APED, Ghana

The Association of Progressive Entrepreneurs in Development (APED) is a World Vision's NGO, created in 2001 to fight poverty through the development of sustainable micro enterprises owned primarily by women. The organization operates four branches (Greater Accra, Eastern, Central and B/A Ashanti) and in two zones (Western and Northern region). APED offers two loan products intended for farmers and traders using the community banking methodology. As of April 2007, it had a loan portfolio of 1.7 million USD and 13,380 active borrowers.

GIRAFE Rating

Rating

C+

Outlook

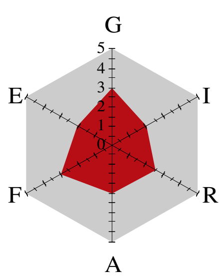
Uncertain

Date of the rating

July 2007

Valid until June 2008

Rating per evaluation area



Governance – **I**nformation – **R**isk – **A**ctivities – **F**unding – **E**fficiency

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Rating highlights

- The financial performance of APED has been improving for the last 3 years but the institution is still in deficit with a ROA at -4.1% in 2006 down from -37% in 2004. It still relies on donations to cover its operational expenses.
- The operating cost expense ratio dropped steadily from 106% in 2004 to 61% in 2006 but is still very high compared to the industry average. The high operating costs related to servicing APED's target clientele (i.e. the lower end of the productive poor in rural areas) and its credit methodology (which includes business management training) represent a big cost challenge for the institution.
- APED has succeeded in growing very fast (averaged 90% for the last 3 years) with a reasonable control on portfolio quality (PAR>30 = 3.3% in 2007 down from 5.9% in 2005 though partially helped by much higher portfolio). This fast growth has put considerable strains on its inadequate infrastructure and processes.
- Two major challenges for APED: 1) to seek reliable and adequate funding to finance continued portfolio growth while making the necessary tradeoffs to reach the break-even point faster; and 2) to rapidly form a stable and qualified management team in order to handle the tough ongoing challenges and to instill confidence to the staff and stakeholders at large.

Outlook

- The « Uncertain » trend is underpinned by the instability of the management team (i.e. the planned departure of the Finance Director and the vacancy of key positions) compounded by the ongoing IT difficulties. APED can count on the valuable support of WV/Vision Fund, although such support might allow APED to delay making the hard strategic and operational decisions to attain sustainability.

Performance indicators

USD , unless otherwise stated	Sep. 2004	Sep. 2005	Sep. 2006
Assets	444,388	777,324	1,349,163
Growth	77.3%	73.4%	80.4%
Loan portfolio	337,281	649,008	1,083,349
Growth	105.5%	90.7%	73.5%
Active borrowers	5,005	7,028	11,011
Staff	27	30	40
ROE	(37.3%)	(2.1%)	(4.1%)
ROA	(32.5%)	(1.9%)	(3.5%)
Liabilities / Equity	0.11x	0.09x	0.22x
Portfolio Yield	64.3%	71.7%	58.3%
Operating expense ratio	105.9%	69.8%	61.0%
PAR 31-365	3.9%	5.9%	4.2%
PAR > 365	0.0%	0.0%	0.0%
Write-off ratio	0.7%	1.3%	1.9%

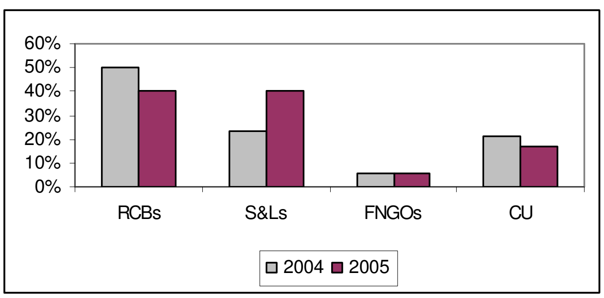
Microfinance sector

Ghana had a population of 22.1[1] million people in 2005, of which nearly half lived on less than 1 USD per day. The first formal MFI was born from the micro savings product of the Post Office, Post Office Savings Bank, before transforming into a National Savings and Credit Bank in 1972 under NRC Decree 38. Over the last decade, the microfinance sector has considerably progressed with the creation of new structures, ranging from rural banks to informal financial systems. The sector has benefited from the support of numerous donors[2] but its scope is still relatively limited compared to some Western and Eastern African countries (Benin and Uganda). According to some unofficial sources, the penetration rate is less than 15%. As of December 2005[3], there were 435 MFIs aggregating an outstanding portfolio of 213 million USD and with an outreach of 548,755 borrowers.

In Ghana, MFIs are classified under three categories[4]:

- Formal financial institutions: composed of 120 Rural and Community Banks (RCBs) and 10 Saving and Loan companies (S&Ls);
- Semi formal financial institutions which include 25 NGOs and 273 Credit Unions;
- Informal financial system, mixed of individual saving collectors "susu" (1,444), rotating savings and credit associations, and credit "clubs" run by community based organizations and self help groups.

