

The Practitioner Learning Program
Improving Efficiency – Maximizing Human and Physical Resources
Learning Paper

Promoting Quality Bookkeeping in Self-Help Groups:

The Mahakalasm Management Information System

Principal Authors: Tapan S. Parikh, Kannaiyan Sasikumar, and
Sundarmoorthy Olaganathan

Editors: Tony Sheldon and Jennifer E. Hansel



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For additional information or to order additional copies, contact:
The SEEP Network
1825 Connecticut Avenue, NW
Washington, DC 20009-5721
Tel.: 202-884-8581 Fax: 202-884-8479
Email: plp@seepnetwork.org Web: www.seepnetwork.org

To access this publication online, visit www.seepnetwork.org

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The Small Enterprise Education and Promotion (SEEP) Network
1825 Connecticut Avenue, NW, Washington, DC 20009-5721
Tel.: 202-884-8581 Fax: 202-884-8479
Email: plp@seepnetwork.org Web: www.seepnetwork.org



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About the Authors

Tapan S. Parikh is co-founder of ekgaon technologies and a researcher in the Computer Science and Engineering Department at the University of Washington. For the last six years, Tapan has been designing developing and deploying information systems in the rural developing world. He has published several papers about interface design for rural semi-literate users. Tapan's current project, CAM, focuses on user interface and systems design for rural mobile phone applications. Tapan is a CGAP-recognized technology consultant for microfinance institutions and has worked with local, national, and multi-lateral institutions worldwide. Tapan has a Bachelor of Science degree in Molecular Modeling from Brown University, and expects to receive his PhD in Computer Science and Engineering from the University of Washington in 2007.

Kannaiyan Sasikumar is Manager of Projects (Microfinance) of ekgaon technologies. Sasi has experience in financial management systems, enterprise resource management applications, database development and financial analysis. His areas of interest involve sustainable development and development finance. Sasikumar is a commerce graduate with a post graduate degree in Finance and Computer Applications from Bharathiar University, Tamil Nadu, India.

Sundarmoorthy Olaganathan is the Programme Director of Covenant Centre for Development and Director of the microfinance support company, “Sarva Jana Seva Kosh Limited” promoted by Assefa, Madurai in Tamil Nadu, India. Olaganathan is a development professional with over 18 years of experience with grassroots community groups and networks and has much expertise in developing microfinance programmes.

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Preface

The Practitioner Learning Program (PLP) is a SEEP Network initiative that explores key challenges facing the microenterprise field. A competitively run grants program, the SEEP PLP engages participants in a collaborative learning process to share and document findings and lessons learned, as well as to identify effective, replicable microenterprise practices and innovations to benefit the industry as a whole. The SEEP PLP is funded by the Microenterprise Development Division of the United States Agency for International Development (USAID). For more information on this and other SEEP PLP initiatives, see The SEEP Network website: www.seepnetwork.org.

The SEEP PLP in “Improving Efficiency – Maximizing Human and Physical Resources” was conducted from 2004 through 2006 and examined strategies, tools, and technologies that microfinance institutions (MFIs) use to maximize human and physical resources. There was a particular focus on low-technology solutions to increase staff productivity, decrease personnel or administrative costs, and increase outreach and client retention.

The “Improving Efficiency” PLP has produced a series of eleven Learning Products to share with the microfinance and microenterprise field that are explained in more detail below. All of these publications are available on-line at www.seepnetwork.org.

Most of the participating institutions began with a rigorous analysis of their core processes, including credit delivery, accounting, and management information systems. Process mapping proved a crucial tool in shedding light on process bottlenecks and inefficiencies. Three Learning Products produced from this PLP are devoted to process mapping: case studies of Pro Mujer Nicaragua and of MI BOSPO, Bosnia and Herzegovina, and a technical note that is an interview with MFI managers who used process mapping in their efforts to boost efficiency.

Based on their institutional assessments, most of the MFIs identified a similar set of interrelated issues that needed to be addressed in order for them to become more efficient. Decentralization emerged as an overriding theme, especially the exploration of what kinds of institutional structures and systems would support a shift in decision-making authority to branch offices for credit operations. “Decentralization of Microfinance Institutions: A Guide for Decision Making” addresses these issues in depth.

Closely related to the topic of decentralization was the need to train branch managers. Many of the participating MFIs’ branch managers had been senior loan officers and did not have many of the skills and perspectives needed to manage staff and operations. Two of our Learning Products are comprehensive training programs that address areas that were identified as key for branch management training: human resource management and financial management. The training manual on human resource management was developed in conjunction with MEDA and is entitled “Branch Management Training for MFIs: Developing Staff Management Skills.” The financial management training manual

is “Principles and Practices of Financial Management.” Based on an identified need for training materials in other topics, several of our other Learning Products have accompanying PowerPoint presentations that summarize key information in a format conducive for training.

