

Annual Report 2007

BURO *Bangladesh*

Provides Appropriate Financial
Services for the Low Income Clients

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Message from CEO

With immense pleasure we are presenting our annual report for the year 2007. The year witnessed significant program expansion in 38 districts. Currently our client outreach is 376,710. The total number of branches is 230. Our customers' net savings have racked up to BDT 822 million. The loan disbursement has ramped up to BDT 3,752 million. The quality of loan portfolio continued to rev up further. The portfolio at risk (PAR) is 2.89%, which is very low and signifies a quality portfolio. The on-time loan recovery is 98.07%. The operational and financial sustainability are still high and above the benchmarks. Cost efficiency is still high. Commercial bank borrowing has risen further. Loan obligations are being met comfortably and on a timely basis. Capital adequacy is high enough to absorb potential loan losses. At present we are the 5th large national MFI. We earnestly aim to raise our clientele outreach to 1,000,000 in the next three years from the current level particularly in the rural areas.

Bangladesh is the home of the largest microfinance industry in the world which abounds with more than 21 million customers who are overwhelmingly women. It is heartening to note that the mainstream microfinance industry is approaching towards an efficient sector. In BURO Bangladesh, we have been showcasing excellent performance in this regard. All the same, it took one and half decade for the industry to prove that quality service, right products, appropriate pricing of products, professional management, strategic planning, good governance, continuous innovation, listening to customers, among others, are the key elements of success. By now we have six loan products and three savings products and one micro insurance product in a highly competitive market. Customer discipline is maintained to develop responsibility of customers in decision making, agreeing to and making on-time payment of their principal plus interest that will cover the full cost of the services. We are following a commercial principle in our operations and depend on the total financial needs on the external market i.e. the formal financial sector. For the first time, we have introduced agriculture loan for our customers by borrowing from a private commercial bank. The performance of the loan is indeed excellent. Approved by the Bangladesh Bank we are facilitating the remittance transfer as an agent of Bank Asia Limited to the recipients through Western Union. The volume of transactions is gradually going up. This arrangement is hugely benefiting the rural people.

We are primarily concerned with reducing income poverty. However, side by side addressing the income poverty, we are also tackling human poverty through providing manifold social development services. Such services include food security, human resource development, disaster management, operation research, providing technical assistance to MFIs, rural water supply and business development services, among others.

We are pursuing some standard practices used worldwide in the financial sector so that we do not face any difficulty in case the Microcredit Regulatory Authority (MRA) should impose any such norms for compliance. Over the past few years, we have also strengthened our internal control system that ensures accountability and transparency. As recognition, we have been achieving top awards every year from the Institute of Chartered Accountants of Bangladesh (IACB). As per International Accounting Standard (IAS) and Bangladesh Accounting Standard (BAS) requirement, we have brought in qualitative improvement in the audit report this year. We are also rolling out a new IT system and branches are being automated.

Finally, we would like to express our gratefulness and sincere thanks to our present and past stakeholders for their active support and excellent cooperation. Our staffs have contributed a lot to sustain the trend of program achievements. Frankly, we would be very happy to have your good suggestions or productive criticisms for further improvement of the performance of our organization.

Zakir Hossain
Executive Director

Dated: 20 March, 2008

Microfinance Scenario

Economy of Bangladesh

The country has about 140 million population. The population growth rate is 1.47%. About 77% population live in the rural areas; while 23% live in the urban areas. The economy of the country is dependent on traditional agriculture. The economic growth rate is 6.5%. Microfinance occupies a prominent place in the voluntary run third sector of the economy. The economy was hugely affected during the second half of the year caused by a massive flood and a deadly cyclone called 'SIDR'. In the last week of July 2007 a devastating flood occurred that hit almost all regions of the country. The poor were hard hit as it caused immense havoc to their houses, livestock and crops. All normal activities stood standstill. Microfinance activities could not be carried out as usual. The cyclone "SIDR" of November, 2007 has seriously affected 8 districts in the southern belt of Bangladesh. Over 300,000 houses have been completely decimated. Colossal damages were made to livestock and standing crops. Trees were uprooted. More than 100,000 hectares of the Sundarban forests was destroyed. It affected 4 million people in 141 upazilas of 8 districts. More than 3,000 people were killed with many more missing. The NGOs' programs were totally wiped out. The aftermath will be felt for a long time. The economy of those areas will take considerable time to rebound.

Trend in the Microfinance Industry

Microfinance in Bangladesh is playing an important role in poverty alleviation and is widely credited for substantial success both nationally and internationally. The objective of microfinance is to reduce the poverty through increased income at household level. About 45% people are living below poverty line. About 10-15% population is considered as hardcore or very poor living in abject poverty.

As per CDF statistics 2006, 611 NGO-MFIs have about 9,049 branches employing 137,925 credit staff. All the 64 districts of the country are covered with microfinance. The reporting NGOs accounted for 20.52 million active clients that

included 16.10 million outstanding borrowers. The net savings stood at BDT 24,640 million. The loan portfolio was BDT 73,176 million. The loan portfolio is growing @ 28%, savings is growing @ 21%, the growth of membership is more than 8% and growth of borrowers is about 15%. BURO Bangladesh has been reckoned to be the fifth largest NGO-MFI in this broad spectrum with 376,710 clients.

Current Challenges in the Industry

Microfinance is effectively moving towards a banking type of sector through gradual evolution. Clients are aspiring larger credit for doing scaled up economic activity. Capital from MFIs is still lacking to cope up with their increased financial needs. MFIs have no appreciable initiative in linking the clients with markets and technologies. No suitable approach is still in sight to address the hardcore poor (extreme poor). Designing of right products for the clients is still a great challenge. There are programs being carried out by PKSf and their partners and some other organizations. Addressing the hardcore poor is indeed costly as they are much scattered and tend to use very tiny loans. In the rural areas, practically there is no banking service. Savings services in the MFIs are mostly not flexible. Clients cannot withdraw savings as and when needed. They can withdraw only when they leave the organizations once for all. Interest on savings is sometimes denied or given less than is sensible. Without deposits from general public, the MFIs will not be able to build up their loanable fund (now there is restriction from the central bank). Worthy MFIs should qualify in mobilizing public deposits. This is a very critical issue for the growth of the sector. The industry is expanding fast. As a result, competent human resources is increasingly becoming an issue to cope up with the growing needs.

Formal Financial Sector's Increased Entry in Microfinance

Commercial banks are now increasingly wholesaling funds to the NGOs. About 28 banks and 5 non-banks have so far financed 207

NGOs. These banks include mostly private commercial banks except a handful of public sector banks. Stromme Foundation and Anukul Foundation of CARE Bangladesh are also providing loans to the NGO-MFIs. PKSF is the largest wholesaling of microfinance in the industry that has so far funded about 215 NGOs. The banks are following a number of vehicles to provide finance that include syndication, securitization, guarantee and direct lending.

Foreign Remittances Channeled through MFIs

There has been a formidable innovation in the industry in channeling remittances to the remote areas of the country. To make the money transfer faster to the recipients, the branches of a few MFIs are being used by some banks with approval of the central bank. The banks include BRAC Bank, NCC Bank, Bank Asia and Citibank N.A. BURO Bangladesh has been appointed as an agent of Bank Asia Limited to

channel foreign remittances by Western Union to any part of Bangladesh.

Donors Participation in the Industry

Many donors are active in poverty reduction in the country. These include DFID, SDC, USAID, CIDA, IFAD, ADB, the World Bank, etc. Some of the significant programs include (i) Chars Livelihoods Program (CLP), (ii) Challenging the Frontiers of Poverty Reduction (CPFR), (iii) Urban Partnerships for Poverty Reduction (UPPR), (iv) Challenge Fund for Economic Empowerment for Extreme Poor (EEP), (v) PROSPER, and (vi) SHOUHARDO, among others.

Update on Microfinance Regulation

The Microcredit Regulatory Authority Act, 2006 was passed in July 2006, which has come into effect from 27 August 2006. All NGOs must obtain license for micro-credit operations. The Authority has begun granting licenses.

BURO Bangladesh in a Glimpse

Institution

BURO Bangladesh is a national ‘not-for-profit’ organization that was set up in 1990 with a view to working for the poor on sustainable basis to reduce poverty. It is a specialized micro-finance institution that provides high quality flexible financial services to low-income people, particularly the women, who are regarded as its prime customers. They are indeed the conduit for channeling resources into the households for reduction of poverty. The organization is responsive to diverse financial needs of customers. To meet their ever-growing financial needs, it has launched six loan products, three savings products and one insurance scheme. In addition, it provides agriculture loans to small and marginal farmers and stepped up loans to the graduated clients called enterprise loan. The organization has also a disaster mitigation program for the affected people in the microfinance system. The organization is one of the first MFIs in the country to articulate a clear, unequivocal commitment to achieve financial sustainability and establish itself as an independent institution. It has been achieving milestones of success and eventually attained financial sustainability.

BURO Bangladesh’s financial service is helping the customers in many ways. The money that they save with the organization are used for productive purposes when it turns into a lump sum amount. On the other hand, most customers are using loans for small trade and business activities as working capital. This loan is helping the growth of the businesses and their income. Some people are also getting employment opportunities.

What is more, BURO Bangladesh provides a modicum of non-financial services that includes business development services (BDS), food security, human resource development, disaster management, operation research, providing technical assistance to MFIs, and rural water supply, among others.

Customers

There are three categories of customers who are selected based on some specific criteria.

Very Poor/Extreme Poor

- owning less than 10 decimals of land
- annual income equal to or less than BDT 6,000 and having assets less than BDT 12,000
- age limit between 18-60 years

Moderate Poor

- owning less than 0.50 acres of land
- annual income equal to or less than BDT 18,000 and having assets less than BDT 100,000
- age limit between 18-60 years

Micro Entrepreneurs and Small & Marginal Farmers

- owning more than 0.50 acres of land
- annual income in the range of BDT 18,000 – BDT 60,000 and having assets in the range of BDT 100,000 – BDT 300,000
- age limit between 18-60 years

Legal Status

BURO Bangladesh is registered with:

- The Department of Social Welfare, No. TA. 0489 dated 9th April 1991.
- NGO Affairs Bureau No. 610 dated 19th March 1992.
- The Registrar of Joint Stock Companies & Firms, Bangladesh No. S-7026(214)/07 dated 6th September 2007.

Linkages

BURO Bangladesh has established linkages with:

- The Federation of NGOs in Bangladesh (FNB), Bangladesh.
- Credit and Development Forum (CDF), Bangladesh.
- International Network of Alternative Financial Institutions (INAFI), Bangladesh
- Network for Information, Response and Preparedness Activities on Disaster (NIRAPAD), Bangladesh.

- Self-help Promotion Network, Bangladesh.
- International Association of Investors in the Social Economy (INAISE), France.
- MicroFinance Network, Mexico
- Campaign for Popular Education (CAMPE), Bangladesh.
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Stakeholder Information

BURO Bangladesh regularly furnishes information to a number of important agencies both national and international. These are:

- Bangladesh Economic Review, Ministry of Finance and Planning, Government of Bangladesh.
- Microcredit Regulatory Authority (MRA), Bangladesh.
- Credit and Development Forum (CDF) for publication of Microfinance Statistics.
- Microfinance Information eXchange (MIX), Washington D.C.
- National and international organizations for Annual Report distribution.

Advisory Support

Mr. Graham A.N. Wright has been BURO Bangladesh's international honorary advisor for a long time. He is providing valuable inputs in the continued development of the organization and assisting the management in quality decision-making, future development and program planning. Mr. Wright is now working as Program Director of Microsave.

Future Direction

BURO Bangladesh was originally conceived as a demonstration model, with the intention of achieving sustainability providing a range of high quality financial services. It has initiated an expansion program and plans to raise the clients at current level (376,710) to 800,000 customers in 2009. The new expansion areas will largely cover the greater Barisal district, a coastal belt region.

Increased Access to Commercial Banks

BURO Bangladesh will shortly obtain BDT 500 million for its microfinance expansion program under a syndicate financing arrangement. The

arrangement contains 9 participating banks with BRAC Bank as the lead bank. The other banks include AB Bank, Bank Alfalah, Mercantile Bank, ONE Bank, Prime Bank, Pubali Bank, Trust Bank and United Commercial Bank. BURO Bangladesh is the second organization that enters the syndicate financing after BRAC.

Extending Agricultural loans

Bank Asia Limited has granted BURO Bangladesh an amount of BDT 100 million as an overdraft facility to operate as revolving loan fund for small and marginal farmers. Financing farmers by NGOs is relatively a new initiative in the country. The organization has opened a new window in its customers' service to invigorate the agrarian economy. It is trying to access other banks for greater outreach in the rural areas.

Linkage with Foreign Remittance Project

BURO Bangladesh has been selected by DFID and Bangladesh Bank to act as a channel to transfer fund to the recipients from the foreign remitters. The title of the project is "Capacity Building to Enable BURO to provide Remittance Services to Commercial Banks". The goal of the project is to establish BURO, in collaboration with the community, with a strong positive image among the most productive and efficient bridges between the commercial banks and community (clients and non-clients) in remittance industry. The objective of the project is to enable BURO to deliver remittance delivery and remittance related services to commercial banks. The project has two phases: the first phase constitutes pilot-test for six months in five branches and the second phase constitutes roll-out for 24 months in 75 branches of the organization. The project is expected to begin in 2008.

Working with hardcore Poor

BURO Bangladesh has decided to work in the *Monga* (famine) hit region of Northwest of Bangladesh and hardcore poor in other parts of the country in a massive way. Meanwhile, it has developed experience of working with this segment.

Highlights

Professional attainment

- Awarded third position in the NGO-MFI sector in 2006 by Institute of Chartered Accountants of Bangladesh (ICAB) for Best Published Reports and Accounts.

Legal and compliance

- Obtained registration under the Societies Registration Act, 1860.
- Paid off BDT 3.62 million as overall taxes in the National Exchequer.

Product and Services

- Some financial products redesigned.
- Working with hardcore poor in two branches with flexible approach.
- Introduced agriculture loan for small and marginal farmers.

Policy and implementation

- Pursuing corporate governance practices.
- A rigorous internal control system is in place.
- Introduced in facilitating remittance from abroad.
- Framed policy for allowing observers/representatives of donors and financial institutions in the Governing Body.
- Significantly increased investment in HRD.
- Increased borrowing from commercial sources whereby 31% comes from commercial banks.

- Sustainability of a branch takes around 8 months with BDT 1.5 million savings and BDT 8-9 million loans outstanding with standard 12 staff.
- All customers can withdraw all savings from the general account leaving BDT 10 only to keep the account active. No link with loan and savings.

Operational

- Active clients totaled 376,710.
- Operational expense ratio is falling and is now 16%.
- Cost per unit of money lent is BDT 0.07 signifying a low rate which is continuously declining.
- Portfolio at risk (>60 days) is 2.89%.
- On-time recovery (OTR) rate is 98.07%.
- 94.43% portfolio has no payments in arrears.
- Operational self-sufficiency is 118% and financial self-sufficiency is 107%.
- Clients' savings constitutes 39% of total revolving loan fund.
- 85% investment is in the loan portfolio of total assets.
- 4% investment is in the fixed assets of the total assets.
- 1,593 claim settlement done in micro insurance.
- Rural piped water supply is in full scale operation.

What We Stand For

Vision

A happy, prosperous and pluralistic democratic society that meets the basic needs of the people in Bangladesh.

Mission

An independent, sustainable, cost-effective microfinance institution that provides diverse, appropriate and market responsive, quality financial and business development services at competitive prices along with other social development programs to very poor, poor and vulnerable non-poor customers.

Strategic Priorities

- Promote product diversification.
- Pursue commercialization principle.
- Support the hardcore poor; small & micro enterprises; and small & marginal farmers.

Market Positioning

- Identify the major attributes that the customers value in the financial products.
- Assess importance of different attributes in terms of quality, cost, price and service delivery.
- Assess BURO Bangladesh and its competitors' offer for positioning in the market.

Our Values

Listening to Customers

- Respecting the customers as valued clients.
- The program pivots on customers' choice.
- Rules and regulations are changed on the likes and dislikes of customers.

Customers Empowerment

- Access to flexible and quality financial services for the poor.
- Money management capacity through savings and loan activities.
- Customer responsiveness as a key to the development of the organization.

Right to Access Information

- The customers have every right to tally the passbooks with branch level transaction.
- Customers have right to know what the organization is doing with their savings.

Financial Service is a Right of the Customers

- The customers need a safe place to keep savings.
- The customers have every right to withdraw savings whenever necessary.
- Customers have a right for credit for their development and raising income.

Features of Quality Financial Service

- Service that is timely.

- Service that is prompt and quick.
- Service that meets the customers' needs.
- Service that the customers can afford.

Financial Prudence

- Cost recovery principle for service delivery to the customers.
- Capacity to mobilize funds from commercial sources or market.
- Capacity for financial management, audit and financial control.

Good Governance

- Strategic vision/mission: A long-term perspective about what is needed by the customers, and BURO Bangladesh.
- Responsiveness: Serving the interests of all stakeholders.
- Transparency: A free flow of information between the organization and concerned stakeholders.
- Accountability: Decision-makers are answerable to the stakeholders and the organization.

Social and Development Commitment

- Work with a social mission to contribute in poverty reduction.
- Pursue commercial objective to provide sustainable microfinance service.

Timeline

Year	Chronicle of Major Events
1990	The genesis of the organization is ingrained in the study “BURO: What It Is: What We Can Learn From It” conducted by USAID/PACT Inc. Initiated five “Model Branches of Sustainable Rural Financial Service” funded by USAID/ PACT Inc.
1991	Conducted the first and second external evaluations to strengthen five “Model Branches”.
1992	Research Department, Bangladesh Bank (Central Bank) conducted evaluation of its microfinance program that found financial norms maintained to operate its financial services.
1993	An external evaluation by Donors looked into overall mandate of the organization, to accept the challenge for future replication of the model.
1994	Continued with its minimalist approach. But gradually started putting increased emphasis on social aspects and business skill development of the customers.
1995	An external Review Team commissioned by Donors conducted Mid-Term Review which was the turning point for further innovations. Made interventions in the flood prone areas, with the landless destitute.
1996	Intervention made in social program with donor support for post disaster activities. Carried out financial modeling and project design through strategic planning for complete withdrawal from donor’s support for its micro-finance program between 1997 and 2001.
1997	An operational research by an external team on “New Products” was commissioned. UN General Assembly resolution 52/194 of 18 December 1997 highlighted the micro-credit operations and recognized the role of BURO, among few other MFIs.
1998	A system was developed through “Group and Kendra Reformation” for sustaining microfinance program during and at post disaster period. Shift from donors grant to borrowed fund for microfinance operation.
1999	First Microfinance Capacity Assessment was conducted by an overseas agency.
2000	For the first time entered into formal financial market for commercial funding for micro-finance program. Commissioned a review on Internal Control and Internal Audit to strengthen the MIS, FIS and overall Internal Control System.
2001	Donors conducted “Product Development Review”. The external reviewer recognized the high quality set of financial services well adapted to the needs of the poor customer. Donors’ end-term review found the achievements of all targets set for 1997-2001. Second Micro-Finance Rating Risk Assessment was conducted.
2002	A brief planning was undertaken to review and consolidate the past achievements and prepare business plan (2003-2007) for the expansion of its micro-finance program. A strategic planning exercise for 2003-07 was commissioned by a Consortium of Donors. A review of “Costing of Products” was conducted by external agency.
2003	Third Microfinance Rating - Risk Assessment was conducted by external agency. Microfinance model for the poorest of the poor in rural areas was put into implementation.
2004	Microfinance model for the poorest of the poor in urban areas was put into implementation. All-out efforts taken to strengthen the Code of Corporate Governance.
2005	Geared up access to commercial banks, non-banks and international agencies.
2006	“Chars Livelihood Program” with an integrated approach began. Massive expansion of program adopted during the year. Automation of branches started.
2007	Introduced agriculture loan for small and marginal farmers – a new window of financing. Reviewed the current loan and savings products and brought in some changes. Entered the process of borrowing through “bank syndicate financing” as a second MFI in the industry.

