

Emprendamos Juntos Mexico - December 2004

Global Rating

B
Trend: Positive

Emprendamos Juntos is an NGO created in 1998 by SIFIDE, an institution of the State of San Luis Potosí. It aims at supporting self-employment through productive microloans. Emprendamos Juntos works in a favorable environment: good communication infrastructure, and support from the Federal Government through a trust fund (“fideicomiso”). In June 2003, Emprendamos Juntos has a portfolio of EUR 403,447, serving 4,247 borrowers.

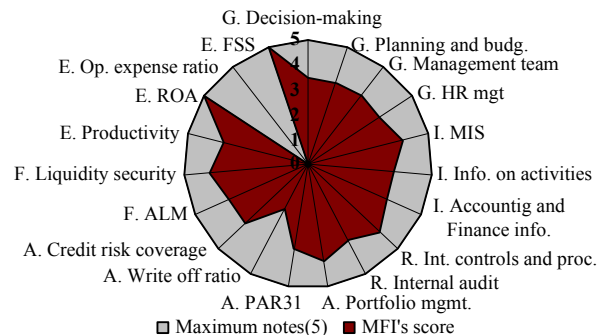
Rating Plus Summary

Environment	Favorable
Maturity	Young (11 years of operations)
Scale	Small (Portfolio of 464 K USD)
Target market	Low-end (Avg. out. loan 2% PNB per capita)

Rating scales and formulas may be found on the following page

Area Scores

G overnance and decision making	b
I nformation management and systems	b
R isk management	b
A ctivities: products and services	b
F inancing and liquidity	b
E fficiency and profitability	b



	Dec 2001 ⁽¹⁾	Dec 2002	Jun 2003		Dec 2001	Dec 2002	Jun 2003
ACTIVITIES				PERFORMANCE			
Number of employees	21	28	25	Members per employee	n/a	n/a	n/a
Total Assets (K EUR)	437	481	555	Staff productivity	100	168	189
(K MXN)	4,798	5,801	6,614	ROA	(21.7)%	(13.5)%	28.6%
Outstanding Loans (K EUR)	272	443	403	ARO A	(28.6)%	(23.4)%	17.3%
Outstanding Savings (K EUR)	n/a	n/a	n/a	ROE ⁽⁵⁾	n/a	n/a	n/a
Number of members	n/a	n/a	n/a	AROE ⁽⁵⁾	n/a	n/a	n/a
Active Borrowers	2,101	4,715	4,727	Portfolio yield	77.0%	84.3%	150.2%
Active Savers	n/a	n/a	n/a	Operating expense ratio	121.0%	96.7%	99.1%
Annual Effective Interest Rate ⁽²⁾	116%/93.5%	116%/93.5%	116%/93.5%	Over assets	60.6%	61.4%	77.8%
PAR ⁽³⁾ 31-365 days	n/a	n/a	n/a	Operational self sufficiency	64.5%	80.1%	132.0%
Arrears > 28 days ⁽³⁾	n/a	0.4%	1.1%	Financial self sufficiency	57.6%	69.6%	117.2%
Risk coverage ratio ⁽⁴⁾	n/a	0.0%	247.0%	GROWTH			
Write-off ratio	n/a	5.2%	n/a	Portfolio growth	9.0%	79.0%	(10.0)%
FINANCING				Savings growth	n/a	n/a	n/a
Commercial loans / Assets	0.0%	0.0%	0.0%	Asset growth	61.0%	21.0%	14.0%
Leverage ⁽⁵⁾	n/a	n/a	n/a	Exchange Rate EUR/MXN	8.14	10.99	12.06

- (1) Until 2001, the loan tracking system did not produce reliable figures, so portfolio indicators are not presented for that period.
 (2) 116% for Village Banks, 93.5% for Group Loans, for 24 weeks and a monthly interest rate of 4% (the lowest of the institution).
 (3) The institution does not monitor portfolio at risk but arrears.
 (4) Ratio calculated on an estimation of portfolio at risk. The institution started to create provisions in 2003.
 (5) Until August 2003 the institution did not have equity.

