in 2007, currently providing service into market places in Kaliganj, Shamnagar, Krishnanagar, Munshiganj and Kodomtala areas. This service targets comparatively better-off clients, especially the small and medium category of entrepreneurs who run business in local markets. Average loan size is BDT 35,150, repaid in daily installments within 6 to 12 months.

38. Since launching, this service has grown up quite faster, demonstrating its suitability for local entrepreneurial capital needs and its acceptance by local entrepreneurs.

39. The loan for Bazar Samity has been accessed by 4% to 11% of the total borrowers, taking shares of 19% to 36% of total annual disbursements over the period.

40. Bazar Samity loans has been repaid at an average rate of 90%, presuming that approximately 10% of the loans remained unpaid by the borrowers by the end of the financial years (2007-8 to 2009-10), probably causing a capital loss of approximately BDT 586,900 per year over the period. In the similar manner, the interest losses were BDT 56,200 per annum that remained unrealized by the end of the financial years.

41. Although this loan product has increasingly contributed to annual revenues, from 16% to 38% over the period, but the losses in interest income caused by defaults, has continued undermining expected earnings of the program.

Year	Average Loan size	Percentage of total borrower	Repayment Rate	Write off in percentage	Contribution to interest income
2007-8	32,107	4%	90%	-	16%
2008-9	38,049	6%	90%	2.3%	28%
2009-10	35,157	11%	91%	1.5%	38%

42. However, this service is highly valued by the entrepreneur borrowers for easy repayment and appropriate amount to meet entrepreneurial capital needs.

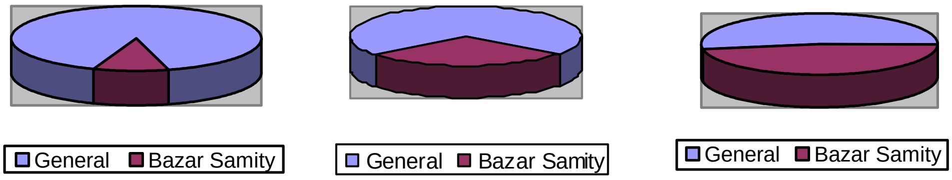
2.3 Comparative features of General loan and Bazar Samity loan

43. Seemingly, the general loan and the Bazar Samity loan products are going together very well, and adding successfully to a process of diversification that helps the program spreading out risks and income potentials from one sole product to two complementary product lines.

44. However, it is obvious that these loan services are targeting clients from two separate markets- one is for the poorer women members with small loan and low risks, and the other one reaching to better-off entrepreneurs with large loans, with relatively high risks.

45. General loan product covers largest part of the poor borrowers, contributing to largest share of annual earnings with a low rate of default. Whereas the Bazaar Samity loan covers a smaller segment of the borrowers, increasingly contributing to annual earnings, and demonstrating comparatively higher rate of default in the repayment of loan monies. One can notice here that the average amounts remained uncollectible as a result of default during the period are almost similar for the both product lines although the default rates are different. These features are shown in the following graphs,

Members' access to loan **Contribution to annual income** **Uncollectible loan capital due to default**



2.4 Agricultural loan

46. Agricultural loan product has been made available to members for last six years. This product is purposefully a seasonal loan, used by the group members for small scale farming activities.

47. Agricultural loan product has the smallest size, which has not grown much compared to General and Bazar Samity loans. This loan covered about 14% to 20% of total borrowers. Loan repayments have been good, at annual rate of 95%+, contributing between 5% and 9% to annual interest earnings.

Year	Average Loan size	Percentage of total borrower	Repayment Rate	Write off in percentage	Contribution to interest income
2007-8	1,542	18%	96%	2%	6%
2008-9	5,654	20%	95%	1%	9%
2009-10	4,339	14%	95%	2%	5%

3. Other program related issues

3.1 Delinquency

48. Symptomatically, the program has delinquency. Aging analysis report shows that about 35% of the portfolio remains at risk with the outstanding loan monies. In assessing the loan collection, it came to notice that about 10% of Bazar Samity loans (on average BDT 586,900 in amount) remained uncollectible (as overdue amounts in the hands of members) by the end of each financial year. Uncollectible amount for general business loans per years is about 4%, (on average BDT 684,930 in amount).