Recognition

CGAP/The World Bank Financial Transparency Award

BURO Bangladesh has been awarded Merit Recognition for its performance in Financial Transparency Award 2005 and 2006 by the Consultative Group to Assist the Poor (CGAP)/The World Bank. This is a significant international recognition to the organization especially for its financial transparency. Applicants for the award were judged according to their compliance with international disclosure guidelines, including industry-specific CGAP Disclosure Guidelines that are widely accepted as International Financial Reporting Standards (IFRS).

SAFA Award for Best Published Reports and Accounts

The South Asian Federation of Accountants-

SAFA, which was established in 1984 to coordinate the accounting profession from the SAARC member countries, has awarded BURO Bangladesh the first position for the Best Presented Accounts in the category of NGO-MFI for the year 2005.

ICAB National Award for Best Published Reports and Accounts

The Institute of Chartered Accountants of Bangladesh (ICAB) has awarded BURO Bangladesh the second, first and third position in a row in the NGO-MFI sector for its best published Reports and Accounts for the financial year 2004, 2005 and 2006 respectively. This is a big national recognition to an NGO-MFI especially for its financial transparency.

Corporate Governance

Constitutional Aspects

Renaming the Organization

The initial name of the organization was BURO, Tangail until 2005 registered under the Voluntary Social Welfare Agencies (Registration and Control) Ordinance, 1961. Despite the fact that it is a national NGO operating in many districts, there was a mistaken perception among some quarters that it is a small local NGO operating only in Tangail district, which was, however, not the case. It was then renamed as Buro and permission was obtained from the Department of Social Welfare. Later some circles opined that the name of the organization sounds partly with a number of government agencies. To resolve this, the organization was again renamed as “Basic Unit for Resources and Opportunities of Bangladesh” in short “BURO Bangladesh”. Notably, over the years, the scope of operations of the organization has been expanding fast. This has necessitated obtaining loans from various commercial banks. In this context, the banks began to emphasize for stronger legal entity to work with them smoothly. The problem was thus solved by taking new registration as a society.

Governing Body and General Body

BURO Bangladesh strictly follows the ‘Code of Corporate Governance for Bangladesh’ prepared by the taskforce on corporate governance to develop corporate culture step by step. A seven-member Governing Body (Chair, Vice Chair, Finance Secretary and four Members) and a four-member Operational Board of Directors (Executive Director, Finance Director, Program Director and Capacity Building Deputy Director) are vested with the governance and the management of the organization. The Executive Director is not a member of the Governing Body but works as an ex-officio secretary. The Governing Body is elected bi-annually from a body of 15 general members, who come from different professions and arena viz. business, banking, law, academics, journalism, and social development.

Governing Body Functioning Process

The Governing Body performs four core functions that include fiduciary, strategic,

supervisory and management development. The Governing Body discharges the responsibility to safeguard the interests of all the institutions’ stakeholders. The Governing Body serves as a check and balance to provide confidence to its stakeholders (lenders, donors, savers and staff) that the management will operate in the best interests of the institution. It participates in the organization’s long-term strategy by critically considering the principal tasks to which the organization is exposed and approving the plans presented by the management. The Governing Body does not generate corporate strategy but instead reviews management’s business plans and its strategies and approves it. The Governing Body has delegated authority to the management through the CEO. It supervises management in the execution of the approved strategic plan and evaluates the performance of management in the context of the goals and timeframe outlined in the plan. The Governing Body also supervises the selection, evaluation and compensation of the senior management team.

Major Activities of Governing Body during the Year

In 2007, three Governing Body meetings were held i.e. on 20th June, 4th September and 5th November. The meetings provided guidelines and policy directions to the management. The meetings adopted a number of important decisions that include taking loans from the banks for microfinance operations, framing policy for allowing observers/representatives of donors and financial institutions in the Governing Body, obtaining registration under the Societies Registration Act, 1860, allocation of BDT 600,000 to the families affected in the flood 2007 and participating in establishing micro insurance mutual entity (MIME). Policy for transport purchase facility for senior staffs was also approved for the first time.

The Operational Board of Directors held 8 meetings. In addition, there were 84 audit settlement meetings, which were settled by it.

Holding General Meetings

The 11th Annual General Meeting (AGM) was held on 28th June 2007. The AGM was attended by all the general members. It approved the

annual report and the audit report of 2006, the budget and the program for 2007. The AGM also endorsed the approval of renaming the organization as BURO Bangladesh. In addition, the 12th and 13th General Meetings (GM) were held on 31st November 2007 and 2nd December 2007 respectively. The 12th GM particularly approved the proposal for registering the organization under the Societies Registration Act, 1860 and accomplishing necessary documentation formalities for the new entity. The 13th GM was intended for holding the 1st meeting in terms of compliance of the society's rules.

Policy and Functional Aspects

Policy and Procedures

In order to establish good governance in the organization, the organization gives significant importance on the implementation of various rules and procedures that include (i) Rules of Business for Micro-finance and Micro-enterprise, (ii) Staff Service Rules, (iii) Accounting and Financial Procedures and Rules, (iv) Internal Audit Manual, (v) Human Resource and Administrative Manual, (vi) Program Implementation Manual, (vii) Gender Policy, and (viii) New Branch Opening Policy.

Working Committees

Seven different committees are functioning with cross-functional departments to develop greater cohesion and integration towards achieving the goals of the organization. The committees are: (i) Recruitment and Promotion Committee, (ii) Gender Committee, (iii) Sales & Purchase Committee, (iv) Land Purchase Committee, (v) Disaster Management Committee, (vi) Committee for Building Construction, and (vii) Committee for Old Papers Disposal. All committees are approved by the governing body.

Programs Management

BURO Bangladesh operates through its branches in different places. A branch is managed by one Branch Manager, one Branch Organizer, one Accountant, and 10-12 Program Organizers (POs)/Assistant Program Organizer (APOs).

To develop smooth functional mechanism for program implementation, 46 area offices have been established at field level with an Area Manager for each area office. The key responsibility of the Area Manager is to monitor, supervise and facilitate 5-6 branch offices. Area Managers are supervised by Zonal Managers. One Zonal Manager supervises 4 Area Offices. The Area Manager and the Zonal Manager do not have any separate office but they sit in the offices of any Branch in a convenient location.

Staff Benefit Funds

The services of all staff are regulated by well-defined Service Rules of the organisation. These include: (i) provident fund, (ii) gratuity fund, (iii) health fund, (iv) housing fund, (v) staff family welfare fund, (vi) advance for motorbike and bicycle purchase, (vii) income tax payment for the staff, (viii) leave encashment, and (ix) advance salary payment on simple terms to facilitate buying life insurance policy.

The Provident Fund is managed by a separate Trustee Board comprising staff at different levels. The management manages four other financial benefits. The accounts of these financial benefits are maintained separately. The total amount of staff benefit fund as on December 31, 2007 stood at BDT 65.03 million, which includes BDT 41.13 million as provident fund, BDT 12.21 million as gratuity, BDT 2.43 million as health fund, BDT 6.11 million as housing fund and BDT 3.15 million as staff family welfare fund.

Income Tax Return Submission

Submission of income tax return is mandatory under government rules. The organization has been regularly submitting the returns to the government. The government has exempted the non-profit organizations dealing with microfinance from paying income tax from the surplus earned. However, if there is any income from other than microfinance, it will be subject to the relevant rules of taxation. The income tax assessment of the organization has been duly completed for the year. During the year, an amount of BDT 1.16 million has been paid to the national exchequer for income other than from

microfinance. The organization paid BDT 2.46 million as VAT/taxes against non-financial development expenditure.

Internal Control System

To ensure transparency, efficiency and overall effectiveness, the organization pursues a rigorous internal control system. Most international standard norms and practices are also meticulously followed. These practices reflect the organization's institutional and managerial soundness. It has, of course, taken time to develop these systems. The components of internal control system are laid down below.

Budget Formulation and Variance Analysis

The initial budget planning starts at the branch level. A yearly budget is split into monthly figures spelling out financial and program targets. All branch budgets are consolidated in the head office to formulate the organization's aggregate budget. Financial monitoring is carried out monthly based on budget variance, MIS and FIS reports.

Fair Staff Recruitment Process

Recruitments are made through fair competition and public announcements. The criteria are well defined in the service rules. Advertisements are made in the leading newspapers in the country. Generally written and viva tests are held. For senior level recruitments assistance of external experts are taken. Executive Director approves all recruitments recommended by the committee for recruitment.

Procurement and Other Policies

The organization maintains an enlisted group of suppliers and signs a MoU for one year with them to supply printed materials and stationary items as per general agreement. They continue to supply unless there is any unusual price hike. In case of other printing and materials, spot quotations are asked for.

Per Diem and Travel Policy

There is a well-defined policy for domestic and international travel including food and lodging for all grades. A policy for per diem also exists continent-wise for all grades.

Payments/Advances

All payments are made through crossed cheques. Advances to the staff are made with prior approval of the management.

Monthly Program Coordination Meeting

Regular meetings are held at different levels to see if progress is being made as per plan. Monthly coordination meeting is held at the head office. All concerned officers of the respective departments, zonal managers and area managers attend the meeting. Two meetings are held every year at the head office with all branch managers. A zonal meeting is held once a year with all staff in the zone. Also, a monthly meeting is held in a branch, which is attended by the area managers. Quarterly meeting is held at zone level with all branch managers.

Clients Passbook Checking

The most critical risk in an MFI lies with collection of savings and loan repayments by the program organizer (PO) or the loan officer. Savings deposited and loan repaid by a client are recorded in the client's passbook and in the collection sheet (which is the primary record of the office). But there is always an inherent risk. To ensure that the transactions have been duly recorded and that no cash remains at hand of the PO, the branch manager along with accountant and branch organizer conducts 100% checking of all clients' passbooks every quarter. Such checking is done in a Kendra/ Center four times a year. In case, any flaws or anomaly is detected afterwards, the respective PO would be solely responsible. The POs have to work to ensure transparent MIS that generates reports correctly. The accuracy of the reports generated by MIS is important for effective decision-making. Efforts are geared to ensure no discrepancy between the accounting information system (AIS) and clients' passbooks.

Monitoring and Supervision

The Branch Manager performs the program monitoring based on a yearly plan split into weeks whereby the manager visits the Kendra and verifies whether things are going as per plan. The Area Manager supervises 5-6 branches based on a yearly plan split into weekly programs. He too visits the Kendra and the

group meetings. The Zonal Manager supervises 20-25 branches and also visits Kendra based on a yearly plan split into weeks. The Program Director, Finance Director and the Executive Director also undertake some routine visits to the fields.

Financial Control

Fund management is done effectively by internal audit and financial control. Financial control is generally exercised at three levels: the Governing Body, the Head Office and the respective Branch. Governing Body monitors all financial matters quarterly through Governing Body meeting. The Executive Director and the Finance Director exercise financial control based on monthly financial statements and the findings of internal auditors. At branch level, the managers exercise financial control on the basis of budget and financial projections. Financial transactions in the head office and branch offices are regulated with regard to following four areas: (i) field level transaction control, (ii) treasury management, (iii) budgetary control, and (iv) accurate financial reporting.

Internal Audit

The audit department is staffed with an Audit Officer. A total of 18 audit staff work in the internal audit department who are based in the zonal offices. An internal auditor goes to a branch with a one-week visit plan along with a checklist to ensure the compliance of rules and regulations. The auditor examines different aspects on financial management, rules of business and accounts and administration. The auditor reports on 100% checking of loan portfolio. He also reports on 100% checking on loan and savings balancing (reconcile the balance with collection sheet) and program-wise reporting and reports on passbook verification of at least 100 passbooks of 10 *kendras* done by the concerned PO, etc. Besides, he reports on fund management concerning cash and bank.

The audited reports are submitted to the Executive Director. These are discussed in meetings at higher level and asked for clarifications, if there is any anomaly. Punitive and corrective measures are taken where necessary. The findings of the auditing guide the

management in taking right decisions for modifying policies, systems and procedures.

External Audit

The organization conducts annual audit regularly every year. Reputed audit firms in the country are hired for external auditing. Audit firms are appointed by the General Body for a period of one year.

Standard Practices

BURO Bangladesh follows some of the internationally accepted reporting and prudential requirements – even though microfinance NGOs are not required to comply these. This is being done to conform to the standard norms and practices pursued world-wide and to prepare for any future prudential requirements in the country. These practices and the relevant indicators portray a clear picture of the organization's financial and managerial soundness.

Capital Adequacy

Capital adequacy analysis is being used to measure the financial solvency of the organization and determine whether the risks that it has incurred can be adequately offset with capital and reserves. The current capital adequacy ratio is 29%.

Asset Management

Loans advanced to the customers make up the portfolio (about 85%) of the total assets and forms the biggest current asset. To determine the quality of loan portfolio, aging analysis is performed monthly. The year-end financial accounts of 2007 shows that the organization has achieved a first-rate portfolio indicating 94.43% of the portfolio with no payments in arrears.

The organization pursues clear policies in acquiring land and building to optimize the operation of its business. It follows clear-cut policies to acquire necessary equipments and vehicles for building an effective infrastructure for the institution to meet the needs of both staff and the customers.

Management

Human Resource Development (HRD) is well organized in a manner that provides clear guidance and support to operations staff - including recruitment and training of new personnel. All key processes have been formalized. With much effectiveness it controls risk throughout the organization. The organization undertakes short-term and long-term financial projections and uses these to ensure fiscal and budgetary control.

Earnings

The management has been effectively using and mobilizing the available resources to ensure sustainable benefit to its customers while aiming at a modest return on the investment.

Liquidity Management

Based on experience, 6-10% of savings balance of all branches is deemed adequate to meet the liquidity reserve ratio. For the liquidity requirement, 40% has been earmarked for general savings, 30% for regular voluntary

savings, 10% for time deposits and 20% for operating and financial expenses.

Loan Loss Provisioning and Write off

Management makes provisions for loan losses every quarter in order to maintain the loan loss reserve at adequate levels for bad loans. The loan loss reserve ratio is 2.54%. The adequacy of the provision is determined by applying appropriate percentages to the outstanding balances in various aging categories. The write-offs of any loans, if necessary, are charged against reserve. Loans are written off in full after one year of the loan term.

Risk Management

The organization believes that perpetual dependence on grants for microfinance programs might eventually threaten the longevity of the organization. It is, therefore, pursuing a commercial principle and built adequate capacity to use commercial sources of funds. A disaster fund is being managed to combat external risks that may occur due to natural calamity like flood, cyclone, etc.

Features of Financial Products

Loan Products

BURO Bangladesh stresses on supporting economic activities to generate employment and income to reduce income inequality among the disadvantaged and the poor.

The loan products have been developed in response to the demand of its customers and specifically designed to assist their economic activities – they are market-led and customer responsive. As a result, BURO Bangladesh has many comparative advantages.

- Unlike many NGO-MFIs, customers do not have to take loans from BURO Bangladesh just to remain in the program. Instead, BURO Bangladesh only gives loans as and when customers want them to support their economic activities.
- Unlike most of the NGO-MFIs customers, BURO Bangladesh's loans are not linked to savings balances – loans and savings services have been completely de-linked and made entirely voluntary.
- Customers can prepay their loans in order to qualify for new and larger loans.
- In addition to existing loan(s), BURO Bangladesh customers can have short-term loan for meeting any emergency needs.

General Loan: The loan is intended to allow rural and urban poor households to finance their economic activities and build a strong capital base. General Loans are working capital loans given to poor and disadvantaged households. General Loans range from BDT 5,000 to BDT 45,000, depending on the economic activity, the borrower's management capacity, and demand for the product and/or services in the market. The loans are repayable within a year in 46 installments at an annual interest rate of 15 percent.

Micro-Enterprise Loan: BURO Bangladesh has developed its micro-enterprise loan for the 15-20% of entrepreneurs capable of graduating from groups, as well as entrepreneurs in the community. Micro-enterprise Loans are individual loans that are assessed on the basis of household cash flow, business projections and

the reputation of the borrower amongst her/his business peers/in the community. The size of the loan depends on the size of the businesses and the comparative advantages that the entrepreneurs have. With the Micro-enterprise Loan borrowers are expected both to provide equity and to generate wage labor employment (other than family labor).

Micro-enterprise loans range between BDT 50,000-BDT 300,000, repayable within one-three years in 46-138 installments at an annual interest rate of 15 percent.

Agriculture Loan: The loan is exclusively for agricultural activities and is designed to increase the farm activities enhancing the livelihood of the poor rural and peri-urban households. The agricultural loan also enhances food security of the households. The loans are disbursed to landless and marginal farmers in organized groups. Agricultural loans of BDT 10,000 – BDT 50,000 are given for one year, depending on the activity, land-holding etc., repayable in 46 installments with an annual interest rate of 15 percent.

Hand Loan: The loan is intended to serve as a “social security net” and was designed implemented after the Customer Consultative Group Discussions and Client Satisfaction Surveys conducted by BURO Bangladesh. The hand loan is designed to protect customers from shocks to their household economies and the erosion of their financial, physical and social assets. Hand loans are used to finance important festivals (Eid, Puja, Christmas, marriages etc.), health care and child education. The hand loan is a small loan of BDT 3,000, repayable within 3 months at an annual interest rate of 15 percent.

Disaster Loan: In extreme emergencies such as cyclone and floods, BURO Bangladesh provides disaster relief with support from leading donor agencies. However, instead of offering large-scale or long-term charitable activities, the organization places emphasis on the promotion of self-help and self-reliance of disaster-affected rural communities, encouraging and helping households to stand on their own feet. The disaster loan ranges from BDT 3,000 – BDT

5,000 with an interest rate of 10 percent to be repaid over one year.

The disaster loan is intended to reduce the effect of shocks to the households' financial and physical assets immediately after natural disasters. The disaster loans meet affected households' immediate needs for cash and thus to respond to their situation.

Water & Sanitation Loan: Environmental health concerns continue to be an ominous factor contributing to diseases and poverty. Access to safe drinking water which is also free from arsenic contamination and to hygienic sanitation will reduce sickness and thus increase the labor productivity. The tube-well loan facilitates access to safe water for drinking and other purposes. The sanitary loan is offered to customers seeking to install sanitary latrines in their homesteads. Both the sanitary and tube-well loans range from BDT 3,000 – BDT 10,000 repayable within a year with an interest rate of 15 percent.

Savings Products

All savings are payable to the customers on demand. Savings is not held as security for loan. Strong, accountable governance, sound asset management and an enabling legal and regulatory environment are three cornerstones for large scale savings mobilization. The organization offers savings services to all its clients (whether they choose to borrow or not), with the basic objectives of:

- i. The poor people have a formidable capacity to save and BURO Bangladesh duly recognizes this fact. It provides a secured place for keeping savings, increasing financial strength and capital growth of the customers with a view to reducing their dependency on external resources; and
- ii. Improving the sustainability of the institution by developing a relatively stable means to finance its loan portfolio.

In accepting savings from poor people, BURO Bangladesh discharges a fiduciary responsibility. It has worked hard to:

- i. Strengthen the governance and management functions to optimize the security of the savings products offered by the institution;
- ii. Assess, understand and respond to the demand for a variety of differentiated savings products and offer a range of liquid and illiquid products; and
- iii. Develop and implement policies, procedures and processes that optimize systems of internal control and risk management.

General Savings: Small depositors usually value convenient, easy access and relatively secure delivery savings services above all else. In some environments, to be useful to women, the delivery systems must respond to their restricted mobility and availability of time. Customers also value privacy, preferring systems that do not reveal to other customer how much they save and withdraw. The general savings account is like a current account, where customers can save or withdraw on demand. The general savings account requires a nominal minimum balance of BDT 10. The general savings account customers have the following advantages:

- i. Savings of any amount from BDT 10 – BDT 2,000 at the *Kendra* (group) meeting in the village; and deposit any amount above BDT 2,000 at the branch;
- ii. Withdraw savings at any time on demand, and
- iii. Receive compounded interest at the rate of 4.5 percent per annum of their general savings account balance.