Several other topics related to enhancing efficiency emerged during the course of this PLP. One topic was the importance of cultivating client loyalty. Loyal clients provide repeat business, contributing to both lower expenses and higher income. The second technical note, “Building Client Loyalty,” explores this issue in detail. Another recurring issue was staff incentives and the dangers of implementing a system before it is thoroughly analyzed. The third technical note, “Pitfalls and Unintended Outcomes: Some Thoughts on Staff Incentive Systems,” explores these issues. Another valuable tool that emerged from this PLP was a framework for mapping key operational tasks and areas of responsibility. This is explored in the fourth technical note, “Division of Responsibilities Framework: A Tool to Strengthen Operations Management of Microfinance Institutions.”

Our colleagues from India in this PLP faced an inverse set of challenges to those posed to most of the other participating institutions: how to capture information from an extremely decentralized network of savers and borrowers in self-help groups and centralize it in order to create accurate, timely, consolidated financial reports. The solution they developed and implemented is explained in the learning paper, “Promoting Quality Bookkeeping in Self-Help Groups: The Mahakalasm Management Information System”.

The eleven Learning Products reflect both the range of institutions and issues explored during this PLP and the consensus that emerged regarding what is needed to enhance the efficient utilization of human and physical resources while remaining responsive to client needs. The participating institutions found the PLP to be a rich learning experience and we hope the lessons learned that are distilled in this series of Learning Products prove to be of value to the field as a whole.

- Tony Sheldon, PLP facilitator and Learning Products editor

Participants in the SEEP PLP in “Improving Efficiency – Maximizing Human and Physical Resources”

Covenant Centre for Development (CCD) and ekgaoon technologies (ekgaoon), India

V.C. Nagarajan (CCD)
Sundaramurthy Olaganathan (CCD)
Tapan S. Parikh (ekgaoon)
Kannaiyan Sasikumar (ekgaoon)

Fondo de Credito Comunitario, Mozambique

Claudien Nsengimana
Travis Wilson
Jose Mendes
Sarah Mosely

MicroFund for Women, Jordan

Arije Alamad
Lina Naif

MI-BOSPO, Bosnia and Herzegovina

Nejira Nalić
Alma Bijedic
Elmedina Becirovic
Edin Bakalovic

Pro Mujer, Bolivia

Carmen Velasco
Neisa Vasquez
Hugo Bellott

Pro Mujer, Nicaragua

Gloria Amelia Ruiz Gutierrez
Maura Arostegui
Diógenes Gonzales

Pro Mujer, Mexico

Joséphine Gonzalez
Armando Laborde
Alejandro Amendáriz
Patricia Garcia-Moreno Alvarez

Pro Mujer, Peru

Naldi Delgado
Marlene Chura
Lorena Yturry

Pro Mujer International

Jenny Dempsey
Lara Storm-Swire

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Acronyms

BoA	Books of Accounts
CCD	Covenant Centre for Development
FCC	Fondo de Credito Comunitario
MFI	Microfinance Institution
MIS	Management Information System
MI-BOSPO	Micro Credit Organization Tuzla—Bosnia and Herzegovina
NABARD	National Bank for Agriculture and Rural Development
PLP	Practitioner Learning Program
Pro Mujer	Programs for Women
RBI	Reserve Bank of India
SEEP	Small Enterprise Education and Promotion Network
SHPI	SHG Promoting Institution ¹
SIDBI	Small Industries Development Bank of India
USAID	United States Agency for International Development

¹ An SHG-Promoting Institution (SHPI) can be a NGO, government agency, bank branch or even a local individual. The SHPI is responsible for forming, training and then monitoring a set of SHGs.

Section 1

Introduction to Self-Help Groups and Bookkeeping

Defining Self-Help Groups in India

A *Self-Help Group* (SHG) is an informal, self-managed voluntary group of 12-20 individuals, usually women, from a common village or neighborhood who are engaged in credit and savings activities operating on principles of mutuality and solidarity. This model essentially formalizes and supports existing informal savings funds that have operated in villages for hundreds of years. Supported and nurtured by India's National Bank for Agriculture and Rural Development (NABARD), the SHG program in India gained popularity in the early 1990s and reaches more than 16 million households today.

The goal of a SHG is “to reduce the economic vulnerability of its members using pooled resources and collective strength.” SHGs are formed to achieve the following objectives:

- To access available and affordable credit for consumption and production needs of the members.
- To inculcate a savings habit among members, providing for income smoothing throughout the year.

SHGs accumulate pools of money through their own savings. Eventually they may also access loans from banks and other commercial institutions. This money is redistributed within the group as loans, to be repaid with interest at regularly scheduled *group meetings*. Most SHG transactions are conducted during these meetings. This includes monthly *subscriptions*² by each member, *savings* deposits and withdrawals, *loan* disbursements and repayments, and transactions related to other financial products or group functions.