49. In a similar way, the program probably loses an average 11% of interests, (average BDT 161,700 in amount per year) from the General loans, and about 10% of interests (BDT 56,275 in amount annually) from the interest income of Bazar Samity loans.

50. Past due loan principal, if not collected even at later stages, is probably wearing away the value of loan capital fund over the years, while losses from uncollectible interests have been undermining annual income potentials of the program and operational sustainability as well. Such losses from defaults are also supposed to affect the servicing of the loan capital borrowed from commercial banks. Losses from non-payment of interests and loan capital are to be managed watchfully to keep the losses minimum, preferably below 5%.

51. Seemingly, the management is not fully aware of the losses caused by defaults of the members. The existing MIS of the program does not include a precise and appropriate indicator to help management understand and monitor delinquency. (*this issue is further discussed in Monitoring and Reporting section*) Besides, the program has not instituted any loan loss provision until now that could help fill out such losses in capital.

3.2 Savings mobilization and Capitalization

52. Savings mobilized in the form of voluntary and fixed deposits has greatly contributed to the capitalization of the program. Total savings collection has grown at an average rate of 30%+ over current years (2007-8 to 2009-10) and adding substantially to loan capital fund. As of date, members' savings constitute about 57% of the total loan capital fund, while Sushilans' equity fund is about 20% and borrowed capital from commercial bank constitutes 23% of total loan capital utilized by the microfinance program. Table below, represents a breakdown of the loan capital fund for the current period of review,

Loan Fund	2007-8	2008-9	2009-10
Equity Fund, Sushilan	3,757,175	4,212,140	4,901,625 (20%)
Members' Savings	7,530,507	9,272,337	13,299,018 (54%)
Other Funds from members	245,852	384,130	588,988 (3%)
Borrowed Fund from Bank	-	3,324,864	5,638,975 (23%)
Total	**11,533,534**	**17,193,471**	**24,428,606**

53. Increasing contributions of the members to loan capital signify the prospect of the program, at one stage, to become a savings-led institution. The savings of members that continued growing has definite advantage for the program to utilize low-cost capital, and to trim down its financial costs for capital by rationalizing its dependency on external commercial funds.

3.3 Scale and Investment requirements

54. The microfinance program is yet to achieve scale to become sustainable. Low capacity and low scale has been resulting in low return to recover costs. In order to increase income to desired levels, the increase in scale remains a precondition. The efforts on increasing scale will have to be thoughtfully planned in the given conditions of competition, staff capacity, fund mobilization and disaster-susceptibility of the program sites.

55. In the scenario below, a planning forecast is made showing the levels of increased scales which the microfinance program might plan to achieve with the application of additional

fund resources over next four operational years. The forecast includes estimates and is based on the performance of 2009-10 operational year.

	2009-10	Year-1	Year-2	Year-3	Year-4
Fund resources:					
Members' savings	13,299,018	15,958,820	19,150,580	22,980,690	26,427,790
Borrowed fund and Equity capital	11,129,588	10,129,588	15,464,615	18,374,420	17,374,420
Total capital available	24,428,606	26,088,408	34,615,195	41,355,110	43,802,210
Less capital repayments	1,000,000	2,000,000	2,000,000	1,000,000	-
Fund available for loan activities	2,3428,606	24,088,408	32,615,195	40,355,110	43,802,210
Fund required for loan disbursement	23,428,606	31,423,435	37,525,000	40,353,800	43,802,210
Deficit	-	7,335,027	4,909,805	-	-
Annual disbursement:	35,458,000	50,277,500	60,040,000	64,566,165	70,083,535
Average initial loan size:	11,050	14,365	15,800	16,590	17,520
Total membership:					
Members' access to credit:					
In Number	3,208	3,500	3,800	3,890	4,000
In percentage	50%	54%	70%		
Caseload per field staff:	118	130	140	144	148
Average outstanding portfolio/staff:	857,555	1,087,875	1,436,445	2,016,045	
Annual operating costs:					
Admin, Mgt and HO expenses	2,911,868	3,203,055	3,523,360	3,699,525	3,884,500
Loan loss provision (@4% y1-3, @3% y4-5)	1,418,320	2,011,100	2,401,600	1,936,985	2,102,500
Interest on borrowed capital (@10.5% p.a)	439,195	1,163,505	1,679,030	1,482,365	1,285,700
Interest on savings (@05% p.a)	523,925	797,940	957,530	1,149,030	1,321,385
Total:	5,293,308	7,175,600	8,561,520	8,294,905	8,594,085
Annual income:	3,650,962	5,287,065	6,437,725	7,223,850	7,936,335
Sustainability					
OSS (cost of borrowed capital @ 10.5% p.a):	69%	74%	75%	87%	93%
OSS (cost of borrowed capital @ 5% p.a)	71%	78%	82%	95%	100%
OSS (if interest on borrowed capital is exempted):	-	82%	89%	103%	109%