Regular Voluntary Savings: Poor people often value regular, disciplined savings systems as a way of building up useful lump sums that can be invested or used for social obligations such as marriages, funeral or children's education. These products respond to the poor's demand for illiquid savings systems that protect their money from frivolous spending and allow the slow, but steady accumulation of a lump sum. BURO Bangladesh pays a significantly higher rate of interest on these regular voluntary savings than on the general savings account.

The Regular Voluntary Savings account allows savers to determine the amount and time of deposits and withdrawals. In the Regular Voluntary Savings account, clients agree to regularly deposit a set amount for a set period of time, after which they can withdraw the entire amount plus the interest. The savings account offers the following advantages to the customers:

- i. Customers can choose to deposit on a weekly or monthly basis according to their income/ cash flows.
- ii. Customers can choose to deposit weekly savings in the range of BDT 10 – BDT 250; and monthly savings in the range of BDT 40 – BDT 1,000.
- iii. At the end of the period, customers receive more than the total deposited amount.
- iv. Customers can (and often choose to) open more than one account in the same name simultaneously.
- v. Interest is paid on a compound basis in the range of 7 to 8 percent.

Time Savings: In some occasions, the customers earn lump sum amount at a time from business or sales. Under the circumstances, the organization allows such customers to deposit a maximum of amount of BDT 5,000 in this account for varying period with interest rate within the range of 6% to 8%.

Micro-Insurance Product

Customers' security fund has been promoted with two objectives viz. the social objective, and

the commercial objective. The social objective recognizes social protection of the customers is necessary to reduce the vulnerability of households to income and consumption shocks. The commercial objective is to increase the stability and profitability of poor households through reducing the impact of customer risk on loan and savings portfolios, generating additional revenue, supporting risk management, and reducing customers' vulnerability to economic stresses.

The poor and micro-entrepreneurs and small & marginal farmers (vulnerable poor) customers have to pay premium of BDT 50 to BDT 200, while the very poor customers are required to pay BDT 30. The premiums are one-time payment in a year. The insurance yields three benefits after the death of the customer. First, cash benefits will be 100 times of the premium chosen. Secondly, the entire outstanding loan of the clients will be waived and thirdly, after the death of the principal loan guarantor, the family of the guarantor will also receive half of the cash benefits.

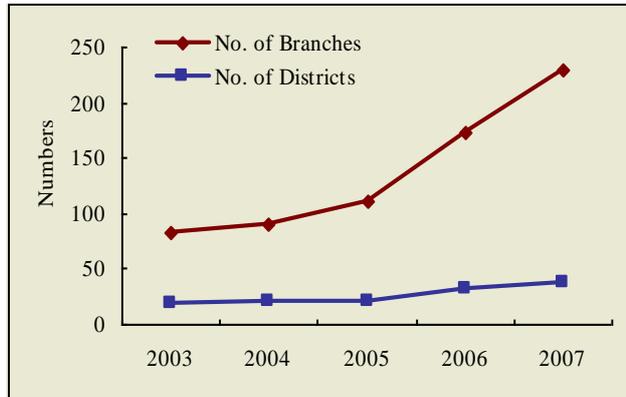
Remittances Delivery Channel

The increased volume of remittance funds, sent mostly to low-income families, has prompted a heightened interest of customers that will lower the costs of these transfers and raise their economic impact. By providing remittance service, microfinance institutions can attract new clients and provide greater value to existing clients. BURO Bangladesh is developing a remittance product in collaboration with a consortium of banks.

Moderate Poor Microfinance

Geographical Coverage

As of December 31, 2007 BURO Bangladesh provided flexible financial services to 8,833 villages in 1,123 unions in 38 districts of four divisions viz. Dhaka, Rajshahi, Chittagong, and Sylhet. The year witnessed rapid expansion of branches to 230 from 173 in 2006 resulting in 33% increase.



The number of branches steadily grew over the years. But the real jump occurred since 2005 as massive program expansion plan was undertaken. The program was diversified in more districts as can be seen from the figure of 2007.

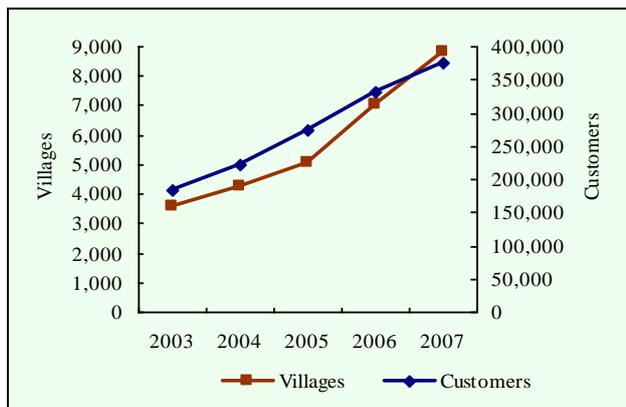
Customer Outreach

The number of active customers stood at 376,710 as on December 31, 2007 as against 331,329 in 2006. The net increase of customers during the year was 45,381, which is 14% higher than the preceding year. The women constitute more than 99% of the total customers. Customer dropout is common in the microfinance industry. They drop out for a variety of reasons that includes migration, business failure and switching to other MFIs due to location convenience, etc. Drop out rate increased to 6% from 5% in 2006.

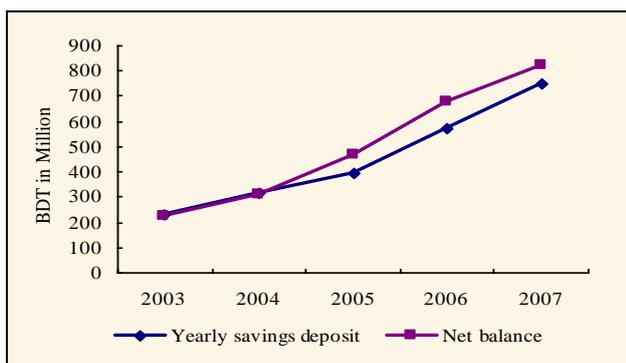
open access savings where there is no restriction in withdrawal. BURO's experience shows that voluntary and open access savings can mobilize more net savings than the compulsory locked in savings.

Savings Performance

As of December 31, 2007 the net savings balance was BDT 822 million as against BDT 679 million in the preceding year. Up to December 31, 2007, the customers had deposited a total of BDT 2,758 million and withdrawn BDT 1,936 million. The savings registered an increase of 21% during the year as opposed to



Customer's growth shows an increasing trend. The number of customers has grown from 331,329 to 376,710 in 2007 registering 14% increase. The number of villages also rose from 7,029 to 8,833 showing 26% increase.



Net savings balance is rising due to the provision of open access services. It is showing a steep rise from 2004 as number of customers increased remarkably. The total savings increased from BDT 679 million in 2006 to BDT 822 million in 2007 showing an increase of 21%.

46% in 2006. The low growth is largely due to high withdrawal and slow growth in new membership.

Yearly savings deposit and withdrawal for the last five years is shown in table-1.

Table-1: Savings deposits, withdrawals and balance as on December 31

Year	Yearly		Net Balance	Increase %	Average Savings per Customer
	Deposits	Withdrawals			
Million BDT					
2003	232.19	146.86	223.63	62	1,212
2004	316.28	231.61	308.30	38	1,393
2005	394.70	238.45	464.55	51	1,700
2006	574.35	359.88	679.02	46	2,049
2007	746.45	603.51	821.96	21	2,182

Savings by Products

In 2007, the regular voluntary savings contributed to 66% of the total savings followed by 34% in general savings versus the corresponding savings of 65% and 34% respectively in 2006. Time savings was, however, very small compared to the total savings. Regular voluntary savings has emerged to be a popular product as it carries high interest. The total savings breakdown is mapped out in table-2.

Table-2: Savings balance by product as on December 31

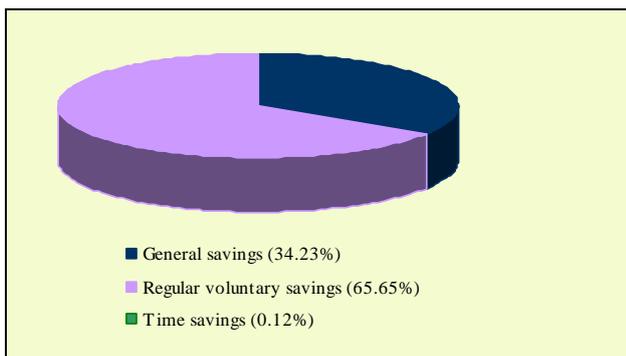
“Amount in Million BDT”

Products	2003	2004	2005	2006	2007
General Savings	80.17	100.28	153.69	234.80	281.38
Regular Voluntary Savings	140.15	201.79	306.52	439.75	539.58
Time Savings	3.31	6.23	4.34	4.47	1.00
Total	223.63	308.30	464.55	679.02	821.96

Loan Services

Taking loans from the organization is optional and not linked with any savings balance like most MFIs. The customers can avail of prepayment facilities in order to qualify for new and larger loans earlier. In addition to existing loan(s), the customers can have short-term loan for meeting any emergency needs. BURO Bangladesh also provides micro-enterprise and agriculture loan coupled with modicum business development support. It has six loan products with interest rates within the band 10-15% that include general loan, micro-enterprise loan, agriculture loan, hand loan, disaster loan, and water & sanitation loan.

BURO's experience indicates that the customers



In 2007, the regular voluntary savings occupies 65.65% share of total savings, the general savings 34.23% and time savings 0.12%. Regular voluntary savings attract more customers as this product offers more interest with varying time-periods suitable to the customers.

prefer flexible quality financial service. They want larger loans and business development support services (BDS). The organization continues to revamp its policies and plans to stay competitive in the industry.

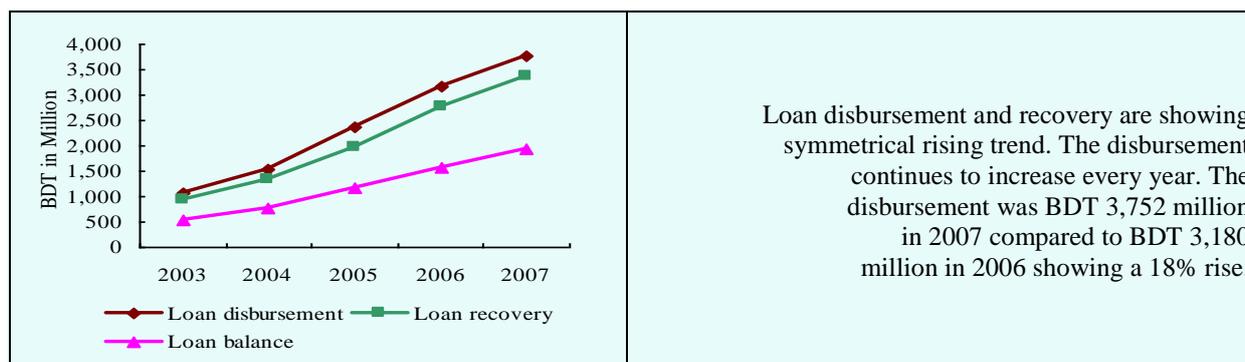
Loan Performance

Up to December 31 2007, all branches have disbursed a total amount of BDT 14,156 million as against BDT 10,404 million in 2006 resulting in 36% increase. Of this, BDT 12,212 million has been recovered leaving the net outstanding

loan balance at BDT 1,944 million. The average loan size based on disbursement was BDT 8,416 as against BDT 7,421 in 2006. The size is showing a rising trend, which effectively indicates the demand for stepped up loans. The on-time loan recovery rate was 98.07% compared to 98.17% in 2006. The slight fall in the recovery is due to the devastating flood of 2007, which affected 65% of the total areas of the country. The yearly and cumulative loan disbursement and loan outstanding positions are shown in table-3.

Table-3: Yearly loan disbursement and balance as on December 31

Year	Yearly Disbursement		Cumulative Disbursement		Outstanding Balance		Average Loan Size	
	Number of loans	Million BDT	Number of loans	Million BDT	Number of loans	Million BDT	On Yearly Disbursement	Outstanding Loan Balance
2003	196,174	1,083	600,448	3,327	154,448	548	5,519	3,547
2004	279,893	1,528	880,341	4,855	199,822	751	5,459	3,756
2005	371,498	2,368	1,251,839	7,224	250,083	1,159	6,375	4,635
2006	428,566	3,180	1,680,405	10,404	306,313	1,565	7,421	5,109
2007	445,761	3,752	2,126,166	14,156	341,738	1,944	8,416	5,688



Hardcore Poor Microfinance

Microfinance program for hardcore poor in the country is getting spotlight. Some interventions are underway that includes Chars Livelihood Program (CLP), BRAC's Challenging the Frontiers of Poverty Reduction (CFPR), USAID/ CARE SHOUHARDO Program and programs run by PKSf. The hardcore poor are mostly found dispersed unlike the mainstream microfinance programs. This leads to higher cost of administration as opposed to normal microfinance.

Hardcore Poor Microfinance Piloting

BURO Bangladesh piloted two projects viz. (i) Improved Living Standard of the Poorest of the Poor in Tangail rural area with the financial support from UNESCO/Stichting Gilles Foundation and (ii) Economic and Social Empowerment of the Hardcore Poor in Uttara, Dhaka urban area assisted by Stromme Foundation. The ultimate goal was assessing the viability of hardcore poor financing by providing certain financial and non financial services. This action research project indicates that the hardcore poor have a variety of needs. These include housing, health and nutrition, education for children, safe water and sanitation. BURO finds the hardcore issue very challenging. The operation is very costly in view of small loan absorption capacity and dispersed populace. They also desperately need non-financial services.

The financial results of the pilot programs in terms of balance sheet and income statement of two branches are shown in table-4 and table-5.

Table-4: Summarized balance sheet as of 31 December 2007

Particulars	"Amount in BDT"	
	Hardcore Poor Branch Rural (Opened on Jul. 2002)	Urban (Opened on Jan. 2004)
Property & Assets		
Fixed Assets	38	69,846
Loans net of Loan Loss Reserve	4,942,413	9,017,784
Current Assets	19,600	103,550
Cash and Bank Balance	263,465	1,292,862
Total Assets	5,225,516	10,484,042
Fund and Liabilities		
Customers' Savings	3,004,055	3,938,282
BURO Bangladesh's Fund	1,737,257	65,558
UNESCO/Gilles Grants Fund	2,147,712	-
Borrowing from Stromme Foundation (SF)	-	7,000,000
Accumulated Profit/(Loss)	(1,663,508)	(1,526,798)
Grants Operating Expenses (SF)	-	1,007,000
Total Funds & Liabilities	5,225,516	10,484,042

Table-5: Summarized Income & Expenditure Statement for the year ended 31 December 2007

Particulars	"Amount in BDT"	
	Hardcore Poor Branch Rural (Opened on Jul. 2002)	Urban (Opened on Jan. 2004)
Income		
Interest on Loan	1,293,324	2,106,282
Other Income	85,174	134,325
Total Income	1,378,498	2,240,607
Expenditures		
Interest on Savings	178,630	155,601
Interest on Borrowings	-	481,461
Salary & Allowances	796,516	1,349,595
Rental Cost	-	168,000
Loan Loss Provision	89,000	883,000
Other Expenses	580,944	222,014
Total Expenditure	1,645,090	3,259,671
Net Profit/(Loss)	(266,592)	(1,019,064)

The current package of non-financial services in the Dhaka urban branch include child and adult education, health services, basic life management training for the customers, nutrition training, water & sanitation awareness and support. The performance of providing non-financial services with Stromme Foundation support in the last three years is exhibited in table-6:

Table-6: Performance of hardcore poor branches

Non-financial services	2004	2005	2006	2007
School				
- Children	750	750	1,250	1,250
- Adult	500	1,000	500	-
Health Service				
- Counseling	230	1,151	734	685
- Referral services	6	86	31	31
Nutrition Awareness	500	1,481	817	1,251
Water & Sanitation				
- Posters produced	2,000	4,500	3,000	358
- Awareness	548	1,100	1,650	624
- Free distribution of tube-well	-	5	-	-

Food Security Program (SHOUHARDO)

The program is designed for the *char* hardcore poor people. Despite the fact that some gains have been achieved during the last decade in food security and recent pronouncements in food grain self-sufficiency, the imbalance between rise in population and food production together with other factors, such as, declining employment opportunity in non-farm sector in rural areas etc. has increased tremendous pressure on agriculture.

Food security in Bangladesh, though agriculture is the supplier of food and fundamental to all occupations, is still in critical stages in its cycle: availability, accessibility and utilization, due to natural shocks, economic, social, health, and governance related issues. Chronic vulnerability to food insecurity can be increased through economic entitlement failure, social exploitation and discrimination backed by the influence of political power.

BURO Bangladesh is a partner of SHOUHARDO (Strengthened Household Abilities to Respond to Development

Opportunities) Program of CARE Bangladesh funded by USAID to promote food security of vulnerable households in Bangladesh. The objectives of the program are:

- i. Improved availability and economic access to food for targeted vulnerable households through strengthening livelihoods, securing entitlements and enhancing accountability of service providers.
- ii. Sustainable improvement in the health and nutrition of project participants.
- iii. Enhanced empowerment of women and girls from targeted vulnerable households.
- iv. Targeted communities and institutions are better able to prepare for, mitigate and respond to natural disasters.
- v. Encouraged the participation of community stakeholders and community target groups in different disciplines that affect food security issue of the target groups.

The implementation of any project concerning food security for the poor and disadvantaged requires certain pre-requisite to achieve that will be manifested in the outcome to result from the implementation of the activities. The achievements of certain conditions that primarily will bank the involvement of the community stakeholders and community target groups will obviously sensitize the food security issue. The sensitization of the issue is imbibed in the increased awareness of the community people and community target groups that will generate a sense of belongingness toward their responsibilities to address the causes of food security that will bring changes in their living conditions.

SHOUHARDO program is being carried out by BURO Bangladesh in Tangail district. The area of operations covers 68 villages in 17 unions in four upazilas (sub-districts). The total beneficiaries include 19,097 very poor households. The program is being implemented with 42 staff and 150 volunteers. The program has five components that include capacity building of village development center (VDC), income generation activities, agriculture technology development, health & nutrition activities and humanitarian assistance. The

performance of BURO Bangladesh in the program is shown in table-7.

Table-7: Performance of the SHOUHARDO Project

SHOUHARDO Project: Basic Information	Coverage
District	Tangail
Number of Upazilla	4
Number of Union	17
Number of Villages	68
Beneficiary Households	19,097
Staffs	42
Volunteers	150

SHOUHARDO Project Performance	Coverage	Cost (BDT)
Capacity Building of Village Development Centre (VDC)	7,765	349,724
Income Generation Activities	4,062	13,596,997
Agriculture Technology Development	15,748	3,768,789
Health & Nutrition Activities	3,402	18,654,170
Humanitarian Assistance	7,408	3,067,610
Total		39,437,290

Agriculture and Micro Enterprise Financing

Agriculture Financing

BURO Bangladesh since its inception has been engaged in providing microfinance services to its customers spread over in different regions of the country. Of late, the organization has opened a new window for financing the small and marginal farmers. In fact, they are a segment, who finds it difficult to access either MFI or bank financing. BURO stresses utmost importance to the food security of the low-income clients. Financing the sector will help boost agriculture production and generate seasonal employment. In 2007, Bank Asia has provided BDT 100 million to BURO as agricultural loan. The loan is first of its kind for the organization. The loan has been disbursed through its four branches in two districts. An amount of BDT 150 million was disbursed to 15,915 farmers revolving the loan 1-5 times. The sub-sectors included pisciculture, fisheries, vegetable growing, banana cultivation and land tilling. The rate of loan recovery was 100%.

Along with financial assistance, the organization provided the farmers with various training. The training were given on a number of issues that positively influenced the lives of the clients. These include basic training for the customers on land practices, training on crop diversification, and modern technology dissemination for land cultivation.