A SHG is composed of members and two elected representatives, the President and Treasurer. SHG decisions are taken during group meetings by consensus among the members and representatives. These include decisions regarding the following issues:

- Minimum level of attendance for members
- Framing group and member responsibilities for various activities
- Framing the mode of conduct of meetings
- Deciding procedures for amendments to the rules and regulations
- Setting quorum requirements for decision making
- Fixing regular subscription amount for the members
- Fixing interest rates on member loans

² Monthly subscriptions are member contributions to the group's rotating fund. These can only be liquidated at the closing of a group.

- Setting a penalty for late repayment of loans
- Setting a penalty for late payment of subscriptions
- Setting administration fees for loan processing
- Deciding minimum cash-in-hand to be maintained by the SHG

Challenges and Requirements for Bookkeeping in SHGs

Bookkeeping is a difficult task for SHGs. Most SHG members are minimally educated (if at all), and may be illiterate or semi-literate. Regardless, every SHG should be aware of the status of its outstanding loans to members, the status of its loans from external institutions, and the member payments due at the next meeting. This information is required for financial planning, pursuing delinquent payments, and deciding whether to issue further loans to a member. Knowing the credit history of each member helps in deciding upon future loan disbursements. Accurate and timely bookkeeping ensures that accounting procedures are followed and are in compliance with the rules of the SHG.

The reporting of financial information is also a vital task and is crucial for accurately representing the SHG to outside agencies. Financial reports indicate the profitability and financial position of the group and can be used by banks and other commercial financial institutions to judge the credit-worthiness of a SHG. There are many other potential users of this information. In addition to the SHG and financial institutions, the SHG Promoting Institution (SHPI)³ can use performance reports to target training and capacity-building activities, and apex-level agencies such as NABARD (National Bank for Agricultural and Rural Development), SIDBI (Small Industries Development Bank of India) and RBI (Reserve Bank of India) can use aggregated reports to judge the overall health of the SHG industry.

Bookkeeping and Management Information Systems

To maximize the benefits, group-level bookkeeping must be linked with a Management Information System (MIS) that helps each stakeholder in making effective and efficient decisions. The goal of a Management Information System is to provide accurate and timely information for making decisions. The quality of an MIS for managing SHGs depends on the quality of the following components:

SHG Bookkeeping

Standard records maintained at the SHG level include the members' passbooks, receipts, vouchers, ledgers, etc. These records provide the raw data that feeds into the MIS. Their accuracy and timely maintenance determine the overall quality and usefulness of the MIS.

³ An SHG-Promoting Institution (SHPI) can be a NGO, government agency, bank branch or even a local individual. The SHPI is responsible for forming, training and then monitoring a set of SHGs.

Financial Statements

Standard financial statements such as the *Receipts and Payments Statement*, *Income and Expenditure Statement* and the *Balance Sheet* inform the SHG and its observers about the SHG's financial position. Timely preparation of these reports ensures that all stakeholders are vigilant about the group's position and any irregularities.

Other Reports

Well-designed reports can help all stakeholders in the decision making process. Reports should be designed to provide the most pertinent information for a particular process or task. They should be prepared on a regular basis to ensure that the most up-to-date information is available when making decisions.

Section 2

The Self-Help Group Programme Supported by Covenant Centre for Development

Overview of Covenant Centre for Development

The Covenant Centre for Development (CCD) is a non-governmental development agency based in Madurai, Tamil Nadu, India, founded in 1989 by a team of motivated professionals believing in the ideal of collective action. CCD is registered under the Tamil Nadu Societies Registration Act 27 of 1975. CCD aims at utilizing the local resources and traditional skills (LRTS) of the community by promoting Community Based Organisations (CBOs). CBOs provide a platform for village people to solve their own problems through the proper and effective utilization of local resources and human potential.

CCD has designed programmes addressing issues of rural migration, poverty, unemployment, agriculture and environment. The overall goal is to bring about positive change in the lives of village people, helping them to lead independent, satisfied and secure lives. CCD concentrates on economic development for poor women, children and their families through developmental and vocational training. Natural resource management, forestation and organic farming practices are an important part of this programme. CCD seeks to develop economic activities for securing the livelihoods of community members using traditional skills and appropriate technology, making sustainable and judicious use of the local resource base.

Three motivating objectives underlie CCD's work:

1. To promote and encourage savings mobilisation and credit management by landless agricultural labourer women in rural areas to help attain economic security (these groups are known as *KALASM*).
2. To protect and conserve local natural resources of rural farming communities by renovating sacred groves, rehabilitating irrigation tanks, forestation, in wastelands and restoring traditional farming practices for sustainability (this programme is known as *VAIREM*).
3. To bring about positive change in the lives of traditional artisan communities in rural areas helping them lead independent, satisfied and secure lives through their professional activities (this programme is known as *SADANA*).