56. In making the forecast above, it is assumed that the membership over the period, in next four years, will not increase much with the inclusion of new ones and exclusion of inactive members. This will result in a gradual but steady increase in the number of members accessing credit. Savings, as estimated, will grow on average 20% during year 1-3, and at 15% in year 3.

57. It is hoped than the management will consider to increasing loan amounts of the existing loan products and perhaps will also consider introducing new loan products to improve competitiveness of the service. This might require an increase of 30% in the current loan size. The increase in average loan size will be 10% and less in the following years over the period.

58. Increases in average loan size and member's access to credit will demand subsequent increases in the annual disbursement of loans over the period. Scheduled repayments of loan principal to the bank during year 1-3 are expected to deplete program's loan fund and it is apparent that the program will require external funding to cover an estimated deficit of BDT 12,225,000 in order to finance annual loan disbursements as planned over the period.

59. It also assumed that an increase in staff size will not be necessary for the reason that staff capacity, at this stage is low, and this can be potentially upgraded over the years to achieve better efficiency and productivity standards.

60. Loan loss provisions are estimated at an average rate of 4% during year 1-2, and at 3% during year 3-4, considering that efficiency in loan collections will be improved following an increase in staff capacity to maintain loan losses minimum.

61. It can be understood from the scenario that the fund utilized under commercial terms, especially at commercial rate of interest of 10.5% per annum, might help the program to expand and grow, but is unlikely to contribute much to the sustainability of the service delivery. Generally, at the developing stages, microfinance programs require support of non-commercial funds (donor, or concessional soft-loan) to supplement their capital for achieving growth and sustainability. In this perspective, it is suggested that the management will consider seeking funds from non-commercial sources (in the form of soft loans, or with concessional interest rates) to help program achieve sustainability.

62. However, the estimates made in the above table are based on conservative assumptions. This has to be followed by the management as guideline and not as concrete results. Careful planning, improvements in staff capacity, cost and budgetary control, collection and retention of savings, efficiency in the collection of loan monies are underlying factors that will definitely contribute to better and faster progresses against the results and timeframe projected in the above table.

3.4 Staff capacity

63. Consultative reactions of the branch staff during group discussions indicated that the branch Managers and field officers have limited knowledge and skills in the management of microfinance program activities. Many of the field staff hired by the program do not have sufficient background in microfinance. Lack of knowledge and skill, in this respect, has been contributing to low staff capacity.

64. The training courses provided through Shushilan has not been much relevant and appropriate for the staff to help develop capacity in operational management. As of date, Shushilan supported various staff members to participate in 16 different training sessions in which average branch managers attended 4 training sessions per head while field officers attended 3 training sessions per head. Among these sessions only 'savings and credit management' training was found relevant to staff capacity needs. Although the contents and the duration were limited, almost all of the staff have participated in the 'savings and credit management' training. Besides, two branch managers attended training in financial management, but none of them received any training in accounting which is a key area in the management of branch operations.