Micro Enterprise Financing

Micro-enterprise financing is relatively a new phenomenon for the MFI sector. Generally, MFI staffs do not have requisite knowledge and experience to evaluate and manage loans to graduates and micro-enterprises. Various research studies show that there has been a growing demand for micro enterprise loans

among microcredit borrowers. There are several reasons for this increase: (i) MFIs generally provide small initial loan amounts (that is, some sort of credit rationing takes place); this limits opportunities to generate income and employment; (ii) as borrowers gradually learn how to manage larger loans they wish to initiate new or multiple projects that require additional funding; (iii) a certain percentage of enterprising and high-performing microcredit borrowers (the so-called “graduates” of microcredit programs) engage in ventures that require relatively larger loans than those normally disbursed by MFIs; and (iv) small businesses participating in microcredit or microenterprise programs form another group of potential customers for larger loans.

The micro-enterprise (ME) development is being recognized by BURO as an important means of economic empowerment of the poor. It is also providing Business Development Services (BDS) support to the entrepreneurs. Assistance includes areas ranging from the basics of money-management, book-keeping and basic accounting, through the development of market linkages to spur the growth of micro-enterprises.

During 2007, an amount of BDT 116.46 million was disbursed to 2,232 borrowers as opposed to BDT 86.12 million to 1,747 borrowers in 2006. The performance has increased in terms of borrowers as well as volume of disbursement. The sub-sectors include grocery, poultry farm, medicine shop, shoe making, cow rearing, tailoring, electric goods shop, hardware business, rickshaw garage, mobile phone shop, hotel business, spice grinding mill, mini garments, fisheries, furniture shop, rice stock business, etc. The rate of loan recovery is 100%.

Micro-Insurance

Micro-insurance has been introduced as a mechanism for reducing the vulnerability of the customers of the organization. Three types of customers, viz. the very poor, poor and micro-entrepreneurs and small & marginal farmers are covered. It secures their households against those risks that they are unable to protect themselves through informal mechanisms like savings or credit. BURO Bangladesh's micro-insurance (customers' security fund) has been promoted with two objectives that include social and commercial. The social objective is the recognition of social protection of the customers reducing the vulnerability of households toward income and consumption shocks that increases the ability to take advantage of economic opportunities and reduces the impact of household losses. The commercial objective assures the stability and the profitability of poor households by reducing the impact of customer risk on loan and savings portfolios, generating additional revenue, supporting risk management and reducing customers' vulnerability to economic stresses.

The poor and micro-entrepreneurs and small & marginal farmers customers have to pay premium of BDT 50 to BDT 200, while the very poor customers are required to pay BDT 30. The premiums are one-time payment in a year. The insurance yields three benefits after the death of the customer. First, cash benefits will be 100 times of the premium chosen. Secondly, the entire outstanding loan of the clients will be

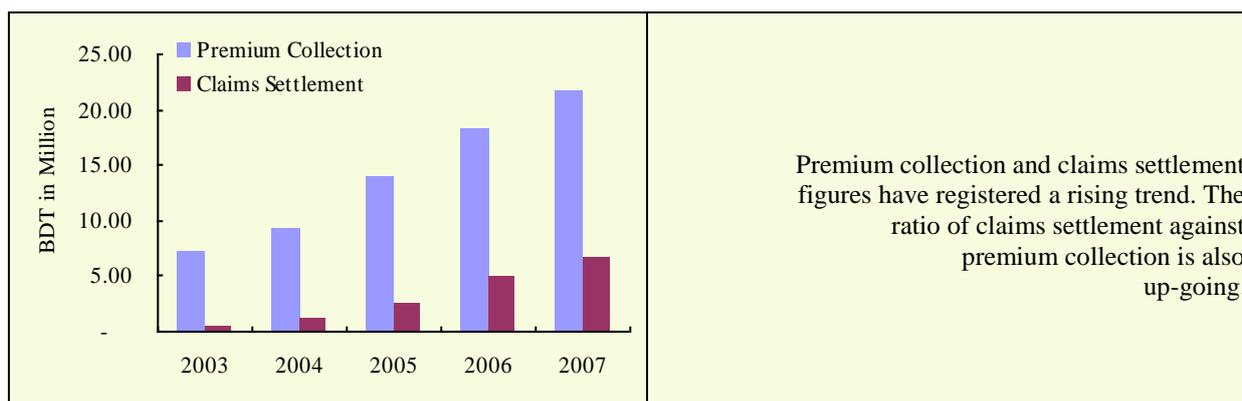
waived and thirdly, after the death of the principal loan guarantor, the family of the guarantor will also receive half of the cash benefits.

During the year, 331,458 insurance holders were registered against 290,374 in 2006 resulting in 14% increase. Premiums were collected to the tune of BDT 22 million compared to BDT 18 million in 2006 showing 22% rise. During the year, 1,593 claims were settled amounting BDT 6.67 million compared to 1,267 claims in the preceding year involving BDT 4.93 million. During the year, 31% payments were made for claim settlement against the premium collection. The portion of this insurance fund is used in the development of Kendra/Centre. So far, BDT 10 million was spent for the development of Kendra activities, which is 37% higher than the preceding year. The *Kendra* activities include buying sitting mats, signboards, attendance registers and *Kendra* house repairing/ renovations, etc. The details are exhibited in table-8.

Table-8: Yearly premium collection and claims settlement

"Amount in Million BDT"

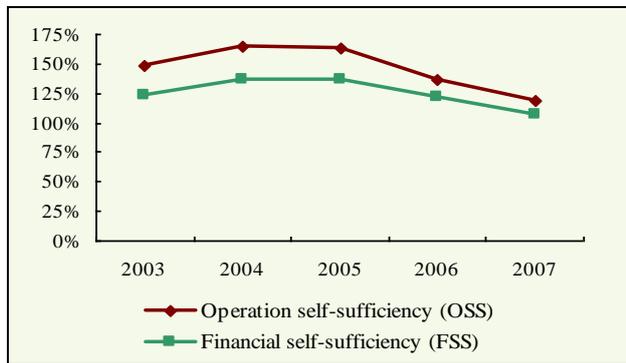
Year	Premium Collection		Claims Settlement		Kendra Expenditure BDT
	Nos.	BDT	Nos.	BDT	
2003	129,756	7.23	68	0.39	0.49
2004	161,917	9.16	199	1.12	0.91
2005	233,492	13.83	547	2.44	6.55
2006	290,374	18.20	1,267	4.93	7.31
2007	331,458	21.55	1,593	6.67	10.05



Financial Ratio Analysis

Sustainability and Profitability

BURO Bangladesh has been operating as a profitable and sustainable organization since 1998. This indicates the organization has established its ability to cover all costs through internally generated revenue by efficient use of all assets and the capital fund. During the year, the operational self-sufficiency (OSS) has decreased to 118% from 136% in 2006, while the financial self-sufficiency (FSS) has decreased to 107% from 122% in 2006. The fall has occurred due to significant increase of commercial capital aimed at major expansion. The full potentials of the investment could not be reaped in the year. The picture, however, will bounce back next year.



microfinance program expansion in new 57 branches, while required fund could not be disbursed in the field. These involved significant cost in hiring staff, providing training, meeting branch establishment cost and organizing customer groups in the field.

Portfolio Quality

Loan portfolio is the greatest asset of an MFI. Quality is characterized by low portfolio risk and high loan recovery rate. The organization has been maintaining a high quality portfolio of loans. The on-time loan recovery rate in 2007 was registered at 98.07% versus 98.17% in 2006.

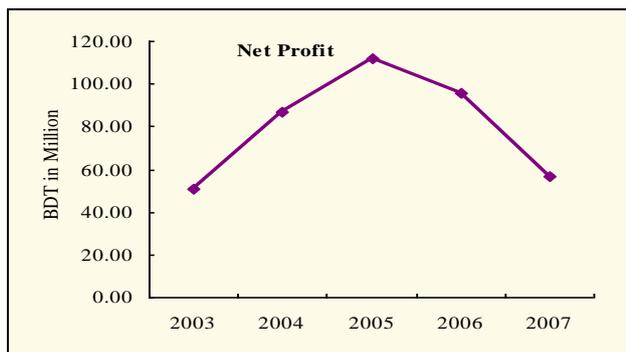
As on December 31, 2007, 94.43% of the

For operational self-sufficiency (OSS) and financial self-sufficiency (FSS), 100% is ideal for both the cases. Higher the ratio away from the ideal figure, the better its performance. The figures show an upward trend of the ratios except the previous and the current year. During the year, the operational self-sufficiency (OSS) has decreased to 118% from 136% in 2006 while the financial self-sufficiency (FSS) has decreased to 107% from 122% in 2006.

Net profit of BDT 57 million has been posted in 2007 compared to BDT 96 million in 2006. The decrease of net profit was 41% over the preceding year. The fall in the net profit has affected all profitability ratios. The return on performing assets was 28% compared to 29% in 2006. The return on equity (ROE) has stood at 9% compared to 18% in 2006.

The resultant fall in the profitability and sustainability has occurred due to rapid

portfolio has no payments in arrears at all, 3.62% is in arrears by 1-25 weeks and 1.95% by more than 26 weeks. Portfolio at risk (>60 days) was at 2.89% at the end of 2007, compared to 1.73% in 2006. Loan loss reserve ratio was figured out at 2.54% compared to 1.48% in the preceding year. The reserve contains adequate fund to absorb potential risks or capital losses. Loan write-off was made by 0.33% compared to 0.24% in 2006. Efforts to collect bad loans continued during the year. As per policy, the loan loss reserve requirement has been worked



Net profit shows a rising trend except for the previous and the current year. Net profit of BDT 57 million has been posted in 2007 compared to BDT 96 million in 2006. The decrease of net profit was 41% over the preceding year. This is due to initial cost of program expansion and that loan could not be disbursed as planned.

out at BDT 39 million while provision has been made at BDT 49 million. The ageing of portfolio is shown in table-9.

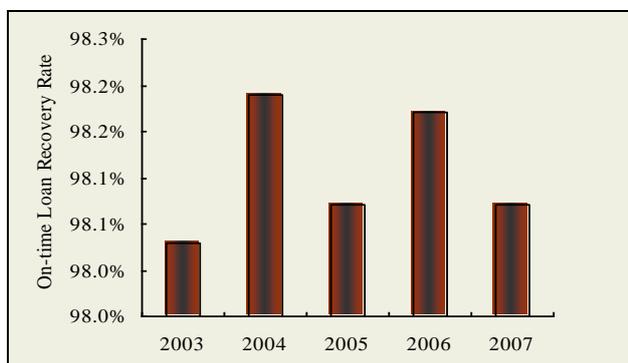
Table-9: Ageing of Portfolio as on December 31, 2007

#	Number of payments in arrears by weeks	Ageing of Portfolio		
		%	No. of Loans	BDT in Million
1	Current loan	94.43	314,026	1,835.59
2	1-4 payment past due	1.99	9,899	38.59
3	5-8 payment past due	0.69	3,147	13.39
4	9-16 payment past due	0.60	2,250	11.59
5	17-25 payment past due	0.34	1,093	6.70
6	26-50 payment past due	0.21	878	4.15
7	>50 payment past due	1.74	10,445	33.83
Total		100	341,738	1,943.84

Efficiency and Productivity

Efficiency and productivity ratios refer to the ability of the MFIs to minimize costs of operations. These ratios indicate whether the MFIs are maximizing the use of resources. Productivity refers to the volume of business that is generated (output) for a given resource or asset (input), while efficiency refers to the cost per unit of output.

The operating cost ratio, which is a measure of efficiency has increased to 16% in 2007 from 15% in 2006. The cost per unit of money lent has also increased slightly to BDT 0.07 from BDT 0.06 in 2006. The cost increase is mainly due to program expansion. The financial cost



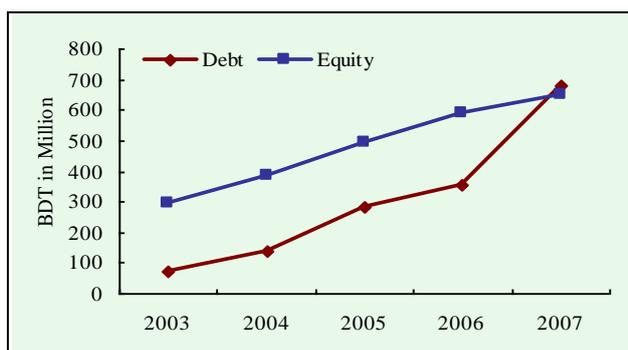
On-time loan recovery rate is still splendid. The rate is improving every year and never fell below 98%. It was 98.07% in 2007 compared to 98.17% in 2006.

Leverage Ratio

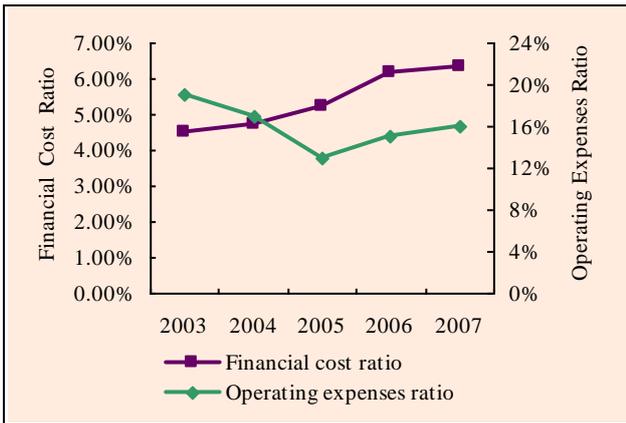
Leverage refers to the borrowed fund of an MFI relative to its equity. In 2007, the debt-equity ratio has been worked out at 51:49. Besides, the equity to total assets (capital adequacy) was at 29% and Debt Service Coverage Ratio was 1.37 times. The ratios are pretty favorable enough to encourage the lenders and the savers to have confidence in the organization.

ratio increased to 6.35% in 2007, compared to 6.15% in the preceding year. The increase has been largely due to payment of more interest on the increased volume of savings and loan interest to the lenders against increased commercial borrowing capital.

The customer/Program Organizer (Loan Officer) ratio has slightly fallen to 206 in 2007 from 213 in 2006. Unlike most MF-NGOs, a Program



The figures show a rising trend of debt and equity. The amount of debt has been increasing significantly since 2004. The debt equity ratio indicates huge capacity of the organization to absorb more debt.

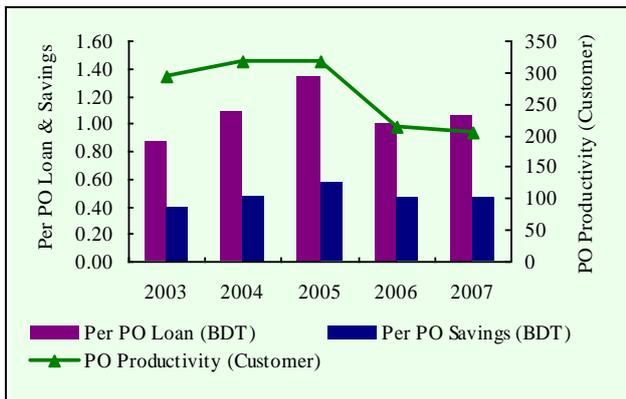


Financial cost ratio is showing a rising trend due to increased commercial borrowing as well as customers' increase savings mobilization. The ratio was 6.35% in 2007 compared to 6.15% in 2006.

The operating cost ratio has registered a continual fall until 2005. It has slightly gone up to 16% from 15% in 2006.

Organizer (PO) of the organization performs more than three types of financial transactions with a single customer. Thus this performance

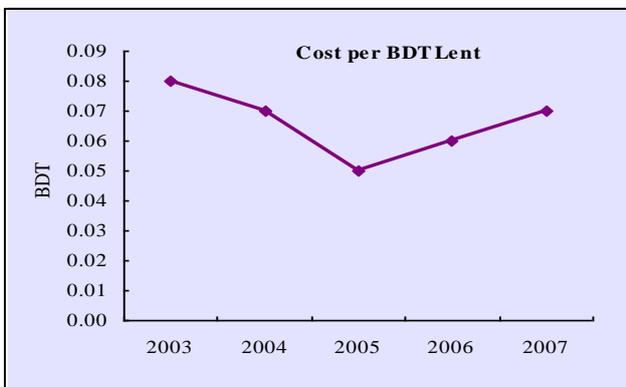
borrowed funds, client savings and retained earnings. The financial resources deployed stood at BDT 2,187.55 million as opposed to BDT



PO productivity in terms of customers handling shows a rising trend over the years except for 2006 and 2007, where it has fallen as the staff were hired but the targeted customers could not be enrolled. The PO productivity in terms of savings and loan outstanding is also showing an increasing trend in 2007.

clearly outstripped the average performance of a typical Loan Officer in the industry. The loan outstanding per PO has slightly risen to BDT 1,062,208 in 2007 from BDT 1,006,335 in 2006. The savings balance per PO has risen to BDT 467,450 from BDT 456,317 in 2006.

1,657.38 million in 2006 showing a significant increase of 32%. Of the total resources employed 30% is contributed by equity/own fund, 31% by commercial borrowing and 39% by client savings. The commercial borrowing



Cost per taka lent is an indicator of efficiency of an MFI. A lower cost is a positive indicator. Cost is falling continually over the years. This cost has risen marginally to BDT 0.07 in 2007 from BDT 0.06 in 2006 due to increased program development costs and relatively low disbursement.

Financing Mix

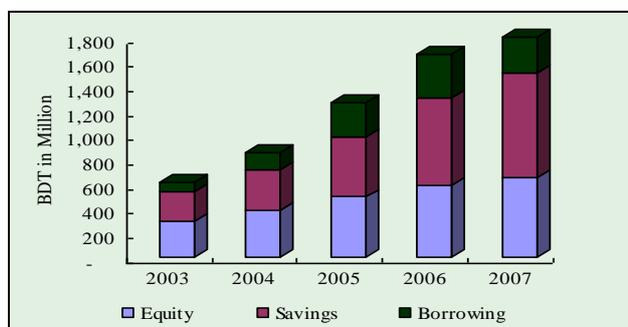
The overall capital has been growing steadily in the last couple of years with the infusion of

has increased to 31% from 22% in 2006. The average revolving loan fund (RLF) was used 1.95 times. The details of financing mix are shown in table-10.

Table-10: Yearly RLF as on December 31

“Amount in Million BDT”

Financial Resources Employed in RLF	2005		2006		2007	
	Taka	%	Taka	%	Taka	%
Equity/Net Worth	490.43	39%	590.50	35%	652.44	30%
Client Savings	492.44	39%	709.57	43%	855.43	39%
Commercial Borrowing	284.55	22%	357.31	22%	679.68	31%
Total	1,267.42	100%	1,657.38	100%	2,187.55	100%
Growth rate	48%		31%		32%	



The total funding has been growing over the years. With the growth of the financing mix, each of its components (equity, savings and borrowing) also registered a remarkable rise.

Asset Composition

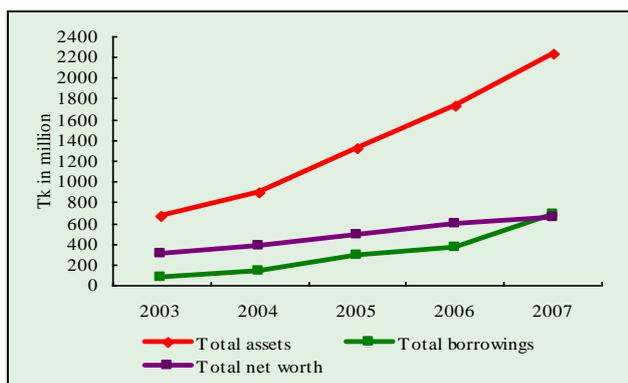
The asset structure shows that 85% of the total assets was held in terms of loan portfolio compared to 89% in 2006. The low figure was due to the fact that bank balance shot up to 6% as against 2% in 2006. In fact, about 4% disbursements were in the pipe line. Thus in

essence, the portfolio percentage is almost same. The fixed assets amounted to 4% as against 4% in the preceding year. The nature of fixed assets mostly included purchased plots of lands for office premises for head office and some branch offices. The long-term investments stood at 3%, while other current assets stood at 2%. The details are shown in table-11.