Covenant Centre for Development's Self-Help Programme

Towards these goals, CCD has promoted four self-managed SHG federations, locally known as Mahakalasms (meaning large jugs, i.e. a receptacle for community savings). Many similar SHGs and SHG federations require constant guidance and help from their promoting NGOs. In contrast, each of the Mahakalasms strives to adhere to the ideals of independence and community-ownership. In fact, CCD'S goal is to eventually leave its role as promoter and allow the Mahakalasms to become completely independent community service institutions.

The success of this model has led many NGOs in the region to visit CCD and the Mahakalasm field areas. CBO federations based on the Mahakalasm model have thus far been replicated in nine states of India through the Community Enterprise Forum International (CEFI) network.

Operational Highlights and Lessons Learned

The following are some of the operational highlights and lessons learned of the SHGs promoted by CCD:

- The group membership varies from 12 to 20 women.
- During the formation stage, SHGs meet every week. At the end of 3 months, meetings are held every fortnight.
- Group meetings are usually held in the evening hours after daily agricultural activities have been completed, and are conducted, in a community place or in a member's home.
- The per-meeting subscription amount is determined by the SHGs themselves and collected from each member.
- Matured groups have regular savings amounts up to an observed maximum of Rs. 200/- per meeting.
- Member loan repayments for loans accessed from external sources (such as banks) are collected at a separate group meeting.
- All the CCD-promoted SHGs are linked to the branch of either a commercial bank or a Regional Rural Bank (RRB). Pandiyan Grama Bank, State Bank of India, Indian Bank, and Canara Bank are the major affiliated banks in the CCD operating area.
- A Cluster is an aggregation of between five and ten SHGs. Two members represent each SHG in a Cluster meeting once a month.
- Each Federation consists of eight to ten Clusters, representing approximately 100 SHGs. Two representatives from each cluster attend the Federation board meeting, which are conducted twice in a month. Unlike SHGs and Clusters, each Federation is a legally registered entity, and may possibly even be a financial intermediary.

- The person in charge of keeping the SHG's books is either a hired staff of the Federation or a member of the SHG. In many cases the SHG is responsible for keeping only a basic meeting record, and the Federation staff completes the rest of the bookkeeping after the meeting has been conducted.

Table 1: Summary of CCD's SHG Programme

Organisation	The Covenant Centre for Development (established in 1992)
Legal Form	Society or Trust
Geographical Coverage	300 villages in the districts of Madurai, Virudhunagar, Dindigul, Sivagangai and Natham, all located in the South Indian state of Tamil Nadu
Outreach	600 SHGs, 10,000 households
Staff	60 (25 male, 35 female)
Organizational Structure	SHG-Cluster-Federation levels
Core fields of action	<ul style="list-style-type: none"> ➤ Micro-credit and microfinance ➤ Livelihood opportunities ➤ Bio-energy conservation ➤ Medicinal plants collection and conservation

Section 3

Covenant Centre for Development's Self-Help Group's Bookkeeping System: The Mahakalasm Management Information System

Implementation History

CCD's current bookkeeping system is the result of an extensive redesign coordinated by ekgaoon technologies pvt. ltd. (ekgaoon technologies)⁴ The project commenced in 2002 with a detailed contextual study of the existing documentation practices at the SHG, Cluster and Federation levels. Based on this study, the formats were redesigned to remove redundancies, streamline information flows, and fill information gaps. The redesign process started in Fall 2003 with the support of the SEEP Practitioner Learning Program, "Improving Efficiency – Maximizing Human and Physical Resources."

Before a full-scale implementation, the new system was piloted for three months with 50 SHGs selected from four different CCD-promoted Mahakalasm (meaning large jugs, i.e. a receptacle for community savings). The field officers were first provided with an intensive week-long training to learn the new bookkeeping system. During the pilot, every two weeks the project manager from ekgaoon technologies conducted a thorough review of the SHG records, explaining any errors or oversights to the staff. Also, based on staff and group feedback, required changes to the bookkeeping formats were made before printing them for the full-scale implementation. The structure and design of the records were optimized for cost-effective printing. The final cost of the redesigned group records totaled 108 Rs. (or approximately US\$2.40) per group.

Full-scale implementation commenced in June 2005. During the full-scale implementation, field staff (who had all been trained in the use of the system) trained SHG-level bookkeepers to maintain their own records using an MIS training manual also developed by ekgaoon technologies. The training manual included pictures and detailed descriptions of the documentation process and explained the relevance of each of the new formats.

The SHG bookkeeper is a capable group member who maintains the books of accounts. In the absence of such a member the cluster officer or an educated outsider is called upon to maintain the books in exchange for a reasonable fee (e.g., Rs. 25, or as decided by the group). The cluster officer is responsible for training the SHG bookkeeper (either an outsider or member). Staff from ekgaoon technologies train the cluster officers, acting as a Trainer of Trainers (ToT). The Mahakalasm pays for the training of the SHG

⁴ Focusing on affordable and appropriate solutions, ekgaoon technologies designs and develops novel technologies and management and information systems to meet the needs of rural developing communities and other change agents. Ekgaoon technologies is a strong believer in the ideals of community and collaboration. Ekgaoon technologies uses and develops free and open source software technologies conforming to open standards whenever possible. For more info please see www.ekgaoon.com.

bookkeepers and CCD pays for the training of the cluster officers. The training manual is issued to cluster officers and SHG bookkeepers at the time of training to be used for later reference. The books of all SHGs are being reviewed monthly by ekgaoon technologies during the initial period and will eventually be audited by a certified Chartered Accountant at the end of the year.