65. It was pointed out from the discussions that there is a need for upgrading the capacity of the branch managers and their field staff. The gaps where the staff will need to consolidate working knowledge and skills were identified during discussions, are as below,

Branch Manager: Basic accounting and financial management, portfolio quality management, client assessments, performance monitoring, and reporting.
Field Officer: Client capacity assessment, portfolio quality management and reporting.

66. Shushilan, as a humanitarian organization, are engaged into multifaceted development activities where staff need to have versatile skills of program management. But since microfinance field staff are working separately for the program, all training sessions should be planned giving sufficient emphasis on microfinance management practices to help staff develop skills that better fit into their working conditions.

67. It is further suggested here that the management should organize exposure trips for the staff to other successful programs which will virtually help field staff to learn and know about microfinance from these development contexts.

3.5 Monitoring and Reporting

68. The management information system currently in force, is quite elaborate and takes account of all operational and financial data those are necessary for proper monitoring of program activities. Some improvements in the data compilation and reporting devices will be fine to add value to the existing system. These areas are discussed below,

69**.** **Portfolio quality**: The indicators (a) Current portfolio and (b) Portfolio at Risk (PAR), expressed in percentage, are to be included in the reporting of the quality of outstanding portfolio. This will help the management staff understand and monitor delinquency. The levels of delinquency of the program is not so bad at this stage, but if proper diagnosis and monitoring measures are not strictly followed, the delinquency can flare up and can affect the program seriously.

70. As a good practice, loan officers should be made responsible for assessing their own loan portfolios to understand the quality of the portfolios they are dealing with and will report to respective Branch Manager for subsequent follow-up measures.

71. The outstanding loan portfolio of the program contains past-due payments of more than 2 years that make the outstanding portfolio 'inflated'. These long overdue amounts should be written off to keep the portfolio clean and healthy. Otherwise, the indicators being worked out, based on the outstanding portfolio, will give inaccurate values and will mislead monitoring.

72. **Sustainability*:*** The indicators**,** (a) Operational Self-sufficiency (OSS) and (b) Financial Self-sufficiency, are to be included in the reporting and monitoring process. These important indicators indicating the progress in cost recovery is not currently monitored.

73. It is important that each branch will work out its own OSS and FSS on a regular basis. OSS and FSS needs to be monitored at Branch levels and at central level program performance.

74. **Rate of recovery**: Monthly and annual recovery rates both for loan principal and interests needs to be used to monitor performance of loan collection and revenue earnings.

75**.** **Performance report**: Based on monthly progress reports of the Branches, the Microfinance Coordinator at the Central Office will prepare and submit a precise report to the management each month. The report will focus on performance of the program using relevant indicators of through outreach, productivity, efficiency and sustainability.

3.6 Review of loan products

76. The program operates in a highly competitive environment where competition and overlapping is a common phenomenon. Presently, the program is competing with about 10 other microfinance providers including giant MFIs like BRAC, Grameen, ASA, and so on. In order to retain its market share, the management has to improve its loan services to bring this service to the standards of other providers and especially to meet the growing expectations of Sushilan members.

77. This process will require a pragmatic review of the existing loan service to improve current products, and develop comparable loan products that other MFIs are offering in the area. This may help retention of Sushilan members with the microfinance program but its implications on overlapping might not bring immediate results.

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3.7 Disaster risks

78. Typical location of the program sites around the coastal belts, makes the villagers especially the members, exposed to the threats of natural disasters like flood, tidal bores, and droughts. Apart from household risks, these disasters might pose covariate risks for the livelihood activities of local people. Disasters with covariate risks are difficult to control unless the infrastructure facilities in the areas are developed and improved. But some collective measures initiated through local players might help reduce and mitigate the consequences of disasters including household risks.

79. A detail study of disaster risks reduction issues is not a part of this review. But it can be mentioned here that Shushilan has been making great efforts in the promotion of human, social, financial and natural assets through group networks that has improved local capacities to face harsh conditions. Measures like, grouping of local villagers into people's organizations (Shuvo Sakal), contingency support fund (Apod Kalin Fund), diversification of loan products (Bazar Samity loan) etc., are quite positive initiatives to help in the mitigation of disaster risks both at the program and beneficiary levels. These efforts need to be continued and further strengthened.