Table-11: Asset composition as on December 31

“Amount in Million BDT”

Assets Composition	2005		2006		2007	
	Taka	%	Taka	%	Taka	%
Fixed assets-net of accumulated depreciation	62.61	5%	76.08	4%	88.20	4%
Loan portfolio-net of loan loss reserve	1,143.72	87%	1,541.70	89%	1,894.43	85%
Investment	55.18	4%	60.01	3%	69.46	3%
Other current assets	18.48	1%	32.67	2%	50.14	2%
Cash and bank balance	37.85	3%	27.32	2%	123.35	6%
Total	1,317.84	100%	1,737.78	100%	2,225.57	100%
Growth rate	46%		32%		28%	



All the figures are showing a rising trend. However, the figure of total assets is sharply rising while borrowing and net worth are gradually growing.

Disaster Management

Bangladesh is a disaster prone country. People become victims of cyclone, tornadoes and flood almost every year, which worsen their poverty. Disaster management is therefore one of the vital programs of BURO Bangladesh. The program is primarily intended to deliver software services stressing on preventive measures that improves the knowledge of the community on comprehensive risk reduction culture. The disaster management from the organization is the use of continuously increased institutional capacity of the customers with the technical assistance from the organization.

Capability Functioning: The genesis of effective disaster management lies in exploring maximum utilization of capability functioning of disaster-affected victims. The infusion of knowledge from the external environment blended with the existing indigenous practices that the disaster-affected people had been practicing traditionally.

Transformation into Human Capital: The capability functioning of the disaster affected people is enhanced through transformation into human capital. Disaster management is intended to reduce economic erosion of the customers through providing two services. First, the disaster preparedness service and second, disaster response from the disaster affected people. Human capital at the state, community and family level are the most essential entities to transform the technological and capital assistance into building blocks for a permanent framework for mitigation and disaster reduction. Sensitization of the issue at every level is of paramount importance that will bring the use of preventive measures at the door of the community and family level.

Paradigm Shift: Disaster management is based on the paradigm shift of BURO Bangladesh from traditional interventions through relief toward more pragmatic, realistic and developmental approach for disaster management. Except under special

circumstances for relief operations that depends on the magnitude of devastations caused by disaster reliance on people's own capability functioning is the supreme maxim in disaster management by the organization.

Shared Sense of Ownership Feeling: Maximum utility in disaster management can be achieved through intermingling community people and local government, which will also avoid wastage of resources. Union Parishad, one of the local government tiers is the centripetal force for the community elite who represent different institutions followed by the community people in general, as such to proliferate the public awareness at a given locality. The non-government organizations have emerged among the strongest means to proliferate the public awareness. There are many examples that the community people, particularly the poor, have greater understanding due to constant efforts from NGOs about the means to abate the miseries by themselves during disaster. Strive for greater reliance within the limited resources is encouraging and just requires to fuel constantly to reduce their disaster losses.

Cooperation and Coordination: Sensitizing the issue at the state, community and family level will not be adequately enough rather cooperation and coordination between and among the different entities will materialize their growing awareness of interrelationships among disaster, environment and development. The potentialities of different concerned institutions as well as individuals and taking its application in combination will reduce the vulnerability of the community people, thus reducing human and economic losses due to disaster.

Cascade Effect: All the existing services delivery environment at the state, community and family level shall be symbiotic between and among each other with sensitizing the issue of disaster management and is the nucleus that will work instantaneously with all its instruments

operating while disaster will be imminent. The sensitization of the issue is imbibed in significant public awareness raising through education that will be provided not only through training but taking cascade effect of the given services to the concerned institutions and/or individuals.

Working with UN Country Team

BURO Bangladesh has been selected as a pre-qualified NGO to work with the UN Country Team in responding to disaster emergency in Bangladesh. In 2007, a total of 810 disaster management committee members at different administrative units of Rajshahi district were trained under Comprehensive Disaster Management Program (CDMP). This was funded by DFID and UNDP under Ministry of the Food and Disaster Management, Government of Bangladesh.

Managing the Disaster Fund

There is no scope of charitable work in microfinance. However, during any natural calamity BURO Bangladesh comes forward to the aid of its affected customers. In this context, BURO Bangladesh has set up a disaster fund. Affected customers can take loans at a cheaper

rate to recuperate their damaged business activities. The fund is placed with a bank that earns interest. Three donors viz. SIDA, SDC and DFID provided grants of BDT 30.24 million, so far, which now stands at BDT 52.59 million resulting in an increase of 74%.

Emergency Response

During the emergency period, BURO Bangladesh distributed 263,895 survival food packets that includes 243,479 packets for flood victims in 10 districts and 20,416 packets for another 2 districts affected by cyclone-SIDR. This emergency aid was provided with the financial support from UNDP, DFID, WFP, UNICEF, CARE-ECHO, FLAG, CAN, City of Joy Foundation, Madrid Municipality and own fund. A total of 29 food and non-food items were distributed. The major items included 5,000 metric tons of rice, 48 metric tons of high protein biscuits, 20 metric tons of flattened rice, 4 metric tons of molasses, 4,000 liter of edible oil, women and children clothing, etc. BURO Bangladesh has also donated BDT 50,000 and BDT 40,000 to the Deputy Commissioner of Tangail and Deputy Director of Tangail social welfare for relief operation respectively.

Human Resource Development (HRD)

The objective of human resource development is to orient, train and develop the employees of the organization by improving the skills, knowledge, abilities and competencies. The objective is also to maximize the return on investment from the organization's human capital. In fact, it aims to improve the productive contribution of individuals while simultaneously attempting to attain other societal and individual employee objectives. BURO Bangladesh has taken major initiatives since 1995 in regard to HRD with the strategy to increase the productive efficiency of the organization through creating human capital at organization and grassroots level. The formation of human capital will lower the costs of the services to the organization.

The organization organizes training both for its customers and staff. Staff training is very rigorous that is used to build their capacity. Capacity building enhanced the ability of the institution to materialize its action plans and achieve the stated mission. It is being accomplished in three ways viz. increasing the knowledge based capacity of the staff, formalizing systems & procedures as well as strengthening the existing systems in the organization and learning from trial and errors over time. The core areas considered for capacity building include: loan portfolio management improvement, loan balancing, consolidation of on-time recovery, aging of overdue, monitoring tools development, MIS tracking, product costing, etc.

Customer Development Training

Basic Life Management (BLM)

The BLM training is imparted when the customers meet regularly to carry out financial transactions and discuss the basic issues of their lives.

Awareness Raising

The training addresses a variety of social and human issues that encompasses group mobilisation, literacy, afforestation, family planning, health and sanitation, income generation, saving, and human rights.

Enterprise Development Training

The micro-enterprise development initiatives are considered as an important means of economic empowerment. It provides financial and technical assistance services to its entrepreneurial clients that include a series of training courses for them e.g. new business creation, quality product development, simple book-keeping and accounting, business planning and management, trade based skill development, etc.

Annual Kendra Chief Workshop

To continue information and experience sharing at regular intervals among the Kendra Chiefs, The organization has initiated an annual Kendra Chief Workshop in 1992. This type of workshop enables experience sharing among all the Kendra Chiefs of a particular branch that results into more productive program management.

Staff Development Training

The staff training program has produced clear impact in improving the professional capacity of staff, particularly the operational staff. BURO Bangladesh has decentralized its functions, authority and responsibility down to the branches. It is now fairly satisfied with the managerial and operational skills of the branch managers, which outperform the usual norms in the industry. The staff training has four components, which include the following:

Foundation

Once recruitment of new staff is finalized for head office and branch offices, the staff are provided with a 12-day foundation training that gives an overview of BURO Bangladesh and its operations.

On-the-Job

The training is intended to enhance the skill and set the attitude of staff by filling in the gaps in their professional understanding, and updating them with appropriate knowledge.

Development Management Program

The program is a major priority for the organization to support the objective to create and develop awareness, capacity and skills in

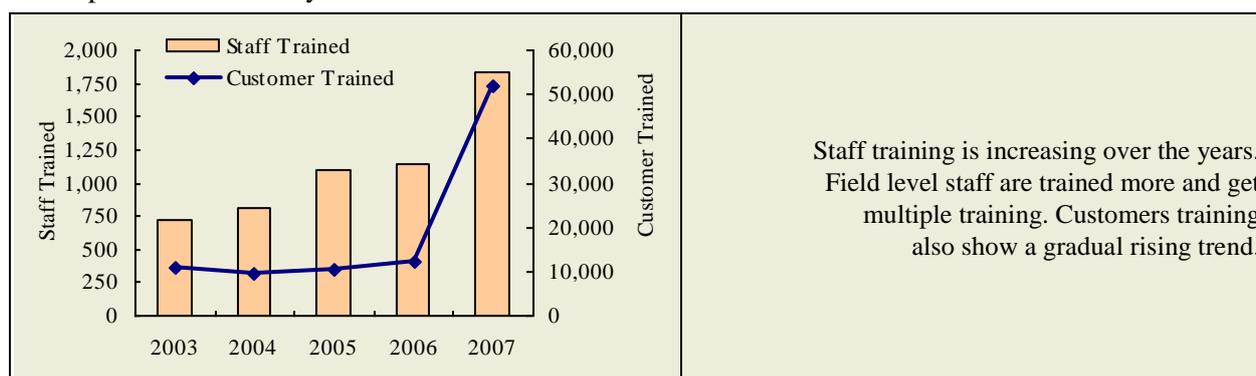
order to enable managers to think, analyze and act positively.

Microfinance Accreditation Program

The Citigroup and the Asian Institute of Management (AIM), Philippines entered into a partnership to develop a pool of qualified microfinance trainers in Asian countries who can effectively deliver Citigroup's microfinance courses using participatory training methodology towards enhancing the technical and management capacity of participating MFIs on a cost-effective and sustainable basis. BURO Bangladesh sent four participants for two training courses: (i) Quality Training for MFIs and (ii) Credit and Risk Management. Both the courses were designed for the microfinance trainers and managers who will later effectively deliver these courses with their own staff using participatory methodology. Accordingly BURO organized 4 batches of rollouts for its 80 senior and mid-level managers in 2007.

HRD Impacted Positively

The organization gives stress on the development of efficiency of staff at all levels. It



always earmarks an adequate fund for staff development. The investment in human resource development has impacted positively. Effective leadership has been created at different levels. Productivity of staff has risen considerably and this has resulted in scaling up efficiency of operations.

HRD Performance

During the year, 1,836 staff received training (both internal and external) as against 1,145 in 2006 indicating a 60% increase. On the other

hand, 51,887 customers were trained as against 12,025 in 2006 resulting in 4 times increase. These training were, however, organized as per target and needs of the customers. The detail statistics of training and the incurred costs during the last two years appear in table-12.

Table-12: HRD recipients: participants and costs as on December 31

Particulars	Participants		Cost (BDT Million)	
	2006	2007	2006	2007
Internal Staff Training				
Foundation	681	609	3.09	3.08
On-the-Job	-	25	-	0.02
Refresher	142	832	0.75	2.65
Development	269	352	1.11	0.90
External Staff Training				
MDP	53	18	2.38	1.35
Sub-Total	1,145	1,836	7.33	8.00
Customers Training				
Annual Workshop	12,025	12,200	3.88	4.00
Awareness	-	38,845	-	7.20
Disaster	-	842	-	1.80
Sub-Total	12,025	51,887	3.88	13.00
Total	13,170	53,723	11.21	21.00

Staff training is increasing over the years. Field level staff are trained more and get multiple training. Customers training also show a gradual rising trend.

Training Cost

All training programs were financed from the organizations' own fund. During the year, a total of BDT 21 million was incurred compared to BDT 11.21 million in 2006 resulting in almost 2 times.

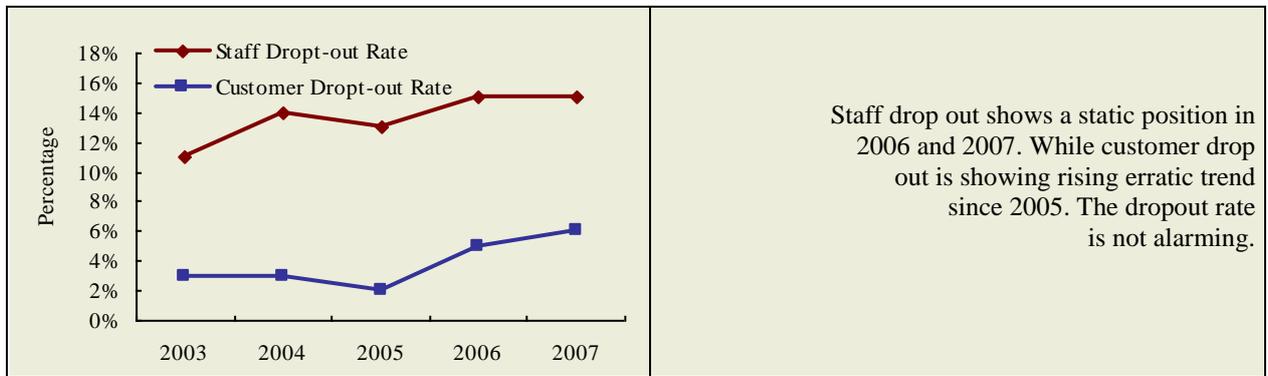
The cost of staff training involved BDT 8 million and that of customers BDT 13 million in 2007 compared to BDT 7.33 million and BDT 3.88 million respectively in 2006. Staff development

cost per participant was worked out at BDT 4,362 as opposed to BDT 6,396 in 2006. The client development cost was BDT 250 per client as opposed to BDT 323 in 2006.

Staff Position and Recruitment

The organization has a total of 2,537 staff that includes 2,004 male (79%) and 533 (21%) female. The head office maintains a staff size of

52. In 2007, 922 staff were recruited mostly at the entry level to fill up the opening positions at branch level. The staff dropout rate has gone slightly higher to 15% in 2007. This is due to the highly professionalized skill of BURO Bangladesh staff in the industry, who mostly get positions elsewhere two to three rungs above in the career ladder.



Staff drop out shows a static position in 2006 and 2007. While customer drop out is showing rising erratic trend since 2005. The dropout rate is not alarming.

Non Financial Development Services

Business Development Services (BDS)

A Continuous Process: Employment and income generation is one of the most important area for macroeconomic stability for poverty reduction through reducing income equality within inter and intra-target groups and between the target and non-target groups. Employment and income generation is a continuous process, that is, investments in micro enterprise development shall open further investment opportunities.

Comparative Advantage: BURO Bangladesh focuses on employment opportunities in the rural areas, particularly in non-conventional businesses either existing or new with fewer risks but who have gained certain specialization in business development. The infusion of further knowledge will enhance the development of rural and urban linkages in economic activity, further resulting into modernization of economy and also linkage between the farm and non-farm sector to promote economic growth in the country.

Fundamental Barriers: Inadequate information, poor education, insufficient technical skills and inadequate access to market are the fundamental barriers to the growth of micro enterprises. The participation of suppliers of goods and services in the markets is effectively constrained because of these barriers. As such, all the stated barriers are required to address to mainstream these MEs into development process of the country.

Technology Transfer: One such means to remove the fundamental barriers is the technology transfer that BURO Bangladesh emphasizes on, instead of limiting itself to employment related skill development training on the basis of the demands from its customers. BURO Bangladesh reaches the training services to individual household level that facilitates their participation in the highly competitive market. Quality seed production is one such example that spreads the technology among the active members of an individual household where each member works as both consumer and producer.

Labor Demand: The micro enterprises (MEs) are the firms and will demand labor from the households and at the same time, households will supply labor but will demand better wages, as such squeezed participation in the market by the firms will jeopardize the labor supply from the households. Thus, the program is intended to facilitate BDS to the grassroots MEs to run their businesses in a sustainable manner and create a sustainable BDS market that also benefit both consumers (firms) and suppliers (households) in the labor market.

Market Linkages

BURO Bangladesh has already established market linkages in Dhaka whereby a group of producers from Tangail are directly selling handloom products and pineapples. The producers are getting reasonably fair price.

Quality Seed Production Program

The project on 'Promoting farmers' group seed promotion program' was launched by the government of Bangladesh supported by Denmark. The main objective of the program was to ensure increased production and supply of quality seeds through formation of seed producing farmers' groups in different places of the country on a sustainable basis.

BURO Bangladesh implemented this project in Tangail and Gazipur districts.

During the year, BURO Bangladesh formed 12 seed producing farmer groups where a total of 350 farmers were given 650 kgs quality paddy seeds. They finally produced 65 tons of seeds. Farmers are being immensely benefited financially as their crop production is significantly going up.

Operations Research (R&D)

BURO Bangladesh continues to conduct operations research to enhance the flexibility and responsiveness of its financial services. The outcome is used to design, refine and improve quality services. The organization always offers its members an easy access to their savings deposits compared to other well-known NGOs/MFIs in the country.

Technical Assistance Service Provider

BURO Bangladesh's operations system is being appreciated by many at home and abroad. There are many MFIs around the globe from where practitioners and others come to learn about its systems and operations. Animated by this response, the organization has meanwhile started providing such assistance. During the year, one program officer of BURO Bangladesh was hired by Stormme Foundation to provide training and help design its projects in Sri Lanka.

Rural Water Supply

Arsenic contamination of ground water is of grave concern in Bangladesh. For reducing the health hazards due to arsenic contamination, the World Bank has planned to provide financial grants support of 40-50% for piloting village piped water supply project. BURO Bangladesh has been selected to work in this field. In this context, it is implementing the project in Puran Baushia village in Gazaria Upazila of Munshigonj District.

The Rural Water Supply project has been launched in Puran Bausia village (Gazaria Upazilas, Munshigonj district) in mid 2004. The objective is to combat arsenic contamination of ground water. This initiative has been undertaken with the financial support of Social Development Foundation (SDF)/The World Bank.

The project aims at supplying water free from arsenic, iron and other harmful elements to 796 households, which include 269 poor and 36 very poor households, through a piped network at commercial terms, i.e. at a price that is affordable for the targeted population and making the project commercially viable. The number of households that were connected has stood at 225 currently including 5% households that are covered from hardcore poor community.

The total cost of the project is BDT 5.52 million. The community contribution is BDT 0.55 million (10%). BURO Bangladesh will put in BDT 2.21 million (40%) while SDF/The World Bank will provide BDT 2.76 million (50%).

Audit Report

S. F. AHMED & CO
Chartered Accountants

Auditors' report on financial statements of BURO Bangladesh
for the year ended 31 December 2007

We have audited the accompanying financial statements of BURO Bangladesh, namely, Balance Sheet as of 31 December 2007 and related Income and Expenditures Statement, Receipts and Payments Statement, Cash Flow Statement and notes thereto for the year ended on that date. The preparation of these financial statements is the responsibility of BURO Bangladesh's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Bangladesh Standards on Auditing. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the financial values of transactions and their disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

We accordingly report that:

- (a) we have obtained all the documents, information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit, and made due verification thereof;
- (b) in our opinion, proper books of account and other requisite records as required by law were maintained by BURO Bangladesh so far as it appeared from our examination of those books and records; and
- (c) the said financial statements dealt with by this report are in agreement with the books of account maintained by BURO Bangladesh.

