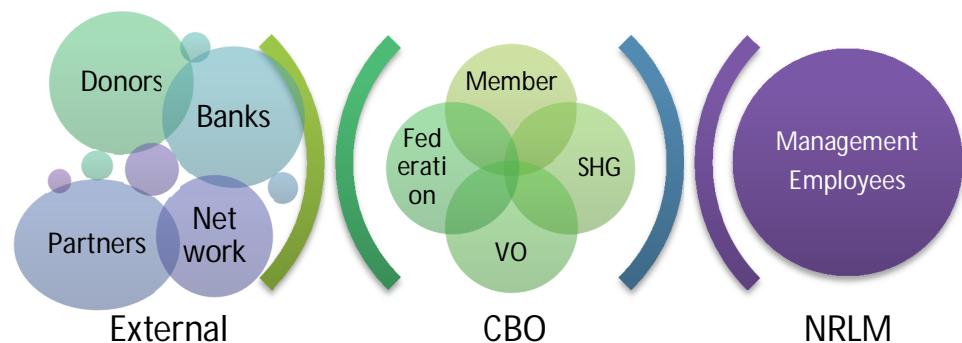


FINANCIAL INFORMATION SYSTEM

The three tier SHG Federation structure involves system of accounting SHG, PLF and SLF at various levels. A financial institution today can successfully run only with robust information technology systems. The figure below shows the stakeholders in this ecosystem who require data.



INFORMATION ABOUT THE SHG TO PLF/VO

Information about the SHGs – financial as well as reports on SHG performance - shall come on a monthly basis through the SHG leaders to the VO in the form of Monthly Progress Report (MPR). The SHG book keeper is responsible for preparing monthly SHG MPR and demand collection balance report and submitting it to the VO through SHG leaders. Based on the MPR and DCB reports the SHGs performance will be reviewed and suggestions for improvement will be discussed in the VO meeting. VO will grade the SHGs based on the reports and discuss challenges and plans to address the same. One VO meeting will have grading on all the parameters of three to four SHGs and feedback on the grading will be shared in the VO meeting. After the VO meeting the SHG monitoring committee at the PLF/VO level will grade the remaining SHGs and share the grading results in the next VO meeting with all the EC members and the including concerned SHG leaders with a mandate for the respective SHGs to share the Grading Report in next SHG meeting-

INFORMATION ABOUT THE PLF/VO TO SLF/ CLF

MPR and DCB of the SHGs will be consolidated at the VO level. The VO accountant is responsible for consolidation of SHG MPR and DCB and also preparation of separate MPR and DCB of VO transactions. S/he is responsible for submitting these reports to the SLF/ CLF through VO leaders on a monthly basis. Besides,

reports on special projects and programs will also be shared by the SHG leader in the VO meeting. The accountant would compile information of each SHG and prepare a consolidated report on special projects.

The SLF/ CLF will assess the performance of the PLF/ VO based on the reports submitted and suggestions for improvement will be discussed on the SLF/ CLF meeting. Three to four VOs will be graded in one SLF/CLF meeting and the findings of the same will be shared in the meeting.

Remaining VOs will be graded by the VO or CLF ? monitoring Sub-€Committee at the CLF level and the findings will be shared in the next SLF/CLF meeting as well as the VO leaders in their monthly meetings. Subsequently, concerned VO will share its report in the VO EC meeting.

The reports will help identify problems of the SHGs and VO – both financial and non-financial – which includes special projects and programmes - and will inform better monitoring of these institutions along with feedback on requisite policy changes required for better operations.

INFORMATION FLOW

- The report of the SHG meeting conducted every week should be written during the meeting itself. The minutes of the last SLF/CLF and PLF/VO meetings should be read in the SHG meetings.
- The reports of the VOs meetings should be written during the same meeting. Similarly, reports of the current month SHG meetings and reports of the last CLF meeting should be read in the VO's meetings.
- The compilation of the last month SHG reports will be shared in the VO meeting and all the VOs reports should be consolidated at the SLF/CLF by 5th of the current month.
- In the second monthly meeting of SLF/CLF reports of the VO meetings should be read and discussed.
- Writing reports/minutes of each meeting of all three tiers is mandatory.
- Receipt and Payment and income and expenditure statement of the SHGs will be discussed in the VO and of the VOs the CLF level. EC of the VO and the CLF will discuss the possible strategies to increase income and reduce expenditure for sustainability of SHGs and VOs. The two financial statements of SLF/CLF would be prepared by the accountant and discussed in their monthly meeting. It will also be circulated to the PLF/ VO with the minutes of the SLF/CLF meeting.