80. However, strictly from microfinance point of view, the following suggestions are made, that might help improve coping capacity of the microfinance clients and might also help reinforce capacity of the program in the face of disasters in program areas,

- Develop a DRR fund (Climate Change Fund) including local and international donors with specific agenda to mobilize resources and support services in the face of disasters;

- As an alternative option, the provision for soft loans (health and medical loan) might be made from the fund which might be built up with financial contributions from the beneficiary member and Shushilan. Members will use this loan in the mitigation of household related risks, especially in the event of sickness or death of key income-earner.
- Introduce micro-insurance service and or act as agent of local insurance companies to provide insurance services especially for the small and medium entrepreneurs to help protect their livelihood assets;
- Introduce loan protection scheme as mandatory for all types of loans issued to members;
- Strengthen further the microfinance group networks incorporating group funds the use of which will be limited to group members during hardships;
- In collaboration with donors, pilot safety-net/cash transfer schemes for the villagers of disaster-stricken areas and link potential villagers to mainstream microfinance program.

3.8 Alternative options for livelihoods

81. The habitat of program beneficiaries, especially the localities near the coastline is exposed to a variety of disaster risks that can damage livelihood activities to variable magnitudes. In this perspective, the attempt for exploring alternative and appropriate livelihood options for local people, will require proper attention.

82. Shushilan, as local development partner in the area, can play vital role in developing initiatives to support the promotion and adoption of potential household-based income generation activities that can supplement household-income and strengthen household capacity for coping-up with disaster risks. The considerations for the feasibility of such livelihood activities shall include,

- requires small volume of cash investment;
- inexpensive productive inputs/assets that can be procured locally;
- simple skills in which idle household labour and time might be utilized;
- an accessible secured market for the produces;

83. Optimistically, this idea might work well and bring in positive results through a potential collaboration between Shushilan and the ASK International (Delta Pets), an exporter of handicraft/pet products.

84. ASK International has been involved in the production and export of pet products since 1985. Currently this organization exports products to pet product dealers in Germany, Holland, France, Belgium, Portugal and Spain. Delta Pets works in 205 villages in Jessore, Tangail, Sharoopkhati and Narshindi with poor households that produce different pet products (60 different items) and sell these items to Delta Pets on a regular-basis. The household members spare idle times and labour in the making of pet items that require simple skills and low-cost inputs, mostly procured from local markets. Households require an initial investment of BDT 2,000 for the activity and can earn BDT 3,000 on average each month from the investment.

85. ASK International is intending to expand activities in new areas, especially around Jessore district. This offers an opportunity for Shushilan to support ASK International to

expand and develop its production networks in the villages where Shushilan operates their programs. This collaboration can be built upon two objectives;

- Short term objectives, in which Shushilan, through facilitation of ASK International, might consider involving its village groups especially the dilapidated households of 'Aila' affected areas in the production of pet products as an activity to help augment household income;
- Long run objective, in which Shushilan might consider expanding its microfinance group activities in Jessore areas to include producers of ASK International, while the role of ASK International will be limited to marketing (local purchase, transportation, storage, packaging etc.) of pet produces for its buyers abroad.

86. The collaboration will be based on sharing mutual benefits and each others comparative skill and advantages to contribute to sustainable development of livelihoods in the operational areas of Shushilan.

87. It is therefore, suggested that both Shushilan and ASK International should open dialogue on this issue for taking this process forward.

3.9 Formalization

88. Formalization of the Shushilan microfinance program might not be desirable at this stage especially when the program is yet to develop with regards to scale and capacity. From now and onwards, a timeframe can be made based on a sustainability plan in order to take forward the process of formalization of the program step-by-step.

89. A discussion session was held with the management and advisory staff of Shushilan to explore options for the formalization of the microfinance program. Based on their suggestions, the key aspects proposed for the institutional framework of the program are listed below. These propositions are within the scope of the policy and guidelines of the Microfinance Regulatory Authority (MRA).