House 25, Road 13A, Block D
Banani, Dhaka 1213, Bangladesh
Dated, 18 March 2008

S. F. AHMED & CO
Chartered Accountants

BURO Bangladesh**Balance Sheet at 31 December 2007**

	Notes	Amounts in Taka	
		At 31 Dec. 2007	At 31 Dec. 2006
PROPERTY AND ASSETS			
Current Assets			
Cash and bank balances	4	123,349,415	27,319,709
Investments	5	69,456,423	60,007,222
Other current assets	6	50,218,006	32,671,913
Loan portfolio - net of loan loss reserve	7	1,894,426,400	1,541,702,795
Total Current Assets		2,137,450,244	1,661,701,639
Long - Term Assets			
Fixed assets - net of accumulated depreciation	8	88,198,229	76,082,670
Total Long - Term Assets		88,198,229	76,082,670
Total Assets		2,225,648,473	1,737,784,309
LIABILITIES AND FUNDS			
Current Liabilities			
Employees' security deposits	9	19,083,809	16,232,053
Customers' general savings	10	281,425,513	234,798,242
Bank overdraft	11	117,176,758	62,860,010
Other liabilities	12	183,498	302,991
Total Current Liabilities		417,869,578	314,193,296
Long - Term Liabilities			
Customers' time savings	13	996,088	4,470,426
Customers' regular voluntary savings	14	539,539,250	439,751,124
Customers' emergency fund	15	4,341,495	6,255,419
Customers' micro insurance fund	16	29,130,889	24,297,577
Borrowing from specialised institutions	17	108,187,500	99,437,500
Borrowing from commercial banks	18	346,792,505	220,085,357
Borrowing from non-banking financial institutions	19	126,355,096	37,782,762
Loans for purchase of office vehicles		-	1,010,830
Total Long - Term Liabilities		1,155,342,823	833,090,995
Funds and Surplus			
Revolving loan fund (donors' grant)	20	138,815,884	138,815,884
Emergency disaster fund (donors' grant)	21	52,594,801	47,372,888
Accumulated surplus	22	461,025,387	404,311,246
Total Net Worth		652,436,072	590,500,018
Total Liabilities and Net Worth		2,225,648,473	1,737,784,309

for BURO Bangladesh

(S K Sarkar)
President**(Zakir Hossain)**
Executive Director**(M. Mosharrof Hossain)**
Finance Director

Signed in terms of our report of even date annexed

House 25, Road 13A, Block D
Banani, Dhaka 1213, Bangladesh
Dated, 18 March 2008S. F. AHMED & CO
Chartered Accountants

BURO Bangladesh**Income and Expenditures Statement for the year ended 31 December 2007**

	Notes	Amounts in Taka	
		Year ended 31 Dec. 2007	Year ended 31 Dec. 2006
A Financial and Micro-Credit Income			
Interest on loan (Service charge)		475,173,170	381,546,399
Interest on bank deposits		1,139,140	860,599
Sale of forms		15,143,544	14,289,612
Admission fee		3,829,260	3,169,980
Others		1,920,582	2,526,532
Total Financial and Micro-Credit Income (A)		<u>497,205,696</u>	<u>402,393,122</u>
B Financial Costs			
Interest on borrowings from banks, etc	23	64,894,549	47,852,804
Interest on customers' savings	24	48,462,801	38,318,547
Total Financial Costs (B)		<u>113,357,350</u>	<u>86,171,351</u>
C Gross Financial Margin (A-B)		<u>383,848,346</u>	<u>316,221,771</u>
D Provision for loan losses	7	<u>32,056,500</u>	<u>11,044,000</u>
E Net Financial Margin (C-D)		<u>351,791,846</u>	<u>305,177,771</u>
F Operating Expenses			
Salary and allowances	25	205,500,913	142,289,760
Rental-office		17,025,766	9,950,013
Payment to national exchequer	26	1,163,171	1,688,648
Transportation	27	17,427,628	10,741,835
Training and research	28	20,226,899	11,060,849
Office supplies		8,185,784	7,298,253
Depreciation	8	5,936,185	7,134,026
Audit fees	29	214,268	145,000
Other professional fees	30	1,304,944	1,656,000
Disaster expenses		905,133	-
Other direct cost	31	17,187,014	17,313,397
Total Operating Expenses (F)		<u>295,077,705</u>	<u>209,277,781</u>
G Net Income from Operations (E-F)		<u>56,714,141</u>	<u>95,899,990</u>

for BURO Bangladesh

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BURO Bangladesh

Cash Flow Statement for the year ended 31 December 2007

	Amounts in Taka	
	Year ended 31 Dec. 2007	Year ended 31 Dec. 2006
Cash Flows from Operating Activities		
Net operational income	56,714,141	95,899,990
Adjustments to determine net cash from operating activities:		
Depreciation on fixed assets	5,936,185	7,134,026
Loan loss provision	32,056,500	11,044,000
Increase in other current assets	(17,546,093)	(14,194,111)
Increase/(Decrease) in current liabilities	103,676,282	30,353,321
Net cash from operating activities	180,837,015	130,237,226
Cash Flows from Investing Activities		
Net increase in loan portfolio	(384,780,105)	(409,025,269)
Increase in investment	(9,449,201)	(4,828,367)
Purchase of fixed assets	(18,051,745)	(20,981,851)
Disposal of fixed assets	1	76
Net cash used in investment activities	(412,281,050)	(434,835,411)
Cash Flows from Financing Activities		
Increase in clients' savings	94,399,864	211,172,771
Increase in borrowing	224,029,482	72,752,245
Increase in customers' micro insurance fund	4,833,312	5,964,638
Increase in emergency disaster fund	5,221,913	4,174,199
Loan repaid to banks - vehicle loans	(1,010,830)	-
Net cash from financing activities	327,473,741	294,063,853
Net Increase/(Decrease) in Cash	96,029,706	(10,534,332)
Opening Cash and Bank Balances	27,319,709	37,854,041
Closing Cash and Bank Balances	123,349,415	27,319,709

for BURO Bangladesh

(S K Sarkar)
President

(Zakir Hossain)
Executive Director

(M. Mosharrof Hossain)
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House 25, Road 13A, Block D
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Dated, 18 March 2008

S. F. AHMED & CO
Chartered Accountants

BURO Bangladesh**Statement of Changes in Equity for the year ended 31 December 2007**

Particulars	Donors' Grant			Amounts in BDT	
	Revolving loan fund	Emergency disaster fund	Fixed assets fund	Accumulated Surplus	Total

For the year 2007

Balance at 01 January 2007	138,815,884	47,372,888	-	404,311,246	590,500,018
Addition during the year	-	<u>5,221,913</u>	-	<u>56,714,141</u>	<u>61,936,054</u>
Balance at 31 December 2007	<u>138,815,884</u>	<u>52,594,801</u>	<u>-</u>	<u>461,025,387</u>	<u>652,436,072</u>

For the year 2006

Balance at 01 January 2006	138,815,884	43,198,689	375,814	308,411,256	490,801,643
Addition during the year	-	4,174,199	-	95,899,990	100,074,189
Adjustment/transfer during the year	-	-	<u>(375,814)</u>	-	<u>(375,814)</u>
Balance at 31 December 2006	<u>138,815,884</u>	<u>47,372,888</u>	<u>-</u>	<u>404,311,246</u>	<u>590,500,018</u>

for BURO Bangladesh

(S K Sarkar)
President**(Zakir Hossain)**
Executive Director**(M. Mosharrof Hossain)**
Finance Director

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Chartered Accountants

BURO Bangladesh

Statement of Liquidity Analysis (Maturity of Assets and Liabilities) at 31 December 2007

Particulars	Up to 1 month's maturity	1-3 months' maturity	3 -12 months' maturity	1 -5 years' maturity	More than 5 years' maturity	Total
Assets						
Cash	4,583,953	-	-	-	-	4,583,953
Bank Balance	118,765,462	-	-	-	-	118,765,462
Investment	-	-	69,456,423	-	-	69,456,423
Other Current Assets	2,785,578	5,571,156	25,702,317	16,081,357	-	50,140,408
Loan Portfolio	157,868,866	315,737,734	1,420,819,800	-	-	1,894,426,400
Fixed Assets	-	-	-	12,008,706	76,189,523	88,198,229
Total Assets:	284,003,859	321,308,890	1,515,978,540	28,090,063	76,189,523	2,225,570,875
Liabilities						
Borrowings	5,631,308	132,973,281	325,518,304	117,212,208	-	581,335,101
Savings	40,292,520	80,585,041	362,632,688	270,760,482	67,690,120	821,960,851
Other Liabilities	1,702,221	3,192,640	133,543,639	24,536,808	6,863,544	169,838,852
Total Liabilities :	47,626,049	216,750,962	821,694,631	412,509,498	74,553,664	1,573,134,804
Net Liquidity Excess/ (Shortage)	236,377,810	104,557,928	694,283,909	(384,419,435)	1,635,859	652,436,071
Percentage of Net Liquidity Difference	83.23	32.54	45.80	(1,368.52)	2.15	29.32

Assumptions applied in the preparation of the maturity analysis are as under:

- i) Investments are on the basis of their respective maturity.
- ii) Other current assets are on the basis of their realisation.
- iii) Loan portfolio is on the basis of realisation/recovery.
- iv) Fixed assets are on the basis of their useful lives.
- vi) Borrowings are on the basis of their repayments.
- vii) Savings and other liabilities are on the basis of their maturity and repayments.

for BURO Bangladesh

(S K Sarkar)
President

(Zakir Hossain)
Executive Director

(M. Mosharrof Hossain)
Finance Director

Signed in terms of our report of even date annexed

House 25, Road 13A, Block D
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Dated, 18 March 2008

S. F. AHMED & CO
Chartered Accountants

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

General

1. Organisation

BURO Bangladesh is a national 'not-for-profit' organization that was set up in 1990 with a view to work for the poor on sustainable basis to reduce poverty. It is a specialized micro-finance institution that provides high quality flexible financial services to low-income people. The organization is responsive to diverse financial needs of customers. Its financial services constitute multiple loans, savings, micro-insurance and remittance services. The recipients of micro-financial services are poor, particularly women. Remittance services are provided to the relatives of overseas Bangladeshi.

BURO Bangladesh is governed by a seven-member governing body and its management is vested in a four-member operational board of directors. The governing body is elected by the general body of 15 members in annual general meeting.

The organization is registered under the Societies Registration Act 1860, the Voluntary Social Welfare Agencies (Registration and Control) Ordinance 1961 and the Foreign Donations (Voluntary Activities) Regulation Ordinance 1978.

2. Significant Accounting Policies

2.1 Basis of accounting

The accounts are prepared on accrual basis, except for interest on loans which is accounted on a cash basis, under historical cost convention in conformance with generally accepted accounting principles. Wherever appropriate, such principles are explained in the succeeding notes.

2.2 Going concern assumption

The financial statements are prepared under the going concern concept where it is assumed by the management of BURO Bangladesh that the entity will continue with its operations in the future with no foreseeable intention of bringing about any structural changes. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

2.3 Accounting for grants and donation

Grants and donations related to operations (revenue) are recognised as income for the relevant period and shown in Income and Expenditures Statement below the heading 'net income from operations'. Grants and donations for periods beyond the current operating year are recorded under liabilities as deferred grant revenue.

BURO Bangladesh reports grants and donations for loan funds and fixed assets in the Balance Sheet under funds and surplus. An amount equal to the current year's depreciation is charged to fixed assets fund (donor's grant) over the useful lives of the assets that were acquired from donors' grant.

Donations in-kind that are received are disclosed at their estimated costs. However, no grants and donations in kind were received by BURO Bangladesh during the year under reporting.

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

2.4 Depreciation on fixed assets

Fixed assets are recorded in the books at actual cost. Depreciation on these assets, except land and land development, is charged on a straight-line method at the following rates based on the nature and estimated useful life of each asset:

<u>Asset category</u>	<u>Rate of depreciation (%)</u>
Building construction	25
Electrical equipment	25
Office equipment	20
Furniture and fixtures	20
Motor vehicles	30

Full year's depreciation is charged on fixed assets during the year of acquisition and no depreciation is charged during the year of disposal.

A portion of depreciation is charged to fixed assets fund (donors' grant), for the assets acquired from this fund, and the balance to revenue account (Income and Expenditures Statement).

2.5 Provision for loan losses and writing off policy

The adequacy of the provision for loan losses is evaluated regularly by management. Factors considered in evaluating the adequacy of the provision include size of portfolio, previous experience in loan recovery, current economic conditions and their effect on customers, financial condition of individual customers, and performance of individual loans in relation to contract terms. The provision for loan losses charged to expense is based on management's judgment of the amount necessary to maintain the provision at an adequate level to absorb possible losses.

Management makes provisions for loan losses every quarter in order to maintain the loan loss reserve for bad loans at adequate levels. The adequacy of the provision for loan losses is determined by applying defined percentages to the outstanding balances in various aging categories, as under:

<u>Loan overdue status (weeks)</u>	<u>Provision (%)</u>
1-4	0
5-8	10
9-25	15
26-50	25
above 50	100

The organisation's loan loss provision policy is based on management's analysis of historical performance of the overdue portfolio, aged by the overdue categories as mentioned above. The write-offs of loans, if necessary, are charged against the provision for loan losses when management believes that the loan amount is unlikely to be collected. Such doubtful loans are written off in full after one year of the loan term.

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

2.6 Interest on loan (service charge)

The rate of interest for all types of loan, except disaster loan, given to customers is 15% per annum according to the policy of BURO Bangladesh. The rate of interest for disaster loan is 10% per annum. The interest rate for all types of loan for hardcore poor customers is 12.50%.

2.7 Asset/liability management

Asset/liability management has become an almost universally accepted approach to risk management. BURO Bangladesh is managing its assets/liabilities in order to provide efficient and effective services at competitive prices. It manages the sources and uses the funds, identifying balance sheet management issues like balance sheet gaps, interest rate gaps, etc and also reviews liquidity contingency plan and implements liability pricing strategy.

2.8 Preparation of Balance Sheet

The Balance Sheet of BURO Bangladesh has been prepared by consolidating the Balance Sheets of 230 branch offices and Head Office.

2.9 Comparative information

Comparative information is disclosed in respect of every year including all the numerical information in the financial statements, and also descriptive information is given when it is relevant to an understanding of the current year's financial statements.

2.10 Transactions in foreign currencies

There were no foreign currency transactions during the year but the policy of BURO Bangladesh is to translate the transactions in foreign currencies into local currency at exchange rates prevalent on the respective dates of transactions.

2.11 Employee benefit schemes

Provident Fund

BURO Bangladesh, or the Institution, operates a contributory provident fund benefits from which are given to its employees in accordance with its policies. National Board of Revenue (NBR) approved and recognised this fund for the purpose of taxation. The fund is operated by a board of trustees consisting of seven members selected from the employees of the Institution. All permanent employees of the Institution are contributing monthly to the fund an amount equal to 5% to 20% of their basic salaries. The Institution also contributes 10% of the employees' basic salary to the fund each month. Interest earned from the investment is credited to the employees' accounts on a yearly basis and this fund is audited every year by a firm of chartered accountants.

Gratuity Fund

The Institution operates a gratuity scheme for its permanent employees and maintains a separate account for this. Gratuity is payable from the fund to staff leaving the Institution at the rate of one month's basic salary last drawn for each completed year of service after completion of five years' uninterrupted service.

Health Fund

The Institution makes a provision and contributes to health fund every year and maintains a separate account for this. Every permanent employee, who completed two years of service, is entitled to receive the grant from health fund in accordance with the rules of the Institution.

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

Housing Fund

The Institution operates a housing fund and maintains a separate account for this. Employees are entitled to receive this benefit once they have completed at least seven years' service. The benefit from housing fund is accessible in the form of a loan bearing 5% simple interest per annum.

Staff Family Security Fund

The Institution operates a mandatory staff family security fund for its regular staff in order to reduce the future uncertainties that could affect their families. The fund is managed by a separate board as per the Institution's policy. All employees of the Institution are eligible to become members of the fund by contributing Taka 100 each as subscription per month. If a regular staff dies during his/her tenure of service, the nominee/nominees of the said staff will be entitled to receive a one-time grant of Taka 50,000. If some one leaves the Institution after two years of service, he/she will get back the money deposited so far. In case the staff leaves before completing two years of service, he/she will not be entitled to get back any amount.

3. Significant Policy on Financial Services

3.1 Savings services

All savings are payable to the customers on demand. The organization offers savings services to all its clients keeping in view of the following:

- i. The poor people have a formidable capacity of savings. The organization provides a secured place to keep savings, increasing financial strength and capital growth of the customers with a view to reduce their dependency on external resources; and
- ii. Improving the sustainability of the institution by developing a relatively stable means to finance its loan portfolio.

3.2 Loan services

The organization stresses on supporting economic activities to generate employment and income to reduce income inequality among the disadvantaged and the poor. The loan products have been developed in response to the demand of its customers. Policy on loan services is under:

- i. The organization gives loans as and when customers want them to support their economic activities.
- ii. Loans are not linked to savings balances – loans and savings services have been completely de-linked and made entirely voluntary.
- iii. In addition to existing loan(s), the customers can take short-term loan for meeting any emergency needs.

3.3 Micro insurance services

Micro insurance has been introduced considering two aspects, namely social protection and economic protection as narrated below.

- i. The social protection of the customers is necessary to reduce the vulnerability of households to income and consumption shocks.
- ii. The economic protection is to increase the stability and profitability of poor households through reducing the impact of customer risk on loan and savings portfolios, generating additional revenue, supporting risk management, and reducing customers' vulnerability to economic stresses.

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

3.4 Remittance services

The primary purpose is to integrate the organization with formal financial system and their mainstream clientele for increased linkage.

Balance Sheet

	Amounts in Taka	
	At 31 Dec. 2007	At 31 Dec. 2006
4. Cash and Bank Balances		
Cash in hand	4,583,953	12,059,990
Cash at banks in		
Current accounts	117,594,259	14,731,903
Savings accounts	1,039,456	92,216
Term-deposit accounts	131,747	435,600
	<u>118,765,462</u>	<u>15,259,719</u>
	<u>123,349,415</u>	<u>27,319,709</u>
5. Investments		
Purchase of five shops (possession) in Tangail town	750,200	750,200
Fixed deposits with banks against		
Staff security deposit		
BRAC Bank Limited	8,537,698	7,654,168
Emergency disaster fund		
Sonal Bank Limited	-	11,103,978
Jamuna Bank Limited	1,782,534	1,602,717
Bank Asia Limited	15,000,000	-
BRAC Bank Limited	43,385,991	38,896,159
	<u>60,168,525</u>	<u>51,602,854</u>
	<u>69,456,423</u>	<u>60,007,222</u>
6. Other Current Assets		
Security deposits		
Bangladesh Telegraph and Telephone Board	66,520	66,520
Grameen Phone	239,751	239,751
GSP Finance Company (Bangladesh) Limited	124,919	124,919
Pubali Bank Limited	-	200,924
	<u>431,190</u>	<u>632,114</u>
Staff loans and advances		
Motorcycle loan	10,489,015	7,366,191
Bicycle loan	4,699,494	3,726,631
Car loan	2,951,388	-
Mobile phone loan	89,000	94,100
	<u>18,228,897</u>	<u>11,186,922</u>
Other advances		
Zonal Office rental advance	67,500	67,500
Branch Office rental advance	6,550,837	6,453,141
Training advance	-	6,639,762
Others including advance against salary, TA, DA, etc	24,939,582	7,692,474
	<u>31,557,919</u>	<u>20,852,877</u>
	<u>50,218,006</u>	<u>32,671,913</u>

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

Loans and advances except for car loan given to staff are interest-free. The period of loan for bicycle and mobile phone is one year each, and that for motorcycle is three years. The period of car loan is eight years bearing interest @ 5%.

7. Loan Portfolio - net of loan loss reserve

This represents various loans outstanding with the clients in the following categories:

General loan

This loan is to allow rural and urban poor households to finance their economic activities. General loans are working capital loans given to poor and disadvantaged households. General loans range from Taka 5,000 to Taka 45,000. The loans are repayable within a year.

Micro-enterprise loan

Micro-enterprise loans are assessed on the basis of household cash flow, business projections and the reputation of the borrower. The micro-enterprise loan borrowers are expected to generate equity and wage labour employment. Micro-enterprise loans range between Taka 50,000-Taka 300,000, repayable within one to three years.

Agriculture loan

This loan is exclusively for agricultural activities and is designed to increase the farm activities. The agriculture loan also enhances food security of the households. Agriculture loans of Taka 10,000 – Taka 50,000 are given for one year.

Hand loan

This loan is intended to serve as a 'social security net'. Hand loans are used to finance important festivals, health care and child education. The hand loan is a small loan of Taka 3,000, repayable within 3 months.

Disaster loan

This loan is intended to reduce the effect of shocks to the households' financial and physical assets immediately after natural disasters. The disaster loan ranges from Taka 3,000 – Taka 5,000 and are repayable within a year.