The following graph[5] shows the percentage of loan portfolio to industry total:



Most MFIs are rural poverty focus and spread in the three poorest regions of Ghana (Upper East region, Upper West region and the Northern region). The only exception comes from the S&Ls, which usually serve low income urban and peri urban clients.

RCBs, S&Ls and Credit Unions are licensed and regulated by the Bank of Ghana. However, the Association of Rural Banks and the Credit Union Association, both being apex bodies, may undertake supervisory functions for their respective entities. The Financial Non-Governmental Organizations (FNGOs) are registered but not regulated by laws and cannot mobilize voluntary savings from clients. All MFIs are members of the Ghana Microfinance Institutions Network (GHAMFIN). The objectives of GHAMFIN are to reinforce MFIs' capacity and serve as intermediary between MFIs and stakeholders (governments and donors).

In the coming years, many FNGOs have planned to transform into S&Ls to expand their funding structure by mobilizing voluntary savings and commercial banks (Ecobank, Barclays and Intercontinental Bank) have shown interest in intervening in the sector via subsidiaries specialized in microfinance.

Political & economic environment

Economic growth has remained high, underpinned by the good performance of the gold and cocoa sectors and spurred by increasing private investment. In 2007, public investments should bolster the civil engineering sector with services (telecommunications, tourism) remaining dynamic. Nevertheless, inadequate infrastructure, particularly as regards electricity generation and delivery, along with difficult access to credit has hampered companies.

The country has struggled furthermore to translate economic performance into poverty reduction, which has limited its capacity to increase fiscal revenues whereas the run-up to general elections in 2008 is prompting authorities to increase social spending. In that context, public sector finances have remained out of balance. External accounts, meanwhile, have remained in deficit with the growth of gold and cocoa export revenues and the very significant reduction of foreign debt granted under the HIPC and MDRI programmes not sufficing to offset the pressure of oil and capital goods imports. Covering the country's internal and external financing needs will thus continue to depend on the inflow of aid granted by donor countries.

In any case, Ghana's domestic political stability, democratic maturity, and conflict-free relations with neighbouring countries have been conducive to structural reform implementation, albeit at an unsteady pace, and have facilitated the significant progress made on education and health.

[1] According to the World Bank.
[2] IFAD, IDA, ADB, GTZ and others. The government has also launched a few projects with the support of donors, like the Rural Financial Services Project.
[3] No reliable update is available.
[4] The data is from year 2005.
[5] The graph is from the Performance Benchmarks of MFIs in Ghana published by GHAMFIN.

Strengths:

- Political stability and an improved business environment have been assets for investors.
- Having long made efforts on structural reforms, Ghana has benefited from the support of financial backers.
- Cancellation of a large proportion of its foreign debt will make it possible to speed up economic development and poverty reduction.
- With its geopolitical situation and mediator role in regional conflicts, Ghana enjoys a positive image.

Weaknesses:

- With gold and cocoa generating two third of export revenues, the economy is still insufficiently diversified and thus exposed to exogenous shocks (weather conditions, world prices.
- Outdated and insufficient infrastructure and a difficult access to credit have impeded diversification.
- Both public-sector and external accounts have remained structurally in deficit thus keeping Ghana dependent on international aid.

COFACE Country Rating: C - A very unsteady political and economic environment could deteriorate an already bad payment record.

(USD millions)	2004	2005	2006 (e)	2007 (f)
Economic growth (%)	5.6	5.9	5.7	5.8
Inflation (%)	12.6	15.1	10.9	9.2
Public sector balance (%GDP)	-9.5	-6.9	-10.5	-8.4
Exports	2,785	2,802	3,684	3,902
Imports	4,297	5,345	6,377	6,891
Trade balance	-1,512	-2,543	-2,693	-2,989
Current account balance (%GDP)	-8.8	-12.3	-9.0	-9.2
Foreign debt (%GDP)	72.7	59.2	21.2	22.1
Debt service (%G&S exports)	16.2	14.2	11.8	4.3
Foreign currency reserves (in months of imports)	4.5	4.1	3.6	3.9

Source: COFACE's Country Risk Ratings Guidebook. COFACE is a shareholder of Planet Rating. (e) estimates, (f): forecasts.

Institutional presentation

Legal form, supervision and audit

APED is registered under the Ghana Companies Code as an NGO. It has been operating in microfinance since 2001 as a parallel organization to World Vision Ghana (WVG).

The organization is not regulated by the Bank of Ghana but self regulated through the support of WVG, GHAMFIN and the Association of Financial NGOs (ASSFIN).