Status:
A licensed microfinance institution regulated and supervised under Microfinance Regulatory Authority (MRA).

Ownership:
Shushilan will be the legal and legitimate owner of the institution.

Governess:
An Executive Committee as key decision making body, composed of 7 members (5 members from Shushilan including Chief Exucutive Officer, and 2 external members including representatives from General Commettee of Members. 1/3 of the Executive Committee will be constituted of female members.
A General Committee of Members, made of 25 members of which at least 2 will be female members.

Capitalization:
Equity capital of Shushilan, saving of members, donor funds and funds borrowed from external sources.

Management:
Operations, Accounts and Finance, and Human resource management team to be set up with chain of command, led by a Chief Executive Officer.

4. Learning from members

90. Feedback from members during discussions with groups (business, agricultural and entrepreneur groups) suggested that members are generally satisfied with the services of the program although they asked for some adjustments in some aspects of the service. These adjustments, as expected by the members, seemed to be logical with regards to rising price of inputs in the local markets, and the standard of services provided by other local providers.
Precisely, the response of the members and their recommendations in relevant areas of the service is listed below,

Loan type: Members are generally satisfied but some of them asked for new products like education loan and medical (health) loan.

Loan duration: Mostly satisfied

Loan amount: Some members are not satisfied with the loan amount and in particular the amount of initial loans to new borrowers. Women business groups and agricultural groups in particular asked for an increase in existing loan amount.

Interest rate: Group members in general mentioned that the interest rate is high and asked for a reduction in the existing interest rate.

Loan installments: Members are generally satisfied especially the Bazar Samity members are quite satisfied with the weekly payment of Installments. Members appreciated the flexibilities allowed for them in the repayment of loan monies in difficult times.

Beneficiary training: Mostly satisfied.

Input supplies: Generally satisfied.

Staff visit: Members mentioned that field staff are cordial and visit them regularly. They also mentioned that the staff understands their difficulties and allow them to make the repayments at an extended date which other programs do not allow at all.

Other reflections of the members: Dependency on local moneylenders still remains at large, particularly among villagers/households who suffered substantial losses due to ‘Aila’ and who require sizeable amounts of cash monies to rebuild and regenerate livelihood activities.

5. Conclusion and Recommendations

91. Shushilan microfinance program is satisfactorily in track. Compared to the results of evaluation 2005-7, the program has been heading on with progress and growth indicated positively by its performance benchmarks as analyzed in this study but however, further reinforcements in the line of capacity, scale and performance monitoring will be necessary for achieving program sustainability.

92. Staff size and deployment of staff has been reasonably planned but the capacity of staff has been low Training offered to field staff was not designed appropriately to contribute to improving operational knowledge and skills relevant to microfinance program management. Staff capacity is generally low in performance management, finance and monitoring.

93. In the face of growing competition with other service providers in the area, the program will require improvements in service quality to retain market share and satisfaction of its members. Improving quality of service will involve, among others, increase in individual loan size which remains as a constraint for the program, at this stage, due to insufficient capital. It is of priority that the program should achieve scale towards sustainability. In this perspective, mobilization of additional funds will be necessary to scale up annual loan disbursements. Simultaneously, the efficiency of the operating staff in fund management especially in the areas of loan tracking, default management and performance monitoring is to be enhanced with proper care.

94. The villages in which program is operated are susceptible to a variety of risks. Strengthening of social assets, diversification of loan products, integration of microfinance groups with Shushilan mainstream program, access to insurance and contingency support funds, access to alternative livelihood means might be possible solutions in the mitigation of environmental and household risks.

95. Strong social relational of the field staff with members, IGA training, distribution of productive inputs, support from contingency funds, considerate procedure of loan repayment, linkage with people's organizations, client's satisfaction on service, are definite advantages of the program for strong client retention. The program can capitalize on these aspects for further expansion and growth.