Water and sanitation loan

Environmental health concerns continue to be an ominous factor contributing to diseases and poverty. Access to safe drinking water and sanitation will reduce sickness and thus increase the labour productivity. The loans range from Taka 3,000 – Taka 10,000 and are repayable within a year.

The breakdown of loans, by products, is given below:

	Amounts in Taka	
	At 31 Dec. 2007	At 31 Dec. 2006
General loan	1,748,906,929	1,450,659,057
Micro-enterprise loan	17,938,745	9,155,442
Agriculture Loan	101,254,200	-
Hand/emergency loan	57,996,945	88,624,485
Disaster loan	128,431	826
Water and sanitation loan	17,615,829	16,411,860
	<u>1,943,841,079</u>	<u>1,564,851,670</u>
<u>Less: Loan loss reserve</u>	<u>49,414,679</u>	<u>23,148,875</u>
	<u>1,894,426,400</u>	<u>1,541,702,795</u>

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

BURO Bangladesh had 341,738 loan accounts outstanding at the end of the year 2007 compared to 306,313 at the end of the year 2006.

The loan loss reserve (LLR) has been worked out at Taka 38,951,830 at 31 December 2007 as per existing policy, as explained in note 2.5, but the actual reserve has been enhanced to Taka 49,414,679. This enhancement was made considering the last few years' recurring massive floods that affected the clients badly. Accordingly, during the year under reporting, an amount of Taka 32,056,500 has been added to loan loss provision and an amount of Taka 5,790,696 involving 4,860 loans has been written off as per existing policy. The method of calculation of LLR is shown below:

	Number of payments in arrear	Number of loan accounts	Aging of portfolio		Loan loss reserve	
			%	Taka	%	Taka
Current loan		314,026	94.43	1,835,592,610	-	-
Payment past due by weeks						
1-4		9,899	1.99	38,588,250	-	-
5-8		3,147	0.69	13,390,903	10	1,339,090
9-25		3,343	0.94	18,284,982	15	2,742,748
26-50		878	0.21	4,152,456	25	1,038,114
Over 50		10,445	1.74	33,831,878	100	33,831,878
Total		<u>341,738</u>	<u>100</u>	<u>1,943,841,079</u>		<u>38,951,830</u>

The Institution does not renegotiate loans under normal circumstances as well as in any other circumstances, such as, catastrophic events.

The members of the governing body and those of the operation board of directors are not eligible for loans and, hence, the Institution does not need to disclose any related-party (insider) loans.

	Amounts in Taka	
	At 31 Dec. 2007	At 31 Dec. 2006
Movement of loan loss reserve:		
Balance at 01 January	23,148,875	15,312,436
<u>Add</u> : Provision made during the year	32,056,500	11,044,000
<u>Less</u> : Amount written off during the year	5,790,696	3,207,561
Balance at 31 December	<u>49,414,679</u>	<u>23,148,875</u>

8. Fixed Assets	Amounts in Taka		
	Head Office	Branch Offices	Total
Cost			
Balance at 01 January 2007	91,724,377	16,812,523	108,536,900
<u>Add</u> : Additions during the year	12,003,080	6,048,665	18,051,745
	103,727,457	22,861,188	126,588,645
<u>Less</u> : Disposal during the year	36,000	-	36,000
Balance at 31 December 2007 (A)	<u>103,691,457</u>	<u>22,861,188</u>	<u>126,552,645</u>
Depreciation			
Balance to 01 January 2007	24,282,273	8,171,957	32,454,230
<u>Add</u> : Charge for the year	3,216,031	2,720,154	5,936,185
	27,498,304	10,892,111	38,390,415
<u>Less</u> : Adjustment on disposal	35,999	-	35,999
Accumulated depreciation to 31 Dec 2007 (B)	<u>27,462,305</u>	<u>10,892,111</u>	<u>38,354,416</u>
Written Down Value at 31 Dec 2007 (A-B)	<u>76,229,152</u>	<u>11,969,077</u>	<u>88,198,229</u>

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

	Amounts in Taka	
	At 31 Dec. 2007	At 31 Dec. 2006
9. Employees' Security Deposits		
This represents amount received as security deposits from Branch Managers, Accountants, Assistant Accountants and Assistant Program Organisers as per policy of BURO Bangladesh.		
Balance at 01 January	16,232,053	8,369,513
<u>Add</u> : Received during the year	5,295,809	9,006,511
<u>Less</u> : Paid during the year	2,444,053	1,143,971
Balance at 31 December	<u>19,083,809</u>	<u>16,232,053</u>

10. Customers' General Savings

Small depositors usually value convenient, easy access and relatively secure delivery savings services above all else. The general savings account is like a current account, where customers can save or withdraw the amount on demand. The general savings account requires a nominal minimum balance of Taka 10. Savings of any amount from Taka 10 to Taka 2,000 can be deposited at the kendra meeting and any amount above Taka 2,000 is to be deposited to the branch. The rate of interest is 4.5% compound per annum of their general savings account balance.

The under noted figures represent the general savings transactions:

Balance at 01 January	234,798,242	153,692,988
<u>Add</u> : Deposits during the year	408,511,349	316,638,801
<u>Less</u> : Withdrawals during the year	361,884,078	235,533,547
Balance at 31 December	<u>281,425,513</u>	<u>234,798,242</u>

The number of general savings accounts was 376,710 at the end of the year 2007 compared to 331,329 at the end of the year 2006.

11. Bank Overdraft

The figures below represent the overdraft transaction:

Balance at 01 January	62,860,010	37,684,335
Addition during the year	148,448,025	74,910,010
<u>Less</u> : Repayment during the year	94,131,277	49,734,335
Balance at 31 December	<u>117,176,758</u>	<u>62,860,010</u>

The break-up of the closing balance is given below:

Secured Overdraft		
BRAC Bank Limited	-	41,990,277
Bank Asia Limited	12,997,263	-
Jamuna Bank Limited	5,833,926	20,869,733
Overdraft for Agriculture Loan		
Bank Asia Limited	98,345,569	-
Balance at 31 December	<u>117,176,758</u>	<u>62,860,010</u>

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Notes to financial statements for the year ended 31 December 2007

The overdraft facilities are secured by fixed deposits with the respective banks. The rate of interest is 1.50% higher than the interest rate of fixed deposits given to the organization by the respective banks. The overdraft for agriculture loan carries 13% interest and is backed by institutional guarantee. The overdrafts were taken to use in microfinance program.

12. Other Liabilities

The break-up is given below:

	Amounts in Taka	
	At 31 Dec. 2007	At 31 Dec. 2006
BURO Bangladesh Staff Family Security Fund	17,800	137,293
Security deposit from shops	115,000	115,000
Loan from staff funds	50,698	50,698
	<u>183,498</u>	<u>302,991</u>

Loan from staff funds bears 10% interest per annum and is repayable on demand.

13. Customers' Time Savings

The customers earn lump sum amount at a time from business or sales. Under the circumstances, the organization allows such customers to deposit a maximum amount of Taka 5,000 in this account for various periods with interest rate within the range of 6% to 8%. The figures below represent the time savings transactions:

Balance at 01 January	4,470,426	4,330,969
<u>Add</u> : Deposits during the year	1,028,057	1,324,269
<u>Less</u> : Withdrawals during the year	4,502,395	1,184,812
Balance at 31 December	<u>996,088</u>	<u>4,470,426</u>

The number of time savings accounts was 45 at the end of the year 2007 compared to 202 at the end of the year 2006.

14. Customers' Regular Voluntary Savings

In the regular voluntary savings account, clients agree to regularly deposit an amount fixed by them. They can withdraw the entire amount including interest thereon. Customers can choose to deposit on a weekly or monthly basis. Customers can choose to deposit weekly savings in the range of Taka 10 – Taka 250; and monthly savings in the range of Taka 40 – Taka 1,000. They can open more than one account simultaneously. Interest is paid on a compound basis in the range of 7% to 8%. The under noted figures represent the regular voluntary savings transactions:

Balance at 01 January	439,751,124	306,523,299
<u>Add</u> : Deposits during the year	336,911,904	256,384,893
<u>Less</u> : Withdrawals during the year	237,123,778	123,157,068
Balance at 31 December	<u>539,539,250</u>	<u>439,751,124</u>

The number of regular voluntary savings accounts was 340,653 at the end of the year 2007 compared to 306,844 at the end of the year 2006.

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

Amounts in Taka	
At	At
31 Dec. 2007	31 Dec. 2006

15. Customers' Emergency Fund

The balance represents fund generated by the loanees up to 31 December 2002. The organisation, however, ceased maintaining the system of collecting emergency fund after 2002. The customers' group (as opposed to any individual customer) is the owner of customers' emergency fund. This fund is to be used for the following purposes :

- to pay off loans in the event of the loanees' death or permanent disability;
- to issue supplemental loans in the event of loss of the loanees' income earning capability through loss or damage to the assets purchased with the original loans; and
- to meet small expenses/emergencies agreed upon by the kendra (centre).

Balance at 01 January	6,255,419	9,555,184
<u>Less : Withdrawals during the year</u>	<u>1,913,924</u>	<u>3,299,765</u>
Balance at 31 December	<u>4,341,495</u>	<u>6,255,419</u>

16. Customers' Micro Insurance Fund

The moderate poor and micro-entrepreneurial customers have to pay premium of Taka 50 to Taka 200, while the very poor customers are required to pay Taka 30. The premiums are one-time payment in a year. The insurance yields three benefits after the death of the customer. First, cash benefits will be 100 times of the premium chosen. Secondly, the entire outstanding loan of the clients will be waived and thirdly, after the death of the principal loan guarantor, the family of the guarantor will also receive half of the cash benefits. Break-up of the fund is given below:

Balance at 01 January	24,297,577	18,332,939
<u>Add : Deposits during the year</u>	<u>21,545,100</u>	<u>18,203,030</u>
<u>Less : Withdrawals during the year</u>	<u>16,711,788</u>	<u>12,238,392</u>
Balance at 31 December	<u>29,130,889</u>	<u>24,297,577</u>

17. Borrowing from Specialised Institutions

Borrowing from Stromme Foundation (note 17.1)	<u>108,187,500</u>	<u>99,437,500</u>
	<u>108,187,500</u>	<u>99,437,500</u>

17.1 Borrowing from Stromme Foundation

A number of loans were borrowed from Stromme Foundation for on-lending to BURO Bangladesh's customers. Interest rate is 7% per annum. These loans have three months' moratorium. During the moratorium period, interest is being paid quarterly. Repayment of each loan along with accrued interest is being made in quarterly equal installments. Institutional guarantee from BURO Bangladesh is the security for loans. Movement of the amount of the said loan is given below:

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

	Amounts in Taka	
	At 31 Dec. 2007	At 31 Dec. 2006
Balance at 01 January	99,437,500	80,506,250
<u>Add</u> : Received during the year	84,500,000	77,500,000
<u>Less</u> : Refunded during the year	75,750,000	58,568,750
Balance at 31 December	<u>108,187,500</u>	<u>99,437,500</u>

The break up of the closing balance is given below:

Mainstream Microfinance Program	95,937,500	90,125,000
Talent Financing/Micro Enterprise	5,250,000	2,500,000
Hardcore Poor Microfinance Program	7,000,000	6,812,500
	<u>108,187,500</u>	<u>99,437,500</u>

There is no overdue or default in respect of repayment (loan and interest) of above borrowings by BURO Bangladesh from their respective due dates.

18. Borrowing from Commercial Banks

Notes

Bank Asia Limited	18.1	52,183,701	77,770,748
BRAC Bank Limited	18.2	126,702,802	76,702,802
Pubali Bank Limited	18.3	19,815,990	31,875,000
Jamuna Bank Limited		-	10,662,887
NCC Bank Limited	18.4	46,577,031	10,000,000
Dhaka Bank Limited- through CDF	18.5	3,133,972	5,892,096
Sonali Bank Limited		-	4,000,000
NCC Bank Limited- through CDF	18.6	1,379,009	3,181,824
Mutual Trust Bank Limited-through CDF	18.7	7,000,000	-
Citibank NA	18.8	90,000,000	-
		<u>346,792,505</u>	<u>220,085,357</u>

18.1 Bank Asia Limited

The two loans were taken from Bank Asia Limited for on-lending to BURO Bangladesh's customers. The loans have a two-year and six months' term with interest at 13% with six months' moratorium. Repayment of the loan is due to be made in quarterly installments. Security includes personal guarantees of the members of governing body and the operational board of directors.

18.2 BRAC Bank Limited

The two loans were taken from BRAC Bank Limited for on-lending to BURO Bangladesh's customers with a three-year term at 13% interest rate which was subsequently increased to 14%. During the moratorium period, interest is being paid quarterly. Repayment of the loans along with accrued interest falls due in quarterly equal installments. Security includes land and building in Dhaka.

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

18.3 Pubali Bank Limited

Five loans were taken from Pubali Bank Limited for on-lending to BURO Bangladesh's customers. Each loan has a three-year term with interest rates varying between 10%-12% per annum and one year moratorium. During the moratorium period, interest is being paid quarterly. Repayment of each loan, along with accrued interest, is being made in quarterly equal installments. Security includes personal guarantees of the members of governing body and the operational board of directors.

18.4 NCC Bank Limited

Three loans were taken from NCC Bank Limited for on-lending to BURO Bangladesh's customers. The loans carry a three-year term with interest rates at 14.25%-14.50% per annum with six months' moratorium. During the moratorium period, interest is being paid quarterly. Repayment of the loans fallen due is to be made in quarterly installments. Security includes personal guarantees of the members of governing body and the operational board of directors.

18.5 Dhaka Bank Limited- through Credit and Development Forum (CDF)

The loan was borrowed from Dhaka Bank Limited through CDF for on-lending to BURO Bangladesh's customers. This loan has a three-year term with interest at 14% and three months' moratorium. During the moratorium period, interest is being paid on a quarterly basis. Repayment of the loan, along with accrued interest falls due in quarterly equal installments. The loan from Dhaka Bank Limited, through CDF, is secured by the institutional guarantee given by BURO Bangladesh.

18.6 NCC Bank Limited- through Credit and Development Forum (CDF)

The loan was borrowed from NCC Bank Limited through CDF for on-lending to BURO Bangladesh's customers. The loan has a three-year term with interest at 10% and three months' moratorium. The interest rate was later raised to 14%. During the moratorium period, interest is being paid on a quarterly basis. Repayment of the loan along with accrued interest falls due in quarterly equal installments. The loan from NCC Bank Limited through CDF, is secured by the institutional guarantee given by BURO Bangladesh.

18.7 Mutual Trust Bank Limited-through CDF

The loan was borrowed from Mutual Trust Bank Limited through CDF for on-lending to BURO Bangladesh's customers. The loan has a three-year term with interest rate at 14%. Repayment of the loan along with accrued interest falls due in ten equal installments. The loan from Mutual Trust Bank Limited through CDF, is secured by the institutional guarantee given by BURO Bangladesh.

18.8 Citibank NA

The loan was taken from Citibank NA for on-lending to BURO Bangladesh's customers. This has a three-year term with interest at 14% and six months' moratorium. Repayment of this loan along with accrued interest is being made. The loan is secured by the charge over listed unencumbered microfinance receivables for an aggregated value of Taka 99,000,000.

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Notes to financial statements for the year ended 31 December 2007

There is no overdue or default in respect of repayment (loan and interest) of commercial borrowings by BURO Bangladesh from their respective due dates.

19. Borrowing from Non-Banking Financial Institutions

	Notes	Amounts in Taka	
		At 31 Dec. 2007	At 31 Dec. 2006
GSP Finance Company (Bangladesh) Limited	19.1	76,355,096	37,782,762
MIDAS Financing Limited	19.2	50,000,000	-
		<u>126,355,096</u>	<u>37,782,762</u>

19.1 GSP Finance Company (Bangladesh) Limited

Three loans were received from GSP Finance Company (Bangladesh) Limited for on-lending to BURO Bangladesh's customers. All loans have a three-year term with interest rate in the range 13%-15% and six months' moratorium. During the moratorium period interest is being paid on a quarterly basis. Repayment of the loan along with accrued interest falls due in quarterly equal installments. Security includes land in Tangail district. Break-up of the loan is given below:

Balance at 01 January	37,782,762	10,000,000
<u>Add</u> : Received during the year	50,000,000	30,000,000
<u>Less</u> :Refunded during the year	11,427,666	2,217,238
Balance at 31 December	<u>76,355,096</u>	<u>37,782,762</u>

19.2 MIDAS Financing Limited

The loan was taken from MIDAS Financing Limited for on-lending to BURO Bangladesh's customers. This loan has a five-year term with interest at 16.5% and twelve months' moratorium. During the moratorium period interest is being paid on a quarterly basis. Repayment of the loan along with accrued interest falls due in quarterly equal installments. Security includes personal guarantees of the members of governing body and the operational board of directors. Break-up of the loan is given below:

Balance at 01 January	-	-
<u>Add</u> : Received during the year	50,000,000	-
<u>Less</u> :Refunded during the year	-	-
Balance at 31 December	<u>50,000,000</u>	<u>-</u>

There is no overdue or default in respect of repayment (loan and interest) of commercial borrowings by BURO Bangladesh from their respective due dates.

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Notes to financial statements for the year ended 31 December 2007

	Amounts in Taka	
	At 31 Dec. 2007	At 31 Dec. 2006
20. Revolving Loan Funds (Donors' Grant)		
Department for International Development (DFID), UK	93,022,179	93,022,179
Swiss Agency for Development and Cooperation	23,378,560	23,378,560
Swedish International Development Agency	14,545,494	14,545,494
Australian Agency for International Development	4,274,300	4,274,300
UNESCO/ Stichting Gillès – Foundation, Belgium	2,147,712	2,147,712
Canada Fund	1,163,139	1,163,139
PACT Inc/USAID	284,500	284,500
	<u>138,815,884</u>	<u>138,815,884</u>

21. Emergency Disaster Fund (Donors' Grant)

BURO Bangladesh focuses its efforts on the promotion of self-help and self-reliance of disadvantaged rural communities, with particular attention to women. Normally, it is not involved in any relief or charitable activities for its customers. It does not remain nonchalant when the customers become extremely vulnerable and their existence is threatened. In such situations, disaster assistance is provided.

In order to respond to emergency relief and rehabilitation needs of BURO Bangladesh's customers, emergency disaster funds have been created with financial grants from the following donors:

Swedish International Development Agency (SIDA)	11,374,757	11,374,757
Department for International Development (DFID), UK	9,247,243	9,247,243
Swiss Agency for Development and Cooperation (SDC)	9,000,000	9,000,000
Australian Agency for International Development (AUSAID)	651,000	651,000
	<u>30,273,000</u>	<u>30,273,000</u>
<u>Add: Interest on investment of the above funds</u>	<u>22,321,801</u>	<u>17,099,888</u>
	<u>52,594,801</u>	<u>47,372,888</u>

Of the total disaster fund, disaster loan balance stands at Taka 826. The remaining fund of Taka 52,593,975 is invested in secured instruments, with the feature that such investments can be encashed within a short period of time in case of emergency.