Its financial statements have been audited and certified for the past four years by MGI Hydefynn & Osei, an accounting firm that has a fairly good experience in microfinance.

Ownership

APED is fully controlled by World Vision International (WVI). The Board of Directors (BOD) is dominated by the WV representatives with 4 members out of 7. The members from WV Ghana are the executive, the finance, the microfinance and the program directors, who are on the BOD until they vacate their position while the non members have a three-year term, renewable once.

Donations

Since its creation, APED has received almost 570,000 USD in donations from WV, and USAID. Donations were mainly used for loan funds, training of clients, promotion of products, set up of branches and purchase of equipments.

Funding composition

In addition to donations, APED borrows funds from the Vision Fund, a World Vision's affiliate.

Management team

APED is managed by a team of directors headed by the Executive Director (ED), Mr. Spencer Badu, who reports to the BOD. He has a BA in Sociology, holds managerial skills from past experiences and joined APED as the Operations Director (OD) before being promoted ED in May 2006. Other Directors[6] include Finance, Operations and Human Resources. The Finance Director is helped by a Finance and Accounting Manager, based at the head office (HO).

The branches are headed by branch managers (BM), supported by a finance officer and credit officers (COs). The BMs report to the OD.

Organization

APED has a decentralized organizational structure through a network of four branches and two zones:

- The HO, which is in charge of planning, strategic decisions making, preparation of consolidated financial statements, elaboration of procedures, recruitments, search for additional funds and external relationship with regulatory bodies;
- The branches, where BMs are responsible for disbursement approvals, after COs' observations. COs are also in charge of training of clients and promotion of products. When loans are approved, finance officers

[6] The MIS manager resigned in the beginning of 2007.

issue checks to clients. Members of the groups receive individual checks made to their order and valid for 2 weeks. For payments of installments, clients pay at the bank (mostly at rural banks) and bring their pay-in-slips to the branches for recording. But posting is done in the loan account when the pay-in-slips are received from the clients and the figures confirmed with the bank statements. The finance officers are also responsible for the preparation of the monthly financial reports (trial balance, cash book and ageing report) and forward them to the finance manager.

- The zones are small branches, where COs meet clients for loan disbursements and repayments, promotion of products and training of clients. Once the zone reaches 1,000 clients, it becomes a branch.

In the institution, most transactions are done by checks; the use of cash is limited to petty cash for the procurement of inexpensive items, such as fuel.

APED employs eMerge for loan tracking and Sunsystem for accounting. eMerge is a centralized system and its implementation is underway, therefore only two branches are using it; other branches process their portfolio information on Excel and send it on a monthly basis to the HO via flash disks or email. Sunsystem is only deployed at the HO.

Market penetration

APED has a network of 4 branches (Great Accra, Eastern, B/A Ashanti and Central) and 2 zones (Western and Northern). Eastern branch has the biggest share of the portfolio (41%), since it has a large and diversified population composed of farmers and traders.

Products and services

APED has two major financial products, which are the working capital and the agriculture loans:

- Working capital loans: These loans are mainly focused on rural and peri urban clients. Up to 3,000 USD can be allocated for an average loan length of 8 months. A 2% processing fee and a 20% collateral are required. Repayments are made weekly, biweekly and in rare cases monthly. The nominal interest rate is 42% (flat) and the APR is around 80%.
- Agriculture loans: They are quite similar to the working capital loans, to the exception of the average loan size (200 USD), the targeted clients (rural), the collateral (15%) and the repayment schedule (biweekly). Its APR is near 70%.

In delivering its services, APED has adopted the community banking methodology. Clients form groups of between 15 to 35 members.

APED offers also non financial services through a business management training package developed for clients with the aim of building their capacity to manage their businesses successfully. As of September 2006, the amount allocated to client training was 1,744 USD.

Networks

APED is a member of WV, GHAMFIN and ASSFIN.

Governance

Governance and Decision Making **is rated "c"**

Decision-making

All board members are committed to the institution's mission and follow closely its performance. The BOD and top management team anticipate most of APED's major challenges and define clear goals, which are then shared with the staff.

The BOD members are competent and bring valuable and diversified experiences to APED as they are from various professional backgrounds including a senior lawyer, a chartered accountant, and a microfinance specialist and more… They initiate all strategic decisions and closely control their implementation with regular financial reports and during meetings. BOD meetings are held regularly, at least quarterly and are prepared by the management team with a real involvement of all BMs. However, the auditor who reports directly to them produces only one concise annual audit report.

The BOD is also kept informed with monthly and quarterly performance reports allowing a follow up of the implementation of strategic as well as operational decisions. The market risks and opportunities are therefore closely monitored by the BOD. The overall performance of the institution is also thoroughly examined by WV members who use a color grading system (ranging from red to green) to appreciate APED's overall performance. APED received a "green" last year, after obtaining an "orange" in 2005 due to a high PAR.