96. Although suggestions are made in the preceding sections of this report, some specific recommendations are made below,

- Program management to work out and implement a sustainability plan for the branches with sustainability indicators and monitor sustainability both at the branch and central office management levels;
- Shushilan to provide training support as suggested in Section 3.4 of this report for improving efficiency of the field staff in the management of loan collection to minimize revenue and loan principal losses. Set up loan loss provisions in the accounting process.
- Shushilan to consider in priority to mobilize additional funds, preferably from non-commercial sources, to capitalize the loan fund in order to increase scale for achieving sustainability.
- Program management to make review and improve existing savings and loan products to compete with the products of other local service providers.
- Program management to consider decentralize loan approval process in which loan officers at the branch levels will be given authority to assess and recommend loan applications up to a limit in loan amount, and the loan officers will become accountable for the collection of loans recommended by them.
- Shushilan to facilitate establishing a mechanisms to assess and understand client satisfaction from the service and respond adequately to the needs to the general members. This can be done through organizing annual conference of the microfinance program participants of the area.
- Shushilan to consider and support a collaboration with ASK International to allow members, especially the poor households of disaster-prone areas to have access to a variety of small-scale production activities with access to a secured export market for their produces at door-steps. This approach shall contribute to sustainable livelihoods

generation in the localities by augmenting household income and building capacity of poor households to withstand disaster risks.

Attachment- A

TERMS OF REFERENCE

Technical review of microfinance activities of Shushilan
(Satkhira District)

Background

Shushilan, is a local Non Government Organization established in 1991 in kaliganj Upajila under Satkhira District. The organization carries out activities to sustain natural resource base, secure livelihoods, gender equality and human rights for the vulnerable community of the south-west coastal region.

With the objective of enhancing access to credit for the poor and vulnerable households of local communities to invest in various income generation activities and cope with cash emergencies, a microfinance intervention has been set up by Shushilan since 2003. The intervention now operates in 150 villages of Satkhira District, delivering savings and credit services to approximately 6,500 members through 5 branch networks. Annual loan disbursement is around Tk 30,000,000 with a recovery of 99%.

The program was evaluated by external evaluator in March 2007. Recommendations were made to further strengthen capacity of program management to improve performance in order to meet growing needs of the beneficiaries.

This evaluation, at this stage, is planned particularly to focus on the microfinance component of Shushilan program, to make an assessment of progress of the microfinance activities, taking into consideration the findings and results of previous evaluation.

Scope

The main objectives are to:

- Update the progress and performance of the saving and credit delivery system based on the findings of the evaluation conducted in 2007.
- Assess performance of loan products;
- Determine scale and fund requirements for achieving sustainability;
- Assess effectiveness of program management with emphasis on capacity of the operating staff;
- Recommend, at given conditions, basic institutional criteria for transforming the program into an independent microfinance institution;
- Examine scope for strengthening household economy with alternative means of livelihood for the vulnerable groups.
- Recommend possible solutions of microfinance in mitigating disaster risks;

- Collect feedback from members on delivery of services and obtain recommendations of members to improve further the quality of services.

Tasks

The evaluator will be responsible to deliver on the scope of the evaluation the following tasks through:

- Review existing Shushilan documents related to the existing Credit and Saving services,
- Jointly with the staff, discuss and develop work plan for the evaluation.
- Use participatory approach in the evaluation process in which field-based interview, discussion and meeting will be organized with stakeholders (member, non member, program staff and partners).
- Undertake field visits to program areas and meet with members, groups and field staff.
- Review the process, procedure, management structure, methodology of the credit and saving services.
- Collect, analyze, interpret and make conclusions on field data.
- Prepare report and recommendations.

Duration:

It is expected that the evaluation will take place between 1st and 20th of September, 2010, involving about 12 working days.

Deliverables:

The expected output from this evaluation is:

- A detailed report with an executive summary, recommendations and overall conclusions in English.
- The report that captures the present status of the management and performance of the saving and credit scheme, and a set of actionable recommendations to improve quality of service.
- A field-level presentation of key findings in Power Point.

Reporting:

The evaluator will report to the Director of Shushilan. , and will keep close liaison/coordination with Assistant Director (Microfinance) and Program Officer (Credit) during field visits.