22. Accumulated Surplus

Balance at 01 January	404,311,246	308,411,256
<u>Add: Surplus/ (deficit) for the year</u>		
Head Office	(19,839,443)	(34,023,425)
Branch Offices	76,553,584	129,923,415
	<u>56,714,141</u>	<u>95,899,990</u>
Balance at 31 December	<u>461,025,387</u>	<u>404,311,246</u>

BURO Bangladesh**Notes to financial statements for the year ended 31 December 2007****Income and Expenditure Statement**

	Amounts in Taka	
	Year ended 31 Dec. 2007	Year ended 31 Dec. 2006
23. Interest on Borrowings from Banks, etc		
Banks		
BRAC Bank Limited	14,346,544	18,169,108
Bank Asia Limited	9,736,125	2,600,000
NCC Bank Limited	3,095,151	102,917
Pubali Bank Limited	3,088,196	2,963,542
Citibank NA	2,380,000	-
Jamuna Bank Limited	1,037,209	2,281,654
Dhaka Bank Limited- through CDF	732,272	1,080,768
NCC Bank Limited- through CDF	336,365	648,864
Mutual Trust Bank Limited- through CDF	7,000	-
Sonali Bank Limited	-	910,552
	34,758,862	28,757,405
GSP Finance Company (Bangladesh) Limited	9,996,897	3,594,710
Swiss Agency for Development and Cooperation	-	1,059,036
MIDAS Financing Limited	4,070,671	-
Stromme Foundation	8,627,875	6,692,149
Employees' Security Money	497,809	-
Employees' Provident Fund	-	13,425
Bank overdraft, from		
BRAC Bank Limited	3,227,496	5,212,259
Jamuna Bank Limited	1,899,348	2,056,919
Bank Asia Limited	1,602,388	-
	6,729,232	7,269,178
Office transport loan, from		
HSBC	81,764	158,592
Pubali Bank Limited	131,439	137,028
GSP Finance Company (Bangladesh) Limited	-	171,281
	213,203	466,901
	<u>64,894,549</u>	<u>47,852,804</u>
24. Interest on Customers' Savings		
General savings	7,057,818	5,155,344
Regular voluntary savings	40,844,700	32,686,094
Time savings	560,283	477,109
	<u>48,462,801</u>	<u>38,318,547</u>
25. Salary and Allowances		
Field Offices (Branch/ Area/Zonal Offices)	190,977,820	129,743,072
Head Office	14,523,093	12,546,688
	<u>205,500,913</u>	<u>142,289,760</u>

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

26. Payment to National Exchequer

It is mandatory for all NGOs and Micro-Finance Institutions (MFIs) to submit their income tax returns as per income tax laws. The income from operation of micro-credit by non-profit organisations registered with NGO Affairs Bureau is exempt from income tax as per Sixth Schedule, Part A of Income Tax Ordinance 1984. However, if there is any income other than from micro-finance, it will be subject to tax as per income tax laws.

Details of payment made to government exchequer for the year 2007 are as under:

	Amounts in Taka	
	Year ended 31 Dec. 2007	Year ended 31 Dec. 2006
Direct Tax		
Value-added tax on supply of goods, etc	621,279	656,977
Indirect Tax		
Corporate income tax on income other than from micro-finance	16,376	120,393
Income tax on staff salary	363,530	493,454
Tax deduction at source from interest on bank deposits	121,414	81,994
	501,320	695,841
Other Tax/Fees		
Land tax	40,572	319,830
NGO Affairs Bureau renewal fees	-	16,000
	40,572	335,830
	<u>1,163,171</u>	<u>1,688,648</u>

The income tax assessment position of BURO Bangladesh up to the income year ended 31 December 2006 is given below:

Income year ended 31 December	Assessment year	Income as per return filed	Taxable income	Tax paid
2002	2003-2004	1,777,724	1,086,278	199,070
2003	2004-2005	9,477,932	760,101	99,520
2004	2005-2006	1,861,585	1,861,585	406,679
2005	2006-2007	983,878	983,878	120,393
2006	2007-2008	860,599	860,599	98,370

Corporate tax assessment up to the income year 2006 has been duly completed.

27. Transportation

Traveling allowances	7,116,072	4,996,892
Fuel and lubricants	8,613,412	4,424,883
Daily allowances	644,626	434,814
Office transport maintenance	1,053,518	885,246
	<u>17,427,628</u>	<u>10,741,835</u>

BURO Bangladesh**Notes to financial statements for the year ended 31 December 2007**

	Amounts in Taka	
	Year ended 31 Dec. 2007	Year ended 31 Dec. 2006
28. Training and Research		
Operation research	1,096,968	519,914
Staff training	15,129,972	7,327,460
Customers' training	3,999,959	3,213,475
	<u>20,226,899</u>	<u>11,060,849</u>
29. Audit Fees		
Annual external audit	193,325	125,000
Provident Fund audit	20,943	20,000
	<u>214,268</u>	<u>145,000</u>
30. Other Professional Fees		
Consultancy fees	1,149,294	1,636,200
Legal advisor's fees	155,650	19,800
	<u>1,304,944</u>	<u>1,656,000</u>
31. Other Direct Cost		
Office maintenance, etc.	7,369,501	9,824,849
E-mail, telephone and fax	3,291,526	2,493,631
Electricity, gas and water	2,808,628	2,075,680
Entertainment	2,434,048	1,963,141
Bank charges	1,192,967	827,969
Postage and telegram	90,344	128,127
	<u>17,187,014</u>	<u>17,313,397</u>
32. Key Micro-Finance Ratios		
32.1 Sustainability/Profitability		
Return on Equity (ROE)	9%	18%
Return on Total Assets	3%	6%
Operating Self-sufficiency (OSS)	118%	136%
Financial Self-sufficiency (FSS)	107%	122%
Financial Spread	22%	23%
32.2 Portfolio Quality		
On Time Recovery Rate (OTR)	98.07%	98.17%
Portfolio at Risk-PAR (>60days)	2.89%	1.73%
Risk Coverage Ratio	127%	118%
Loan Loss Reserve Ratio	2.54	1.48%
Write-Off Ratio	0.33%	0.24%

BURO Bangladesh

Notes to financial statements for the year ended 31 December 2007

	Amounts in Taka	
	Year ended 31 Dec. 2007	Year ended 31 Dec. 2006
32.3 Assets/Liability Management		
Yield on Gross Portfolio	29%	28%
Current Ratio	669%	529%
Financial Cost Ratio	6.35%	6.15%
Annual Growth to Total Assets	28%	32%
32.4 Leverage		
Debt to Equity	1.04	0.61
Debt Service Coverage Ratio by times	1.37	1.62
Equity as percent of Total Assets	29%	34%
32.5 Efficiency/Productivity		
Loan Officer (LO) Productivity	206	213
LO Productivity (Loan-BDT)	1,062,208	1,006,335
LO Productivity (Savings-BDT)	467,450	456,317
Average Disbursed Loan Size (BDT)	8,416	7,421
Average Outstanding Loan Size (BDT)	5,688	5,109
Cost of per Unit Money Lent (BDT)	0.07	0.06
Operating Expenses Ratio	16%	15%

Others

33. Figures in these notes and annexed financial statements have been rounded off to the nearest Taka.
34. These notes form an integral part of the annexed financial statements and accordingly are to be read in conjunction therewith.
35. Figures relating to the previous year included in this report have been rearranged, wherever considered necessary, to make them comparable with those of the current year without, however, causing any impact on the net surplus as well as on the values of assets and liabilities.

for BURO Bangladesh

(S K Sarkar)
President

(Zakir Hossain)
Executive Director

(M. Mosharrof Hossain)
Finance Director

Dhaka, Bangladesh
Dated, 18 March 2008

Five Years At a Glance
as on December 31

	Particulars	2003	2004	2005	2006	2007
A.	Institutional Profile					
	Number of Districts	18	20	21	32	38
	Number of Upazilas	55	67	91	148	221
	Number of Unions	312	440	521	707	1,123
	Number of Villages	3,588	4,238	5,047	7,029	8,833
	Number of Branches	83	90	110	173	230
	Total Personnel/Staff Strength	1,020	1,071	1,265	2,069	2,537
	Staff Dropout Rate	11%	14%	13%	15%	15%
	Number of Active Customers	184,609	221,366	273,286	331,329	376,710
	Number of Active Borrowers	128,112	155,819	209,808	263,503	354,020
	Borrower/Customers Ratio	69%	70%	77%	79%	94%
B.	Savings Portfolio (million BD Taka)					
	Yearly Savings Deposit	232.19	316.28	394.70	574.35	746.45
	Cumulative Savings Deposit	726.19	1,042.47	1,437.18	2,011.53	2,757.98
	Yearly Savings Withdrawals	146.86	231.61	238.44	359.88	603.51
	Cumulative Savings Withdrawals	502.56	734.17	972.63	1,332.51	1,936.02
	Savings Portfolio	223.63	308.30	464.55	679.02	821.96
	Savings Portfolio Growth	62%	38%	51%	46%	21%
	Savings Portfolio to Total Assets	37%	37%	37%	41%	38%
C.	Loan Portfolio (million BD Taka)					
	Yearly Loan Disbursed	1,082.67	1,528.04	2,368.40	3,180.27	3,751.65
	Cumulative Loan Disbursed	3,327.30	4,855.34	7,223.75	10,404.02	14,155.67
	Yearly Loan Recovered	937.82	1,325.23	1,959.97	2,774.45	3,372.66
	Cumulative Loan Recovered	2,779.51	4,104.74	6,064.71	8,839.17	12,211.83
	Loan Portfolio	547.79	750.60	1,159.03	1,564.85	1,943.84
	Loan Portfolio Growth	36%	37%	54%	35%	24%
D.	Sustainability/Profitability					
	Return on Equity (ROE)	19%	25%	25%	18%	9%
	Return on Performing Assets	35%	34%	31%	29%	28%
	Operating Self-Sufficiency	149%	164%	163%	136%	118%
	Financial Self-Sufficiency	123%	136%	136%	122%	107%
	Financial Spread	30%	30%	25%	23%	22%
E.	Portfolio Quality					
	On Time Recovery Rate (OTR)	98.03%	98.19%	98.07%	98.17%	98.07%
	Portfolio at Risk-PAR (>60days)	1.89%	1.82%	1.69%	1.73%	2.89%
	Risk Coverage Ratio	130%	131%	103%	118%	127%
	Loan Loss Reserve Ratio	2.02%	1.44%	1.32%	1.48%	2.54%
	Write-Off Ratio	3%	1%	0.14%	0.24%	0.33%
F.	Assets/Liability Management					
	Yield on Gross Portfolio	35%	35%	31%	28%	29%
	Current Ratio	464%	608%	627%	529%	669%
	Financial Cost Ratio	4.52%	4.70%	5.20%	6.15%	6.35%
	Annual Growth to Total Assets	37%	35%	46%	32%	28%
G.	Leverage					
	Debt to Equity	x0.25	x0.36	x0.58	x0.61	x1.04
	Debt Service Coverage Ratio by times	6.34	3.54	2.37	1.62	1.37
	Equity as Percent of Total Assets	44%	43%	37%	34%	29%
H.	Efficiency/Productivity					
	Loan Officer (LO) Productivity	294	318	318	213	206
	LO Productivity (Loan-BDT)	872,272	1,078,446	1,347,714	1,006,335	1,062,208
	LO Productivity (Savings-BDT)	388,603	476,067	572,599	456,317	467,450
	Average Disbursed Loan Size (BDT)	5,519	5,459	6,375	7,421	8,416
	Average Outstanding Loan Size (BDT)	3,547	3,756	4,635	5,109	5,688
	Cost of per Unit Money Lent (BDT)	0.08	0.07	0.05	0.06	0.07
	Operating Expenses Ratio	19%	17%	13%	15%	16%
	Cumulative Average Exchange Rate: US\$1=BDT	56	58	60	65	66

Five Years Balance Sheet (as on 31 December)

PARTICULARS	2003	2004	2005	2006	2007
PROPERTY AND ASSETS					
Current Assets					
Cash and bank balance	17,426,960	38,651,264	37,854,041	27,319,709	123,349,415
Investment	41,999,774	45,500,311	55,178,855	60,007,222	69,456,423
Other current assets	12,277,272	14,335,375	18,477,802	32,671,913	50,140,408
<i>Loan portfolio</i>	<i>547,786,811</i>	<i>750,598,185</i>	<i>1,159,033,962</i>	<i>1,564,851,670</i>	<i>1,943,841,079</i>
<i>Loan loss reserve (LLR)</i>	<i>11,090,551</i>	<i>10,815,778</i>	<i>15,312,436</i>	<i>23,148,875</i>	<i>49,414,679</i>
Loan portfolio-net of LLR	536,696,260	739,782,407	1,143,721,526	1,541,702,795	1,894,426,400
Total Current Assets	608,400,266	838,269,357	1,255,232,224	1,661,701,639	2,137,372,646
Long - Term Assets					
<i>Fixed assets at cost</i>	<i>74,656,736</i>	<i>83,522,491</i>	<i>88,785,654</i>	<i>108,536,900</i>	<i>126,552,645</i>
<i>Accumulated depreciation</i>	<i>15,324,050</i>	<i>20,048,472</i>	<i>26,174,919</i>	<i>32,454,230</i>	<i>38,354,416</i>
Fixed assets -net of accumulated depreciation	59,332,686	63,474,019	62,610,735	76,082,670	88,198,229
Total Long - Term Assets	59,332,686	63,474,019	62,610,735	76,082,670	88,198,229
Total Assets	667,732,952	901,743,376	1,317,842,959	1,737,784,309	2,225,570,875
LIABILITIES AND FUNDS					
Current Liabilities					
Employees' security deposits	5,923,136	6,807,477	8,369,513	16,232,053	19,083,809
Members' general savings	80,178,777	100,281,126	153,692,988	234,798,242	281,425,513
Bank overdraft	33,581,250	20,852,087	37,684,335	62,860,010	18,831,189
Other liabilities	11,547,988	10,009,827	507,885	302,991	105,900
Total Current Liabilities	131,231,151	137,950,517	200,254,721	314,193,296	319,446,411
Long-Term Liabilities					
Members' time savings	3,306,707	6,225,036	4,330,969	4,470,426	996,088
Members' regular voluntary savings	140,135,428	201,789,670	306,523,299	439,751,124	539,539,250
Members' emergency funds	14,066,905	9,561,453	9,555,184	6,255,419	4,341,495
Members' security funds	6,355,032	13,485,509	18,332,939	24,297,577	29,130,889
Borrowing from Specialized Institution	74,516,368	83,775,496	100,678,374	99,437,500	108,187,500
Borrowing from Commercial Banks	-	55,000,000	173,875,000	220,085,357	445,138,074
Borrowing from Non-Bank Financial Institution	-	-	10,000,000	37,782,762	126,355,096
Other borrowing	-	6,345,830	3,490,830	1,010,830	-
Total Long-Term Liabilities	238,380,440	376,182,994	626,786,595	833,090,995	1,253,688,392
Funds and Surplus					
Revolving loan fund (donors' grant)	138,815,884	138,815,884	138,815,884	138,815,884	138,815,884
Emergency disaster fund (donors' grant)	39,117,387	42,015,034	43,198,689	47,372,888	52,594,801
Fixed assets fund (donors' grant)	1,430,573	901,070	375,814	-	-
Accumulated surplus	118,757,517	205,877,877	308,411,256	404,311,246	461,025,387
Total Net Worth	298,121,361	387,609,865	490,801,643	590,500,018	652,436,072
Total Liabilities and Net Worth	667,732,952	901,743,376	1,317,842,959	1,737,784,309	2,225,570,875

Source: Audit Report

Five Years Income and Expenditure Account (as on 31 December)

Particulars	2003	2004	2005	2006	2007
A Financial & Micro Credit Income					
Service charges/Interest on Loans	167,630,843	226,536,026	287,577,369	381,546,399	475,173,170
Service Charge on Remittance	-	-	-	-	1,066
Interest on bank deposit	377,488	361,585	587,299	860,599	1,139,140
Sale of forms	3,227,487	4,553,213	11,971,870	14,289,612	15,143,544
Admission fee	871,080	958,490	2,329,065	3,169,980	3,829,260
Others	2,220,471	2,799,650	448,779	2,526,537	1,801,214
Total Financial & Micro Credit Income (A)	174,327,369	235,208,964	302,914,382	402,393,127	497,087,394
B Financial Cost					
Interest on borrowings	8,678,953	11,937,951	23,768,856	47,852,804	64,776,247
Interest on members' savings	14,010,435	20,098,913	27,778,013	38,318,547	48,462,801
Total Financial Cost (B)	22,689,388	32,036,864	51,546,869	86,171,351	113,239,048
C Gross Financial Margin (A-B)	151,637,981	203,172,100	251,367,513	316,221,776	383,848,346
D Provision for loan losses	6,063,000	3,869,000	5,835,000	11,044,000	32,056,500
E Net Financial Margin (C-D)	145,574,981	199,303,100	245,532,513	305,177,776	351,791,846
F Operating Expenses					
Salary and allowances	63,641,116	75,988,613	91,712,698	142,289,760	205,500,913
Rental office	4,712,230	5,327,150	6,291,100	9,950,013	17,025,766
Payment to national exchequer	516,184	966,052	1,241,581	1,688,648	1,163,171
Transportation	4,464,721	5,040,330	6,250,045	10,741,835	17,427,628
Training & research expenses	6,840,959	5,345,967	5,988,894	11,060,849	20,226,899
Office supplies	2,956,794	4,009,554	4,570,490	7,298,253	8,185,784
Depreciation	4,146,566	5,714,361	5,867,239	7,134,026	5,936,185
Audit & professional fees	382,613	433,425	857,300	1,801,000	1,519,212
Other expenses	7,461,768	10,197,889	11,274,650	17,313,402	18,092,147
Total Operating Expenses (F)	95,122,951	113,023,341	134,053,997	209,277,786	295,077,705
G Net Income/(Loss) from Operations (E-F)	50,452,030	86,279,759	111,478,516	95,899,990	56,714,141
H Foreign Donations	-	827,000	180,000	-	-
I Net Surplus/(Deficit)	50,452,030	87,106,759	111,658,516	95,899,990	56,714,141

Source: Audit Report

Governing Body and Operational Board of Directors

Governing Body

Chairperson

S K Sarkar

Director (Administration and Risk Management), BRAC and Treasurer of BRAC University

Vice Chairperson

Altaf Hossain

Senior Vice President, Kohinoor Chemical Co. (BD) Limited, Dhaka

Finance Secretary

M. Mukitul Islam

Development Trainer

Members:

Shamima Abbasy Shelly

Architect and Development Planner

Khondoker Mahafuzur Rahman,

Assistant General Manager, Grameen Bank, Dhaka

Major (Rtd) Mir Hashmat Ullah, PSC.

Retired DIG of Police and Managing Director of Watch and Watch Pvt. Limited

Kazi Mohammad Shoab Rana

Social Activist and Businessman

Ex-Officio Secretary

Zakir Hossain

Executive Director

Operational Board of Directors

Zakir Hossain

Executive Director

M. Mosharrof Hossain

Finance Director

Md. Sirajul Islam

Program Director

Pranesh Chandra Banik

Microfinance Immersion and Capacity Building Deputy Director

Adviser

Graham A.N. Wright

Program Director, *MicroSave*.

Senior and Mid Level Professionals

Operational Board of Directors

Zakir Hossain, Executive Director
M. Mosharrof Hossain, Finance Director
Md. Sirajul Islam, Program Director
Pranesh Chandra Banik, Deputy Director, Microfinance Immersion and Capacity Building

Assistant Coordinators

Anower Hossain, Assistant Program Coordinator
Munirul Islam, Assistant Program Coordinator

Officers

Anil Saha, Audit Officer
Sarker Hirendra Chandra, Administrative Officer
Md. Atikuzzaman, Program Officer
A.B.M. Aminul Karim Mazumder, Finance Officer
Abdur Razzak Chowdhury, Program Officer
Arif Khan, Program Officer
Sayed Ahmad Khan, Program Officer
Nazrul Islam, Training Officer
Abdul Aziz, Program Officer
Khondoker Moklasur Rahman, Program Officer
Zakir Hossain Bhuiyain, Program Officer

Assistant Officers

Md. Enamul Kabir, Office Manager
Sajedul Haque, Assistant Accounts Officer
Abdul Halim, Assistant Accounts Officer
Tapas Kumar Sikder, Assistant Accounts Officer
Waliul Islam Chowdhury, Disaster Manager
Montashir Mamun Chowdhury, Assistant Audit Officer
S M A Rakib, Research and Publications Associate

Sub Zonal Managers

Shaheenoor Islam Khan, Pabna Sadar
Mohsin Hossain Khan, Comilla
Arshad Alam, Bogra
Motaleb Hossain Miah, Gazipur
Abdur Rahman Miah, Dhamrai
Shajahan, Sonargaon
Aminul Islam, Dhaka Metropolitan
A. N. M. Mostaqul Hasan, Tangail
Sarjit Kumar Mandal, Gazipur
Ashraful Alam Khan, Moulovee Bazar



BURO
Bangladesh

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(erstwhile BURO, Tangail)

Bangladesh

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