Since June 2005 the project manager has been conducting a monthly review of the books for the 500+ SHGs included in the implementation. Thus far, results have been very positive. The new system simplifies the preparation of financial statements and reports at the SHG level, which were never even prepared previously. Removal of redundancies and overall simplification of the documentation process has reduced the workload on field staff, and reduced the average time of SHG meetings.

Highlights of the SHG Books of Accounts (BoA)

The main records included in the system are:

1. MIS Flapbook: a complete group transaction record kept in one ledger
2. Member Passbooks: for savings, deposits and loans
3. Financial Statements: indicating the financial position of the group
4. Group-level Reports: detailed operational, financial and performance reports prepared on a per-group, per-cluster and per-federation basis

All regular SHG transactions are recorded in the monthly *Flap-book*. The Flap-book is designed to be an all-inclusive, easy-to-use ledger for recording and processing of financial and non-financial information for an individual SHG. Please see Appendix 1 for an example of a complete set of formats (blank and filled in). Features of the bookkeeping system are the following:

- It is designed keeping in mind the needs of semi-literate women.
- It is designed to replace complex and cumbersome bookkeeping with a simple and easy-to-use record.
- It encourages the user to comply with accepted reporting standards of financial institutions and apex agencies.
- It captures and presents key data in formats that actively encourage analysis and adaptive management.
- It is designed to do away with non value-adding paper work and to demystify bookkeeping and reporting functions.
- It helps effective management by foreseeing pitfalls and threats, allowing for timely remedial action and early resolution.
- A bookmark format has been designed with color codes for referencing key records and documents.
- All major categories of financial products including subscription, savings, and loan disbursements and repayments (both internal and external) are recorded in simple flap-based formats facilitating data entry and reference.
- The flap system simplifies aggregation and analysis of data. The results are used for decision-making and control of the programme.

Details of the SHG Books of Accounts

The records are divided into Flaps, Monthly Records, Yearly Records, Financial Statements and Reports. Each record serves a different purpose in the overall bookkeeping system. Please see table 2 for a summary of the records in the Mahakalasm MIS.

Table 2: Summary of the records in the Mahakalasm MIS

No.	Particulars	Item	Details
1.	Flaps	Flap-1	Subscription & Attendance
		Flap-2	Voluntary Passbook Savings
		Flap-3	Internal Loan Repayment & Disbursement
		Flap-4	External Loan Repayment & Disbursement
		Flap-5	Meeting Resolutions
2.	Monthly Records	Record-1	Expenses / Donated Equity / Advances / Deposits
		Record-2	Bank Savings Passbook
		Record-3	External Loan Record
3.	Yearly Documents	Document-1	Member Detail Form
		Document-2	Member Economic Indicators
4.	Financial Statements	Statement-1	Income and Expenditure Statement
		Statement-2	Receipt and Payments Statement
		Statement-3	Balance Sheet
5.	Reports	Report-1	Member Receipts & Payments
		Report-2	New Loan Summary
		Report-3	External Loans Repayment & Outstanding

Below are explanations of each record in the Books of Accounts (BoA).

Flaps

Meeting data is captured through five color-coded flaps. The book is designed so that it allows the user to quickly identify and access the correct flap by using color coded index tabs.

Flap-1 Subscription and Attendance

This flap records the subscription received from each member. Attendance is verified by having each member sign the record.

Flap-2 Voluntary Savings

This flap records deposits and withdrawals from each member's voluntary savings. The balance is updated at each meeting. (This flap is not currently in use as the CCD SHGs are not collecting voluntary savings.)

Flap-3 Internal Loan Repayment & Disbursement

This flap records the loan repayments made by each member for internal group loans in terms of principal, interest and penalties. The outstanding loan amount both for the member and group as a whole is updated at each meeting. On the right side, internal loans disbursed to the member are recorded in terms of the loan amount, purpose, number of installments, scheduled principal payment and the upfront interest collected.

Flap-4 External Loan Repayment & Disbursement

This flap records the loan repayments made by each member for loans from external agencies in terms of principal, interest, and penalties. The outstanding external loan amount both for the member and group as a whole is updated at each meeting. On the right side, loans disbursed to each member from external loan amounts are recorded in terms of the loan amount, purpose, number of installments, scheduled principal payment, and the upfront interest collected.