Planning

The planning and budgeting process is prepared by the ED and is participative. Well structured plans and projects are identified for the sustainability of the institution, but the uncertainty lies in finding new sources of funding. The strategy defined by APED is strongly influenced by WV's priorities; APED's management team does not have real autonomy vs. WV Ghana's own strategy.

A three year detailed and comprehensive business plan is being implemented through annual operating plans, quarterly targets based on the analysis of the current situation and a good knowledge of the market. These targets are set with the inputs of the BMs and COs, and are closely monitored. Short term projections are realistic and APED has the ability to reach them easily. But longer term projections show some weaknesses. For example, the financial projections are detailed but unrealistic and do not give the exact source of funding for the planned expansion.

Management team

The ED is a fairly experienced team leader who is appreciated by the BOD, but he tends to focus more on operational aspects than strategic. Overall, the management team is skilled but since early 2007, senior staff turnover has become a great concern for APED. The MIS Manager resigned in early 2007 and the Finance Director (FD) has decided to leave APED in September 2007. The FD is a key person in the institution having a good knowledge of the procedures, the information systems, the operations and accounting. APED failed to anticipate and train other managers to mitigate this key person risk. The recruitment of a new FD is planned. The structure of the management team has weakened and needs to be reinforced by the recruitment of skilled experienced senior staff in IT, finance and audit to fill the vacancies and providing appropriate training to maintain good level of knowledge among staff and keep the same level of performance. The team meets daily, early in the morning, for a group devotion where management issues are also addressed. The group enjoys a smooth communication, shared religious values and a good cohesiveness.

Human resource management

The recently appointed HR manager has a good potential to address strategic issues faced by the institution, however more financial resources will be necessary to properly carry out her mission. Since her appointment, HR policies and procedures are in place and are strictly followed by the management, staff received a 25% wage increase, some training is being offered and employees' morale has improved.

Still, the difficult financial situation of APED limits higher increase in staff, salary, fringes and training:

- The recent 25% increase in salaries was not enough to make the remuneration package competitive;
- The half yearly staff appraisal is just indicative and there is no performance bonus;
- Training is not yet systematized, therefore, the knowledge of best microfinance practices is uneven and portfolio management skills vary among credit officers;
- The institution is faced with a high turnover rate (25.7%), the emphasis was made on the recruitment of COs but the recruitment of qualified senior staff remains a key issue.

Employees are generally aware of the financial situation of APED, since they are always kept informed. This involvement is a strong source of motivation.

Information

Information **is rated "c"**

Information is one of APED's main weaknesses. Its information generation is often lengthy and tedious due to the use of Excel for the production of portfolio information in its largest branches and some exogenous factors.

In April 2005, APED introduced eMerge[7] to two of its smallest branches to substitute Excel. Since, the implementation process has stopped and the two largest branches are still using Excel. There has not been any realistic action plan drawn to deploy eMerge to the entire network. It appears that eMerge was chosen without taking into consideration the requirement of a strong in house IT support or local external vendors. Presently, there is no one in APED to start the re-implementation process, given that APED's MIS manager recently resigned and his assistant is unable to perform such task. In addition, the nearest eMerge representative is based in Kenya and her intervention would be too costly for APED, knowing its difficult financial situation.

APED's information quality is acceptable. Relevant indicators are available (number of clients, outstanding portfolio per activity and gender, and PAR) and the information is protected against unauthorized access, virus and power fluctuations. eMerge includes daily digital back up while on Excel, backups are done manually on flash disks However, the generation of information is time consuming and does not include sufficient controls:

- The use of Excel in the largest branches is a major issue as it results in low productivity and leads to errors given the large number of transactions;
- The reception of monthly portfolio information from branches takes two to three weeks. Indeed, branches must wait for bank statements before posting any client's information on eMerge or Excel. The bank statements come often late and with some errors because they are

[7] eMerge is a reliable loan tracking system that World Vision implemented in all its MFIs.

done manually by rural banks. Once the information is received at the HO, it takes around one week to consolidate all branches' information;

- There is a lack of adequate controls by the HO on the information provided by branches to ensure its reliability, especially for branches where BM's supervision is weak. It was noticed that some branches use the unpaid installments as PAR instead of the outstanding balance of all loans with overdue payments.

The accounting information was certified without reserve in 2006 and previous years. Satisfactory quarterly and annual consolidated financial statements are produced and disseminated to the management team and BOD. However clients' accounts and bank reconciliations are not systematically done. APED makes a good financial analysis from the accounting information, which includes financial and operational sustainability ratio, operational cost ratio and loan loss rate. However, this analysis is mainly produced to meet WV's requirements, and not used as a tool to enhance the management of the institution.