Rating Scale			
Factors	Area Rating	Global Rating	Explanation
4 to 5	A	A+	Excellent The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
3 to 4	B	A- B+	Good Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
2 to 3	C	B- C+	Minimum required Procedures are functional but with certain failings. There are minor risks in the medium term for operations, but these risks are being managed and monitored.
1 to 2	D	C- D	Insufficient Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
0 to 1	E	E	Immediate risk of default or very insufficient There are immediate or underlying risks for operations or an unacceptable under performance.

Rating Plus: MicroBanking Bulletin categories for Latin America			
Scale	Target Clientele	Maturity	
(Outstanding portfolio USD)	(Avg. out. loan / GNP per capita)	(Years of operation)	
Large: > 12.5 million	Low-end: < 20% OR avg. out. loan ≤ 150 USD	New: 1 to 3 years	
Medium: 1.5 to 12.5 million	Broad: 20% to 149%	Young: 4 to 7 years	
Small: < 1.5 million	High-end: 150% to 249%	Mature: over 7 years	

Ratio Formulas	
Personnel productivity	Active borrowers / Total personnel (end of period)
Loan officer productivity	Active borrowers / Total Loan Officers (end of period)
Return on assets	ROA: Net operating income before donations / Average assets
Adjusted return on assets	AROA: Adjusted net operating income before donations / Average assets
Return on equity	ROE: Net operating income before donations / Average equity
Adjusted return on equity	AROE: Adjusted net operating income before donations / Average equity
Leverage	Debt (savings + debts) / equity (end of period)
Portfolio yield	Portfolio revenue / 13-month average gross outstanding portfolio
Operating expense ratio	Operating expense / 13-month average gross outstanding portfolio
Funding expense ratio	Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
Cost of funds ratio	Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
Loan loss expense ratio	Net loan loss expense / 13-month average gross outstanding portfolio
Adjustment expense ratio	Total adjustments / 13-month average gross outstanding portfolio
Net portfolio as % of assets	Net outstanding portfolio / total assets (end of period)
Operational self-sufficiency expense)	Revenue from operations / (Financial expense + Loan loss expense + Operating expense)
Financial self-sufficiency	Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
Risk coverage ratio	Loan loss reserves / Portfolio at risk (31-365 days)
Write-off ratio	Loans written off / 13-month average gross outstanding portfolio

Executive summary

Mexico has a long tradition in the cooperative sector, while its microfinance sector is still young but rapidly growing. The banking sector is not very engaged in the microfinance field, although it includes several development banks and public institutions committed to funding the low-income population. Approximately four million people receive loans from 600 non-banking institutions.

Emprendamos Juntos is an NGO created in 1998 by SIFIDE, an institution of the State of San Luis Potosí through a trust fund (“fideicomiso”). It aims at supporting self-employment through productive microloans. Emprendamos Juntos works in a favorable environment: good communication infrastructure, and support from the Federal Government. In June 2003, Emprendamos Juntos has a portfolio of 403,447 EUR, serving 4,727 borrowers.

Emprendamos Juntos has been assigned a global rating of B with a positive trend:

Governance and decision making receives a score of **b**:

- ❑ The Technical Committee of the trust (“fideicomiso”) makes the final decisions based on the Management Team propositions. The management information lacks financial analysis and financial indicators to facilitate the decision-making process.
- ❑ The Technical Committee is not the most adequate governance body for Emprendamos Juntos, since conflicts of interest may rise if the trust integrates other institutions. To face this weakness, the institution already started strengthening the Board, which is governance body nominated in the statutes of the Association.
- ❑ The strategy is coherent and realistic, but it is not formalized with a complete business plan; only annual work plans with linear growth projections are available and lack details on the operations.
- ❑ The Management Team is limited to the Managing Director and two managers, generating a key person risk. Since the Managing Director will leave the institution by the end of 2003, sufficient steps have been implemented to have a smooth transition. The managers are capable enough and have clearly defined functions.
- ❑ The Managing Director is informally in charge of the Human Resource Management. This management is sufficient given the small size of the institution.