WHEN SHOULD THE ENTRIES BE RECORDED

All the entries related to the money deposited in the VO and deposits of VO in the CLF should be made immediately (as and when the transactions occur).

All transactions should happen only in the meetings and all pending payments should only be collected in the next Executive Committee meeting.

WHO SHOULD MAKE THE ENTRIES

It is the responsibility of the book keeper/ accountant to enter the transactions manually in the corresponding registers of the three tiers -SHG/ VO/ CLF. It will be entered into the computer by the accountant of the SLF/ CLF preferably on the meeting day.

The federation meetings are fortnightly. However, financial reports are expected to be submitted to the EC every month. The report should be presented by the federation manager. Accountant is responsible for verification before submission of all necessary information required for reporting.

FINANCIAL REPORTING OF SLF/CLF

Financial reports are prepared and submitted monthly. The reports are:

1. Outreach
2. Bank Reconciliation Statement (BRS)
3. Receipt and payment
4. Income expenditure
5. Balance sheet
6. Loan disbursement report
7. DCB (Demand Collection and Balance) reconciliation report generated by MIS should tally with the accounts
8. Loan Default Status
9. Staff performance and productivity

The monthly reports of the federation must have the following:

1. OUTREACH

It should include the total number of members, SHGs and villages, gram panchayat and VOs where the federation is operating and the progress of formation of SHGs and PLF/ VO in the current month against the plan. The outreach report will also include bank account of SHGs opened, number of SHGs and VOs with book keepers, trainings conducted and fund disbursed should be included.

Trend analysis for the quarter would also help EC to know the progress.

2. RECEIPT AND PAYMENT

As shared in section two, receipts or inflows would include savings - Interest Earned - Loan from Federation or bank - Penalties - Member contribution. Payments or outflows include repayment of loans - Interest payment to Federation or bank on loan - Travel expenses - Stationery expenses - Training expenses - Event and program expenses - Audit fee - Interest payment to members on savings

The executive committee of the federation needs to be presented with the inflows and outflows of the month in the monthly meeting. It is important to check the receipts – especially savings and loan repayments against the demand. While loan repayments ought to be discussed separately also in the demand collection balance report, it is good to review the other receipts against the plan - like training fee, audit fee, savings, membership fee and so on.

Similarly, it is also important to review the payments like return of savings and interest payments - against the plan. For the loan disbursements, there is a separate report; but expenditure needs to be reviewed against the policy.

The receipts and payments help track the cash flows to take decision on positive or negative cash flow.

3. INCOME EXPENDITURE

Income and expenditure statement should be generated monthly and shared in the board meeting. The discussion ought to focus on increase in income and reduction in expenses. Any non- recurring/ non-routine expenditure ought to be discussed and approved first by the EC. The adherence to expenditure policy and especially cash needs to be reviewed after the report is presented in the meeting.

4. BALANCE SHEET

It is shared every month to understand the overall position of the federation – the liabilities and the assets and the net profit or loss of the federation as on date.

5. LOAN DISBURSEMENT REPORT

The report consolidated from the loan register (software in future) needs to be verified and reconciled before presenting it to the EC in the monthly meetings. The name of the SHGs and the members with the amount of loan disbursed and the period of repayment needs to be shared in the EC meeting of the VO and the loan disbursement and outstanding amount of the VO needs to be presented in the SLF/CLF meeting.

6. DCB (DEMAND COLLECTION AND BALANCE) RECONCILIATION REPORT

This report is generated manually as well as through software at a later date which states what is the loan installment expected from the groups, what is the collection and loan that is balance with the group. The DCB report is tallied with the bank statement – the collections should match the amount deposited in the bank. Any discrepancy/ difference should be highlighted for example amount collected from members but not deposited and kept as cash in hand or balance amounts not verified need to be resolved before sharing the report with the executive committee. It is suggested that the first level of entry of DCB be member wise but when the report is shared with the EC of VO, the consolidated SHG wise status can be presented and at the CLF the report is consolidated at the VO level.

7. LOAN DEFAULT STATUS

The default details are available in demand collection and balance sheet. However, it is also important to have a report that gives consolidated VO wise default status and also the percentage of default (portfolio in arrears) amount to total loan amount that is outstanding with the members.

8. STAFF PERFORMANCE AND PRODUCTIVITY

The EC members also need to know the performance of the staff so as to take decisions on increasing staff productivity. Sometimes it could also necessitate increasing staff or reallocation of responsibilities. It is important to have staff wise performance review in the federation meetings.