Flap-5 Meeting Resolutions

This flap records the meeting place, agenda, and a summary of discussions and resolutions decided at the meeting. Signatures of all members are put in this flap, vouching for discussions that took place and decisions made by the group. In addition, the accountant's name is recorded in this Flap.

Monthly Records

The monthly records are for recording infrequent or irregular transactions that do not coincide with normal meeting proceedings. The details of these records are as follows:

Advances / Donated Equity – Grants / Deposits / Expenses

This record includes the advances given by the group, the settlement of those advances with individual members, advances received by the group, the settlement of those, loan subsidies, grants received by the group, and the miscellaneous expenditures of the group.

Bank Savings Passbook

This is a record of the deposits and withdrawals from the group savings account at the bank.

External Loan Record

This records details of each loan from outside institutions such as banks, MFIs or the Federation. The loan issuer name, address, loan amount, interest rate, interest type, repayment details, and the subsequent disbursements of the principal among the members are recorded on the left hand side. On the right side, the actual repayments of the loan including principal, interest, penalties, and fees are recorded.

Yearly Records

The yearly records are used to document the impact of the microfinance programme on the livelihood and economic circumstances of the members. The yearly records include:

Member Detail Form

This form consists of members' basic information, including name, address, husband / father name, occupation, family income, family occupations, and education history. This helps to determine the income per head of the family and the overall educational background.

Member Economic Indicators

This form consists of the economic details of the member, such as housing details, land holding details, animal husbandries, and other assets and skills of the family members. These indicators are used to determine the economic status and earning potential of the member.

Financial Statements

The financial statements are derived directly from the transaction totals accumulated on each flap and monthly record. The totals from these pages are carried over to specific entries on each statement. This process is explicitly and pictorially depicted in the MIS training manual. Many microfinance practitioners and development organizations consider the generation of financial statements at the SHG-level a difficult task, but this method of bookkeeping simplified the process. The financial statements generated include the following:

Income & Expenditure Statement

This statement derives the profitability of the group and is prepared by deducting the financial expenditures from the financial income. It indicates either a profit or loss of the group on a monthly basis.

Receipts & Payments Statement

This statement computes the receipts and payments made by the group per month. This statement is used to reconcile the group receipts and payments with the current cash on hand.

Balance Sheet

The balance sheet shows the financial position of the group by accumulating the liabilities and equity (outstanding loans, advances, member subscriptions, member savings, reserves, and surplus) and assets (member loans, cash on hand, cash at bank, group deposits and fixed assets).

Reports

Group reports are delivered by the group to the Cluster and then the Cluster delivers them to the Federation. The following are the major group-level reports included in the system.

Member Receipt & Payments

This report includes all the member receipts (subscription, savings, internal loan repayments, and external loan repayments) and member payments (savings withdrawal and loan disbursements) for the specified period of time.

New Loan Summary

This reports the new loans disbursed to the group members, including details of the loan amount, purpose, principal and interest repayment schedule, and number of installments.

External Loan Repayment and Outstanding

This reports the repayments made to outside agencies for the external loans of the group for the specific period of time.

Section 4

Early Observations

Challenges and Opportunities for Improvement

- Earlier many CCD-supported SHGs were encouraged to use as many as seven different types of records as prescribed by the Tamil Nadu Women's Development Corporation (TNWDC) as part of its *Mahalir Thittam* program. The SHGs had difficulty maintaining this many records. The new design is aimed at reducing this complexity. However, the Mahalir Thittam program does not yet accept the new records and thus many groups are required to maintain two sets of books. This has been a frequent complaint of the groups and staff.
- Staff and groups do not understand the benefit of regular bookkeeping and reporting when many banks and other credit-granting institutions are not yet demanding this kind of record-keeping and reporting.
- Rigor and regularity in bookkeeping is difficult to enforce. At this point it still requires the consistent oversight of the project manager.
- Both SHG members and staff commonly make arithmetical errors and careless mistakes in keeping the books and especially in preparing the reports and statements.
- Checking the books of all the SHGs can be impractical since it involves each field staff carrying a bulk of notebooks to the Federation office for review. Moreover it is time-consuming and expensive to retain regular project staff for this auditing task. In the future, the books of all SHGs can be audited once at the end of the year. This will reduce the workload of the project staff while retaining some measure of oversight and professionalism.
- It is difficult to find literate SHG members who can serve as the local bookkeepers. This increases the responsibility of the field staff to maintain the books of accounts for the group. This also introduces delays into the process, as if the field staff cannot attend the meeting it may be three or four days before all the SHG's books are updated.
- More work needs to be done to train SHGs in how to use the data that is generated. They need to learn how to analyze and interpret the financial statements and the reports in order to make more informed decisions.
- Appropriate ratios and indicators need to be developed that inform the SHG about important considerations in a way that is realistic and pertinent to the group operations.
- Currently the printing cost of the records is 108 Rs. per group, on the basis of 500 SHGs. The cost can be reduced proportionately if there is an additional volume of printing. This system is already cost-effective as all the groups have been willing to invest their own money to purchase the new materials.
- Initially groups were required to produce a regular trial balance. It was found to be cumbersome to produce and didn't provide any valuable information to the group so it was discontinued.