Information management and systems receives a score of **b**:

- ❑ The institution benefits from a sufficient IT equipment and has sufficient safety measures included in the information process. The loan-tracking system (EJCartera) and the accounting system (ContPaq) are known by staff.
- ❑ Since the final installation of EJCartera (October 2002), the portfolio information is correct, sufficient and updated. The institution does not track the portfolio at risk, but the arrears; this is not a major issue since the loans are very short term (16 weeks).
- ❑ Accounting information is correct, detailed and updated; accounting policy has been improved in 2003 by formalizing the provisioning and write-off policy and by reviewing the accounting for financial income.
- ❑ The institution does not perform a strong financial analysis (lack of details per product; no profitability projections); however, for a loan application process

beginning of 2004, some financial projections have been made with different growth scenarios.

Risk management receives a score of **b**:

- ❑ There exists a complete chain of controls, although a risk remains in the transfer of cash to banks; the institution is developing several procedures and manuals to formalize existing procedures for all its operations.
- ❑ The Managing Director is regularly improving the procedures by being constantly vigilant about risks. The control over operations is adequate, even though there is no internal audit, thanks to the two other strong supervision levels (SIFIDE supervisor and field supervisors). Accounts are audited every year by an external auditor.

Activities: products and services receives a score of **low b**:

- ❑ Emprendamos Juntos benefits from a solid market position, with few competitors and two well established loan products; in 2003 the institution has faced slow growth, linked to a funds shortage that should be solved with the injection of new State funds in 2004.
- ❑ The lending methodology guarantees an adequate clients selection and a good recovery process; however, defaults have been noticed in the group loan product.
- ❑ The arrears rate is particularly low (1.1% at 28 days to June 2003), although the performance is better for the Village Banks than for Group Loans. The write off ratio is relatively high in December 2002, but reflecting an exceptional situation (write off of fraudulent loans in 2001).
- ❑ The loan loss reserve is higher than the current arrears but does not sufficiently cover the risk of default since the provisioning methodology is not based on the portfolio quality but on the amounts disbursed. The solidarity guarantee works for Village Banks but less efficiently for Group Loans, thereby indicating a higher risk for this product.

Financing and liquidity receives a score of **b**:

- ❑ The institution is financed exclusively by State loans (0% interest rate). This lack of diversification created a shortage of liquidity in 2003, given the highly seasonal lending activity and hence liquidity.
- ❑ In August 2003, part of State loans was transformed into equity, thereby improving greatly the financial structure of the institution.
- ❑ The liquidity is adequately secured, except for the cash transfer to banks by credit officers.

Efficiency and profitability receives a score of **b**:

- ❑ Staff productivity is above regional standards thanks to the group loan methodology, the concentration in urban areas and an adequate tasks distribution between credit officers and supervisors.
- ❑ The operating expense ratio (99.1% in June 2003) is within regional standards, although it is much higher than best practices and could be improved with economies of scale by increasing the loan portfolio.
- ❑ The financial expense ratio is very low (1.5% by June, 2003) because of the 0% interest rate loan granted by the State Government.
- ❑ The institution reached operational (132.0%) and financial (117.2%) self-sufficiency in June 2003, first of all because the portfolio system changed, allowing a correct

accounting of financing revenues; the difference of 148% between financial expense and portfolio yield is the key to profitability.

- ❑ The evolution is linked to the institution capacity to reach economies of scale, to the success of its expansion and consolidation strategy and to the availability of funds to diversify its resources.

Summary of strengths and weaknesses:

- ❑ Emprendamos Juntos' key strengths include: a standardized lending methodology, known and shared by all staff members, which guarantees an excellent portfolio quality; a profitable structure; a high productivity due to a well organised field work; and a well implemented internal chain of controls, which limits the main operating risks.
- ❑ Emprendamos Juntos' areas of improvement include: potential conflict of interest in the decision-making process; important liquidity risk given the lack of diversification of funds and the high seasonality of the activity; key person risk on the General Manager; and weaknesses on the Group Loan methodology.
- ❑ The main challenges facing Emprendamos Juntos include: the transition in General Management; the diversification of the funding sources; the growth of the portfolio given the limited possibilities to increase productivity and the risks related to expansion to other rural areas; and the potential integration to the new regulatory framework.