The formats for financial reporting are attached for reference.

Analysing Financial Statements

The analysis of financial statements is basically to know the flow of funds in our federation, if we are profitable, do we have funds to meet the needs of the members, and how efficiently we are using the resources to achieve profitability and sustainability

When looking at the financial statements, the federation executive committee should focus on the following:

1. **Relevance and Understanding**

It is important to understand it from the point of view of the time period as well as the context, so that they are able to interpret the financial figures of the federation. This would help understand why there is demand for loans in certain month and not the other and why some regions are better in taking and repaying loans than others.

2. **Reliability and Accuracy**

The federation executive committee needs to know the reliability and accuracy of the information. External audit is one way in which this can be ensured, as well as having appropriate checks and balances. Regular review of federation records by the EC members and verifying the amount written in the books with the field is a regular process that needs to be ensured. The EC needs to monitor that the amount paid by the member is correctly recorded in the books and there is no discrepancy in amount collected, recorded and deposited in the bank.

3. **Comparability**

While analysing financial statements, the EC needs to be able to compare the data over a period of time as well as within various heads. For example, it is important to know what is the percentage of growth in savings in current year as compared to last year. The EC also needs to know what percentage of total expenditure is going to staff honorarium and what percentage is for interest on bank/ external loans.

4. **Timeliness and Completeness**

Analysis means to interpret the data correctly to understand the real position so that it can be compared to the other federations and

institutions. It is important as the registered federations are also liable to pay taxes.

In order to understand the financial statements, the analysis can be done in the following ways:

1. **Comparative analysis** – the statements can only be understood if they are compared to the same federation, one year back – to understand progress – or with other federations in the same year to understand where the federations stands vis a vis the other federations.

The comparative analysis can be:

- a. **Internal** - comparing previous growth to current growth – between one period to the other as well as comparison between one part to the other part – like percentage of expenditure on salary as compared to administration and travel cost.
 - b. **With other federations** – helps assess the status but may not always be relevant as there would be differences in terms of age, geographical area, size and focus.
 - c. **Set standard** – there are some standards that are commonly accepted – they are either set by Reserve Bank of India or by micro finance institutions – especially for loan repayments.
2. **Trend analysis** – in order to understand the growth or decline of a particular head of account – like profit of federation, or growth in number of SHGs, trend analysis helps. The growth in number of SHGs promoted, for example, can be reviewed monthly over the last year to understand the trend. One can state that the profits of the federation increased by 20% rather than saying that there as in increase of profits of rupees 50000. However in case the federation was not earning any profits in the last year even a profit of 200 rupees would be 100% growth. Hence it is important to give the data in both.
 3. **Ratio analysis** – in order to understand how efficiently the federation is performing, what is the cash flow position, the sustaianibility of the federation, it is important to calculate ratios.

Let us look at different financial statements and understand what to look into it to know the meaning of each of these:

1. **Receipt and Payments**
 - a. What are the three most important sources of money flowing in and money flowing out?

- b. What is the cash in hand and bank balance? Is there a lot of idle fund? In case there is excess cash in bank, there is a need to see the trend of the last six months and investigate the reasons for the same.
- c. It is very important to standardise different heads so that it is easy to compare with last year. How much deposits, or shares have been collected this year as compared to last year?
- d. What is the money received from financial operations – savings, credit and insurance, pension – and what is the cash received from other operations – like trainings, services and so on.
- e. What is the money paid for financial operations and what is paid for non financial other operations? What is the increase or decrease over a period of time.

2. Income and Expenditure

This is the most important statement as it gives an idea about the profitability of the federation.

- a. What is the most important source of income for the federation?
- b. What is the percentage of top three income earners for the federation – this will help design strategies to strengthen the sources of income.
- c. What are the three most important sources of expenditure?
- d. Can we see if these top three income and expenditures have remained constant over a period of time? In 2015 income from interest was only 40% which increased to 60% and is now 80% of total income of the federation.
- e. Has there been provisioning done for loan loss – is this provision higher than last year? It is important to see this both in terms of amount as well as percentage of total loan disbursed.
- f. It is a practice to have the income and expenditure statement of two years (called vertical analysis). Below is an example of how the statement can be analysed.