Risk Management

Risk Management **is rated "c"**

Procedures and internal controls

Risk management is adequate in APED. It has financial and administrative procedures, which are well defined and disseminated to the majority of employees. But their application is not rigorous due partially to weaknesses in internal controls.

APED credit procedures enable to minimize credit risk by defining the responsibilities at all levels in the loan cycle but the assessment and the monitoring of loans are weak, mainly due to the lack of a good follow up by the COs and logistics (motorbikes and fuel). Accounting procedures are also adequately defined and promote the usage of checks in most transactions to reduce cash handling risks. However, the write off policy is not systematically respected (see "A) and the late reimbursements are usually collected by COs who make the repayments on behalf of the clients. This recovery procedure leads to a high level of risk and does not guarantee a correct posting of the payments. Moreover, financial reports are not always signed by the finance director and officer for verification purposes.

APED has a good separation of tasks at branch level, which is reflected on the loan approval process. Indeed, the approval of loans is the combination of the COs and the BMs' decisions. But at HO level, the fact that the finance director is temporarily acting also as the MIS manager raises some concerns about conflicts of interest. Moreover, the lack of supervision of COs by BMs, and delays in receiving up to date information affect the control mechanism because it does not enable the BOD and management team to appreciate staff performance in due course.

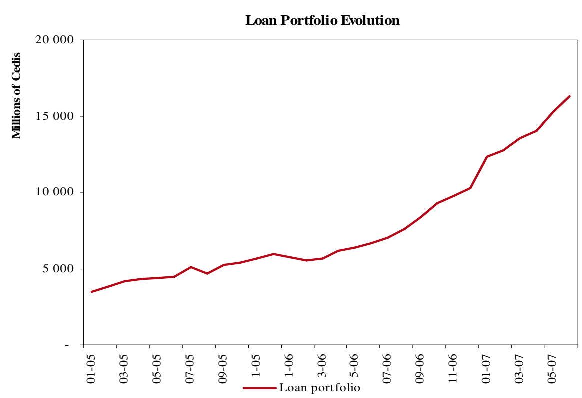
Internal audit

The internal audit is currently assumed by one of the internal auditors (IA) of WVG but the hiring of an additional IA is scheduled for the coming months to strengthen the internal control of the institution. The current IA produces good reports, which clearly emphasize issues faced during audit, using a simple designed table that includes a summary of audit result, proposed recommendations and APED's response. This design allows a quick view of main issues and expedites follow up. Then, the follow up of recommendations is also well done using a percentage method to assess the completion of previous audit recommendations. Finally, the IA reports directly to the BOD and visits clients.

Nevertheless, IA's reports are short and focus mainly on statutory requirements (taxes, social security and board meeting) and financial aspects (segregation of duties and inventory management control) but not enough on the loan portfolio and compliance to credit procedures. In addition, the lack of enough staff (one person) and the limited coverage and frequency of internal audit do not allow identifying most issues and reacting on time. Indeed, the audit is only done once a year and covers mainly the HO and one branch. The annual external audit performed by qualified external auditors moderates slightly the lack of systematic controls over the year.

Activities

Activities: products and services **is rated "c"**



Market positioning and strategy

The target market for APED is the economically active people who live in rural communities and do not have access to formal credit from commercial banks, that represent about 6.2 million potential clients. The country has 88 Financial NGOs with an outreach of about 1.4 M clients and a portfolio size of 128.7 M USD as of December 2006, according to data collected by ASSFIN, the association of FNGOs in Ghana. With a client size of 13,900 as of May 2007 and a portfolio of 1.7 M USD, APED serves about 1.3% of the overall FNGO's market.

Commercial banks do not play a significant role in the microfinance market in Ghana at the moment though some projects are under way. Large banks are all interested in the microfinance sector and are entering the market. This could increase the competition and threaten the institution's position in its market niche. Rural and Community Banks (RCBs) have a limited outreach due mainly to their small product range and management capacity but they mobilize important amounts of savings (60% of savings in the microfinance industry in Ghana in 2005 excluding the "susu" collectors). The S&L companies are very dynamic. Their part on the industry loan portfolio is constantly increasing: from 23% in 2004 it reached 40% in 2005 due mainly to the efforts of the most prominent (Sinapi Aba and ProCredit).

APED does not face a strong competition despite the high number of players in the microfinance sector as it targets the lower end of the poor productive clientele segment and the market is underserved despite the presence of rural banks that remains relatively weak. Its competitive advantages are its presence in rural areas, in agricultural loans and the training provided to solidarity groups. In addition, the mandatory savings is generally appreciated by clients as they see it as a way of putting aside a percentage of their revenues.