Benefits

Benefits obtained by the SHG, Federation, CCD and banks are described below.

SHG

The SHG members already understand the flexibility and significance of this book and are using it regularly for their account keeping. The financial statements that depict the surplus / deficit and current financial position of the SHG are also being accepted for loan appraisal by the regional rural banks (RRBs). This allows SHGs to demonstrate their suitability for accessing commercial loan capital. Members of the group can easily refer to the reports for finding out their loan outstanding and total savings. In the long term, economic indicators of SHG members derived from the system will reveal the impact of the microfinance programme on rural livelihoods and employment opportunities. Members can monitor the performance of loans according to utilization, helping them to make future investment decisions.

Federation

Records of the members' receipts and payments are passed to the Cluster and Federation for internal SHG control. The Federation can use this data to monitor the loans it has made and pinpoint potential weaknesses. This allows it to give stronger guarantees to external institutions that are lending to groups through the federation. Improved MIS at the Federation-level improves its accountability and external perception as a community-owned financial institution.

CCD

CCD can observe the functioning of the microfinance program at the federation, cluster and group levels. Earlier data could only be aggregated at the federation level. The increased granularity of data allows CCD to identify direct causes of problems according to the specific Cluster, SHG and member level. This allows CCD to target remedial actions through staff and direct intervention. Data illustrating good performance and loan utilization can also be used for soliciting loan capital from commercial and non-commercial sources.

Banks

If SHGs can consistently improve their bookkeeping practices, banks will be in a better position to judge the maturity and discipline of SHG loan applicants. They can target loans towards groups that have demonstrated better performance. Standardizing documentation and reporting formats across SHGs will help banks standardize their evaluation procedures. Many local banks after seeing this book are already expecting SHGs to present it for loan appraisal and documentation.

Section 5

Conclusion

Accurate bookkeeping is essential for the strength and long-term stability of SHGs, providing the data to resolve disputes and maintain accountability to all group members. Timely reporting can also demonstrate the strength of an SHG to outside observers and other stakeholders. Ensuring the quality of SHGs is more important than maximizing the quantity of SHGs supported. The critical aspects of an SHG that need to be documented by are the following:

- ✧ Loan / asset quality: Loans are the single most important asset that generates income for the SHG.
- ✧ Efficiency: Demonstrates how the financial and human resources were deployed to the maximum advantage.
- ✧ Sustainability: Determines the ultimate viability of the group along with its intended social and economic impact.

A high-quality MIS provides tremendous value to the SHG both in achieving and documenting these properties. This paper-based Management Information System aims to help the SHG in maintaining its records in a compact, efficient and systematic manner that complies with general accounting practices.

CCD, ekgon technologies, and The SEEP Network would like to share the lessons learned from the CCD and ekgon technologies' pilot project during the PLP in "Improving Efficiency – Maximizing Human and Physical Resources" with interested SHG-promoting institutions and other stakeholders. The flap-book, documentation, statement and report formats are being distributed as a stand-alone toolkit, free of charge, subject to the Creative Commons Attribution-NonCommercial-ShareAlike License. Users of the toolkit are free to modify it, make copies, and distribute it further, as long as they a) preserve attribution of copyright to ekgon technologies, b) share their modifications with all other interested parties, and c) do not use the work for commercial purposes. For more information about this license and how to obtain the toolkit, please visit <http://www.ekgon.com/toolkit.pdf> or www.ekgon.com.

Appendix - Bookkeeping Example

The user friendliness of the MIS book can be well demonstrated with the following example of how to fill-out the Internal Loan Repayment and Disbursement Flap 3.

Flap-3 Internal Loan Repayment & Disbursement

The internal loan repayments and its disbursements details are shown in flap-3 in two pages. The loan repayment page records the principal, interest and penalties paid by the members. The loan disbursement page records the issue of new loans and its details.

Internal Loan Repayment Page

The date at which the group meets is entered against the **meeting date**. The **member ID** column is serially filled. Individual members' periodic repayment and disbursement is recorded in flap-3 in relevant columns against the respective member id. As the repayment consists of principal and interest components and penalty if any, each component has to be recorded separately in the respective columns.

The principal amount repaid by the member must be recorded in the **Principal** column in the member's respective row. The interest amount likewise is to be entered under the **Interest** column in the member's respective row. If the member pays penalty, it is recorded under the **Penalties** column in the respective member row. The outstanding loan amount net of payments received is shown in the column **Balance** corresponding to each member's row.

The sum of all principals received is shown against the row **Total** under the column **principal**. The sum of all interests received is shown against the row **Total** under the column **Interest**. The sum of all penalties received is shown against the row **Total** under the column **penalties**. The sum of all balances is shown against the row **Total** under the column **balance**.