S.N.	Details	2015 - 16	2016 – 2017
I	Income	5000	10000
1.	Interest from loan	4000 (80%)	6000 (60%)
	Fee for services	1000 (20%)	4000 (40%)
II	Expenditure	4000	6000
1	Salary and travel	2500 (63%)	3500 (58%)
2	Meeting and office expenses	1500 (60%)	2500 (71%)

	Profit before taxes	1000	4000
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We do a thorough analysis of the income statement by seeing each line item as a proportion of income and expenditure statement. So as compared to previous year the income from fee has increased significantly and the expenses on meeting and office expenses has been higher than last year. This will lead to discussion on areas where expenditure is higher and identify strategies to ensure that expenses are kept at minimal.

Now let us look at another type of analysis that is also called horizontal analysis. Here the comparison is between one year to next year.

S.N.	Details	2015 - 16	2016 – 2017	%
I	Income	5000	10000	200%
1.	Interest from loan	4000	6000	150%
	Fee for services	1000	4000	400%
II	Expenditure	4000	6000	150%
1	Salary and travel	2500	3500	140%
2	Meeting and office expenses	1500	2500	167%
	Profit before taxes	1000	4000	400%

We can basically have a year over year comparison of line items in the income statement. Each item is compared to the same item in the previous year and can be expressed as a percentage increase or reduction as given in the last column of the table. It can also be reflected in terms of differential amount between the two years.

Balance Sheet

While income and expenditure statement gives you the transactions for the period or the current financial year, the balance sheet gives the details of the Company as on date.

The balance sheet has two important figures – the net profit (after deducting all expenditure from income) and the total loan outstanding with the members. If we calculate the percentage of net income to total loan outstanding, we know how efficiently we have been working in the federation. A comparison with last year will give a better idea of profits as a percentage of the loan outstanding.

Balance sheet can also help you understand the relation between savings and loan outstanding to get an idea of how much money is from internal sources and how much of it is borrowed from outside.

We can also see how different items in the balance sheet grew or declined over the last one or two years to identify the areas where more focus and work is required.

The balance sheet also helps us know the networth of the federation – by subtracting the assets from the liabilities. It is the value of the federation, since the money that is to be paid back is deducted to find out the networth. It is an important way to understand if the federation is on a strong base.

ANNEXURE IV ANNUAL REPORT FORMAT

1. Introduction: Mention institution/federation formation date, registration date and number, and, other details:
2. Purpose and Objectives of the institution, efforts undertaken to achieve these, achievements so far
3. Details of members who are out of poverty, and details of efforts made for this.
4. Membership: details like Membership at start of year, Joined during the year, Withdrawn during the year, Membership lost during the year; Comparison with membership target, Reasons for membership increase/decrease, membership fee to be received and collected
5. Activities: Activity plan approved last year by general body compared with achievement, targets achieved. Details of additional activities undertaken, activity wise (eg marketing, sustainable agriculture, insurance, dairy, food and nutrition.) Details of profit and loss
6. Distribution of surplus: Review distribution of surplus approved in previous general body and deduct the expenses incurred and calculated interest on remaining funds/reserves. Allocate the current year surplus to different
7. Savings: Starting balance of the savings, Closing balance, Interest added to savings, Savings returned and interest paid on such savings returned, Action plan on savings and comparison with target, details of new savings schemes started if any
8. Share capital: Value of one share, number of members who paid the share capital, and share capital collected.
9. Loans: Opening balance of share capital, Closing balance, new loans given, overdue percent, difficult loan borrowers – names and amount, amount due to other institutions
10. Insurance schemes: Life insurance, Health insurance, accident insurance, etc – number of members who joined these schemes, members yet to be covered, claims so far, amount received as claims, claims to be paid
11. Funds: Table of closing balance fund wise (especially CIF own funds)
12. Total funds: Details of all funds – specifying own contribution, and percentage of such funds along with plan for increasing own funds.
13. Assets: Details of purchases, details of sale, Table of depreciation
14. Comparison of previous estimate with actual income and expenditure: Comparison details of actual income-expenditure with the budget approved in earlier general body
15. Administration: Number of EC meetings to be conducted, actual number of EC meetings conducted, Average attendance, General body meeting date, attendance in that meeting, date of minutes sent/shared, date of returns submission, Financial and social details of EC members. Table of their financial transactions with institution, Attendance in federation meetings, Attendance in General body meetings

16. Training programs: Training programs purpose, undertaken, did not conduct, reasons for not conducting, Expense details for training
17. Staff: Details, salary paid, performance details
18. Important resolutions taken by EC in previous year
19. Acknowledgements: Thanking members for making timely payments of saving, repayments of loans and utilisation of services, members attending all meetings and fulfilling membership responsibilities, to all those providing internal audit services, and to those offering statutory audit services. Mention meeting president's name in the end.