Loan portfolio management

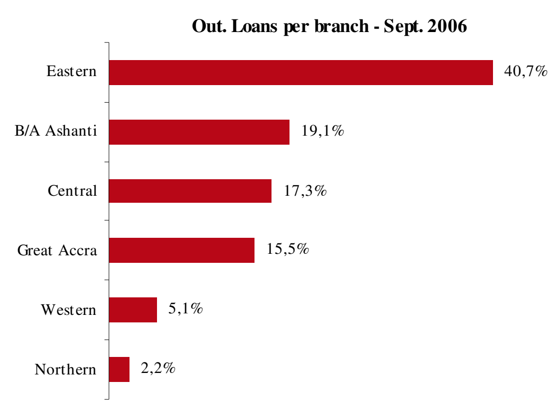
APED has a very clear loan management strategy that is defined in its credit manual. From the identification of target zones, the market studies, the formation of solidarity groups and their training before opening an account to applying for a loan. All these steps are described in detail, but few weaknesses in the management of the loan portfolio exist:

- The loan assessments made by COs are succinct and do not provide enough analytical details on clients;
- The monitoring, follow up and recovery procedures are not consistently followed by BMs and COs. A portfolio aging analysis is made monthly and actions for recovery are taken accordingly. COs generally know well their groups but the fact that they live in remote areas makes the follow up difficult, expensive and time consuming. In addition to that, the lack of logistics (motorbikes and fuel) weakens the follow up. Therefore, the recovery task force is often activated only when the portfolio quality starts to deteriorate. Recent efforts in bad loans recovery in B/A Ashanti's branch explained the decrease of APED's PAR.;
- Reimbursement procedures are secure but frequent human errors from the banks and APED create difficulties in reconciling all repayments; some are still pending while corresponding loans are being considered unpaid.

APED has experienced a high portfolio growth since it started operating in 2001 with an average +80% per year. The average loan size per group has also significantly increased, from 2,840 USD in 2004 to 8,544 USD in April 2007, due to matured groups who are eligible for higher loan size limits. The portfolio growth will certainly be maintained if APED has more funding available as new high potential areas have been identified.

There is no formal policy for portfolio diversification. APED offers only 2 products: working capital and agricultural loans representing 75% and 25%, respectively of the outstanding loans. The working capital financing is largely concentrated in the trading sector with about 80% of the outstanding loans, while services and production sectors account for about 15% and 5% respectively. There is no plan to readjust the business sector shares in the portfolio. The agricultural loans take progressively a more important part from 14% in 2004 to 24 % in 2006. The average outstanding loan per individual beneficiary has increased from 67 USD to 98 USD in the last three years. The average loan size per group has almost tripled in 4 years due mainly to maturing groups with good repayment records, therefore eligible for larger loans.

The distribution of the loan portfolio per branch is uneven as shown in the graph below:



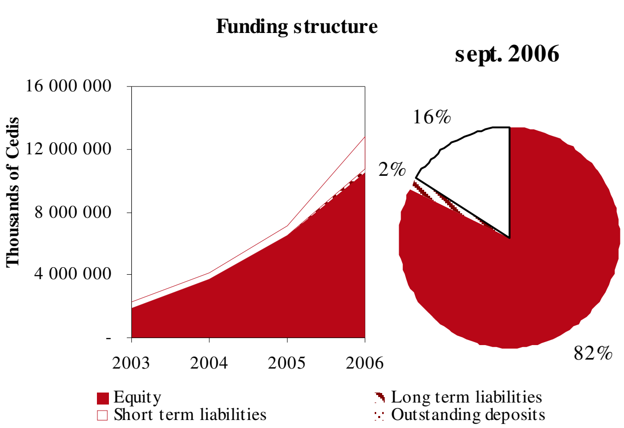
Credit risk

APED's exact portfolio quality is difficult to assess because the loan aging is not done correctly. The method of calculation of the PAR is not consistent. In one branch visited, only the unpaid installments were considered in the PAR even if the procedures manual considers the total outstanding loan. Therefore the PAR disclosed is under estimated. The PAR>30 days was reported at 3.3% in April 2007, but could be up to twice higher. The PAR is unevenly distributed among branches. The Eastern branch has a good PAR close to zero due to a good monitoring from the BM while the B/A Ashanti branch has a PAR above 10%. To stimulate debtors to pay on time, APED does not reschedule loans and defaulting members are excluded from their group.

APED does not have a conservative provision policy: as of September 2006, the risk coverage ratio was at 71% of PAR>30; the same levels of coverage were recorded in the preceding years. Loans over 180 days are to be fully provisioned and written off according to the institution's policy. This provisioning level is clearly insufficient as PAR is considered underestimated. In 2006, the write off ratio was 1.9% while the amounts to be written off represented 2.6% of the outstanding portfolio.