Loan Disbursement Page

The loan disbursement page shows two portions. The upper portion appears as a box that shows the status of available funds. The lower portion records the issue of loans to individual members.

Status of available funds

The left side box records all current cash receipts of the group. The total of subscriptions received for the concerned period is recorded under the column **Amount** corresponding to the row of **Subscription received**. This is the amount arrived from total subscriptions of Flap-1. The total of principals received for the concerned period is recorded under the column **Amount** corresponding to the row of **Principal received**. This is the amount arrived from total principals of Loan repayment page in Flap-3. The current interest receipts are recorded under the column **Amount** corresponding to the row of **Interest received**. This is the amount arrived from total interest of Loan repayment page from Flap-3. The grand total of subscriptions, principal and interest is recorded in the column **Amount** corresponding to the row of **Total Receipts**.

Figure 1. CALCULATING THE TOTAL AVAILABLE FUNDS FOR THE SHG

FLAP 1 - Subscription & Attendance

Meeting Date :

Member ID	Subscription	Signature / Check
TOTAL		

Group President Group Secretary Cluster Officer
 © ekgaoon technologies and CEFI (Community Enterprise Forum International)

FLAP 3 Loan Repayment & Disbursement - Internal Loans

Meeting Date :

Member ID	Loan Repayment			
	Principal	Interest	Penalties	Balance
TOTAL				

Group President Group Secretary
 © ekgaoon technologies and CEFI (Community Enterprise Forum International)

	Particulars	Amount	Data Source
A	Subscriptions Received	XX.XX	From subscriptions total of Flap-1
B	Principal Received	XX.XX	From Principals total of Loan repayment Page from Flap-3.
C	Interest Received	XX.XX	From Interests total of Loan repayment Page from Flap-3.
D	Total Receipts	XXX.XX	Sum of A + B + C

$\text{Total available funds} = \text{cash in hand} + \text{bank withdrawal} + \text{total receipts}$ $\text{Total Receipt} = \text{Subscription Received} + \text{loan Principal Received} + \text{Loan Interest received}$
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Explanation - The right side box shows the availability of funds. The opening cash balance of current period is the closing balance of prior period. It is arrived from the prior month closing balance of Cash account in General ledger. The bank withdrawal is arrived from the debit column of Bank Savings Pass book found in Document-3. Total receipt is arrived from the left side box. The total available funds are the sum of the opening balance, bank withdrawal and current month receipt.

Loan Disbursement

The loan disbursement portion gives the details of loan amount, installment period, fees if any, purpose of loan, monthly repayable principal and interest. The loan issued to the individual member is recorded under the column **amount** corresponding to the member's row. The number of installments is recorded under the column **Installments** corresponding to the member's row. Any fee received from the member for the loan lent is captured under the column **Fee** corresponding to the member's row. The purpose of the loan is recorded under the column **Purpose** for each loan issued corresponding to the member's row. The monthly repayable principal by the member is entered under the column **Principal** against the concerned member's row. If the group charges interest upfront, the actual interest for the new loan is entered under the column **Interest** corresponding to the member's row. If the group doesn't charges interest upfront, the **Interest** is left blank.

The sum of all individual loans lent is entered in the **Total** row under the column **Amount**. The sum of all the fees received is entered under the column **Fee** corresponding to the row **Total**. The sum of interest received on new loans is entered under the column **Interest** against the row **Total**.

Figure 2. Example of Flap-3 Loan Repayment

Meeting Date: May 1, 2005
Member Detail Form

Loan Repayment

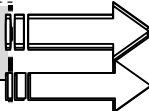
Member ID	Member Name	Designation		Principal	Interest	Penalties	Balance
1	Karuppaiye	President	→	100	20	0	1000
2	Malliga	Member	→	50	10	0	500
3	Rajeswari	Member	→	100	20	0	1000
4	Sundari	Member	→	75	15	0	750
5	Kasthuri	Treasurer	→	100	20	0	1000
6	Meena	Member	→	50	10	0	500
7	Mala	Member	→	100	20	0	1000
8	Kuruvayee	Member	→	75	15	0	750
9	Shanthi	Member	→	100	20	0	1000
10	Fathima	Member	→	50	10	0	500
Total				800	160	0	8000

Member ID	Loan Repayment
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Figure 3. Example of Flap-3 Loan Disbursement

Meeting Date: May .1, 2005
Member Detail Form

Member ID	Member Name	Designation
1	Karuppaiye	President
2	Malliga	Member
3	Rajeswari	Member
4	Sundari	Member
5	Kasthuri	Treasurer
6	Meena	Member
7	Mala	Member
8	Kuruvayee	Member
9	Shanthi	Member
10	Fathima	Member



Loan Disbursement

Amount	Installments	Fee	Purpose	Principal	Interest
500	10	5	Education fee	50	10
200	4	2	Medical Expenses	50	4
300	6	3	Agriculture	50	6
1000		10			20