Financing needs:

- ❑ Emprendamos Juntos is looking for 5,000,000 MXN (354,000 EUR) for 2004.
- ❑ Planet Rating believes¹ that Emprendamos Juntos' procedures and internal controls are efficient enough to manage external funds, and that it is profitable enough to meet its commitments. Nevertheless, any external funder will need to pay close attention to the amount that can be lent and to the reimbursement scheme given the high seasonality of the institution's activity.

¹ The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Rating Plus

The GIRAFE rating evaluates the sustainability of an institution. However, it is difficult for an institution that is young, in a challenging environment, or targeting hard-to-serve populations to achieve this level of sustainability. Rating Plus serves to clarify the institution's context.

Environment Emprendamos Juntos operates in a favorable economic and legal context. It benefits from adequate communication infrastructures.

EUR	Dec. 2000	Dec. 2001	Dec. 2002	Jun. 2003
Exchange rate: EUR/MXN	9.09	8.14	10.99	12.06
Inflation	9.5%	6.4%	4.8%	3.7%*
GNP/Capita	4,575	4,737	4,964	5,288

Source: oanda.com for exchange rate, IMF
 (*)Annualized percentage

- ❑ After the 1982 “external debt” crisis, and the 1995 financial crisis, Mexico joined the NAFTA. Since then, trade between Mexico and the USA and Canada has tripled. In the recent years, inflation and interest rates have decreased, and the exchange rate MXN/USD stabilized². Mexico ranks 55 (out of 173 countries) in the UNDP 2002 Human Development Report, that is the third country in Latin America after Argentina (34) and Cuba (52)³.
- ❑ Of the 97.4 million inhabitants (increase of nearly 20% since 1990), 75% live in cities and almost 50% are considered as poor (among which 50% very poor)⁴.
- ❑ The transport infrastructure is fairly dense and of good quality, except in some rural areas. Telephone is well developed countrywide. Access to Internet is one of the most intense in Latin America.
- ❑ The new Ley de Ahorro y Crédito Popular (LACP, new regulation for credit unions) and the Mexican government proactive attitude towards microfinance create a favorable environment, although there are still many doubts about the applicability of this law to all credit unions. Being a civil association, Emprendamos Juntos does not need to comply with this new law.

Maturity and scale With five years of experience providing microcredit services, Emprendamos Juntos benefits from a skilled team, which knows its target market. However, processes are still not finalized and being improved (lending methodology, accounting system). The institution is small (outstanding loan portfolio of 403,407 EUR), so there is a potential to grow and reach economies of scale.

Activities and target clientele Emprendamos Juntos targets a population located in urban areas (so easily accessible), relatively poor according to the small amount of loans, through group loans thereby reducing costs:

- ❑ Loans are targeting women microentrepreneurs (100% in Village Banks, 65% in Group Loans), mostly informal traders living in the suburbs of San Luis Potosí city.
- ❑ Through its two products, Emprendamos Juntos provides working capital loans with amounts from 800 MXN (67 EUR) up to 15,000 MXN (1,259 EUR).
- ❑ Current average loan per borrower is 1,017 MXN (85 EUR) and represents only 2% of the GNP/capita

² Source: World Bank Group 03/09/2003

³ Source: PNUD, Human Development Report 2003

⁴ PlaNet Finance, *Evaluation Pays: Etats Unis du Mexique*, August 2000

Table of Contents



The following is a translation of the Table of Contents of the full report, which is only available in Spanish.

Microfinance Environment in Mexico

Governance and Decision Making

Strategic and Operational Decision making

Strategic Planning and Budgeting

Management Team

Human Resource Management

Information Management and Systems

Management Information System (MIS) and Equipment

Information on Activities

Financial and Accounting Information

Risk Management

Procedures and Internal Controls

Internal Audit

Activities: Products and Services

Portfolio Management

Portfolio at risk

Write-off ratio

Credit risk coverage

Funding and Liquidity

Asset Liability Management and Financing Strategy

Liquidity Management

Efficiency and Profitability

Appendices

Financial Statements and Notes

Adjustments