▪ Funding and liquidity

Funding and liquidity **is rated "c"**



Capital structure and leverage

APED finances its activity essentially with donations (82%) and subsidized loans (18%). Financial NGO's under Ghana's regulatory framework are not permitted to mobilize savings. APED has been very dependent on donations from WV, which has limited its growth:

- From 2003 to 2006, the total donation was multiplied by four but is unlikely to increase in the future as WV has decided to diversify its way of intervention. It has created a fund, Vision Fund (VF), to directly give loans to WV's NGOs. APED has recently benefited from a loan of 250,000 USD in 2007;
- APED is very lowly leveraged and could raise more debts to finance its activity but the management has not succeeded to raise more commercially-oriented debts, especially from other lenders than the Vision Fund so far.

Asset & Liability Management

- No maturity risk: All loans are short term with an average length of 8 to 9 months and funding is on longer term (5years);
- Some FX risk: APED has contracted three loans from the VF: to mitigate the risk, APED covers the exchange risk by adding a margin of 10% on the installment accruals. At the end of the period, the excess accruals are reversed. However, this procedure does not protect APED from any unforeseen FX adverse move, as of June 2007 the outstanding balance of loans from the VF was 420,000 USD representing 52% of total liabilities;
- No interest rate risk: APED borrows on a fixed rate, so it does not face any interest rate risk.
- The solvency risk is very low as the portfolio quality is reasonable and given the support from WV.

Funding strategy

A major weakness of APED is the limitation of its financial resources and the inability to attract commercial financing. APED still relies too much on WV/VF to finance its growth. The management was not able to diversify its financing. The name of WV along with improved operational performance could have been better leveraged to access commercial financing. While APED has the willingness to increase its portfolio, improve its profitability and be sustainable, it has not come up with an effective way to articulate and communicate in order raise funds to achieve such objectives. All funding raised since its creation was from donors, except in 2006 when APED signed an agreement with a group of clients to borrow[8] part of their savings for investment in loans (27,000 USD).

Liquidity management

Due to the lack of resources, the liquidity is closely controlled. The weekly repayments keep relatively comfortable cash balance at banks. The efficiency of the liquidity management could be improved with better planning of disbursements and reimbursements and weekly cash flow projections. No cash is left idle in a branch; finance officers from all branches coordinate daily to identify the needs for inter-branch transfers. There is no risk for a liquidity crisis as savings are not a product offered but just a by-product to reduce credit risk.

[8] APED pays a 12% interest.

Efficiency and Profitability

Efficiency and Profitability **is rated "d"**

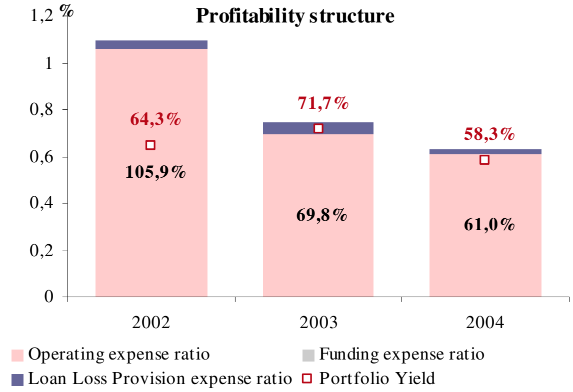
Profitability analysis

APED has not yet been profitable and is still very dependent on donations. Its overall financial situation has slightly improved over the last four years but stays fragile. APED's ROE is still negative but significantly progressed from -37.3% to -4.1% between 2004 and 2006, helped by a higher increase in financial revenues than expenses, and an increase (2.5x) in donated equity for loan capital from WV and USAID. The high increase in clients (2.2x) during 2004-2006 generated more operating revenues for APED and explained the increase in donations since APED covered more ADPs[9] served by WV.

However, in 2006 the situation worsened compared to 2005 with an operating expense ratio (61%) higher than the portfolio yield (58%). APED reduced interest rates after complaints from clients and did not anticipate increasing volume to sufficiently cover the difference in interest revenues change, as a result its portfolio yield dropped from 72% to 58%, which is slightly lower than the average portfolio yield of African NGOs (62.5%)[10]. In addition, APED increased its number of staff, and raised salaries by 25% to match competitors' remunerations, to attract better qualified staff and to improve employees' morale. Given the current financial situation, these initiatives should have been more carefully analyzed, especially the drop in interest rate, because they delayed further down the break even[11] of APED.

APED enjoys low funding and provision expenses, and a good resource optimization:

- In 2006, its funding expense ratio was only 0.1% thanks to a large donation-based structure. This ratio is expected to grow as APED contracted VF loans at 6%;
- Its loan loss provision expense ratio was 2%, but it could be higher since the PAR was underestimated and write offs were not rigorously respected;
- It had a relatively good asset utilization rate (78%), but could be improved further. Given the difficulties in obtaining daily cash from banks in rural areas, the level of cash kept in branches is slightly over best practices.



The financial outlook of APED is uncertain given its fragile financial situation and the management instability (See Governance). In 2006, the institution was only able to cover 78.7% of its expenses on its own. The path toward break even point necessary involves implementing strategies to:

- Resolve the management team's vacancies in order to boost execution capacity;
- Raise more funds to satisfy the high loan demand given the current and potential clients. With an increase in competition, clients will end up switching to competitors if their demand is not well answered in terms of timeliness and amount. Larger portfolio will generate higher economies of scale and reduce costs on a per borrower basis;
- Accelerate the implementation of eMerge to better follow up on clients and to increase back office efficiency and staff productivity; and
- Strengthen portfolio management, which will help to reduce PAR and write offs.

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.

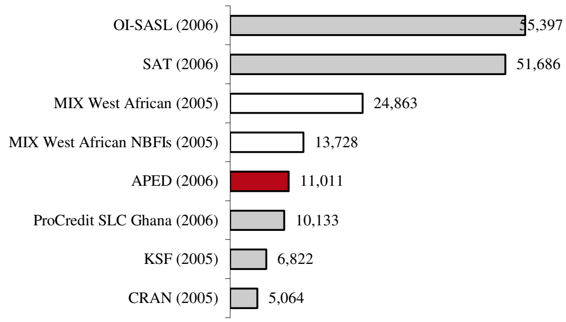
[9] ADP: Area Development Project. Once APED serves one of WVG's ADP, it receives donations for loan capital, set up of branches and some management fees.

[10] Benchmarking African Microfinance 2005.

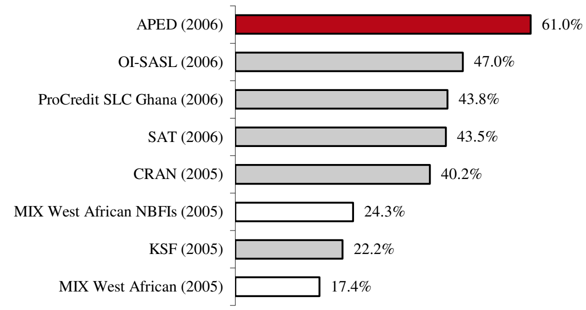
[11] Net income before accounting the donations for operations.

Benchmarking

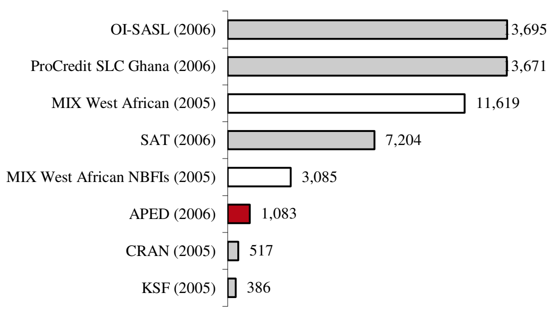
Active borrowers



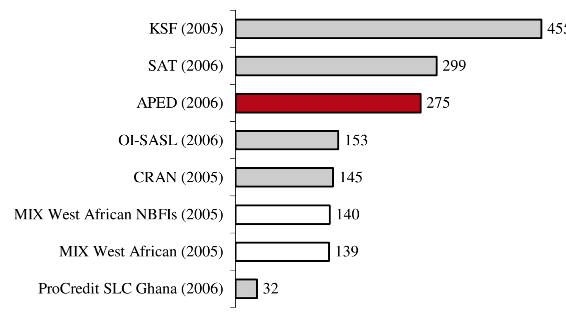
Operating expense ratio



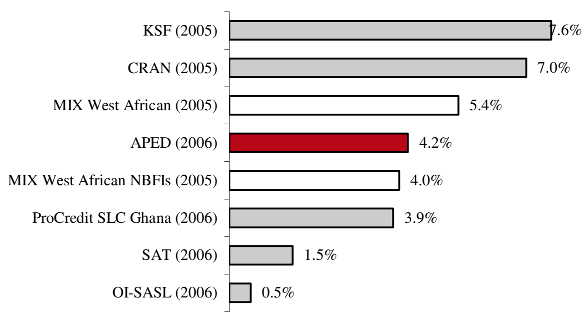
Loan portfolio (USD)



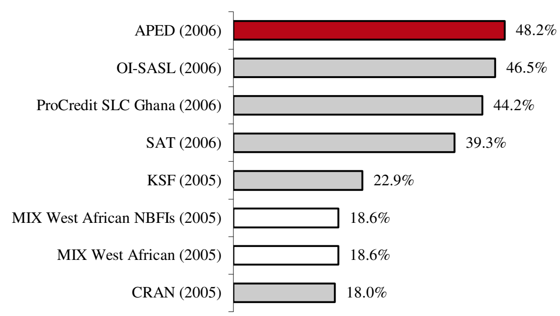
Staff productivity



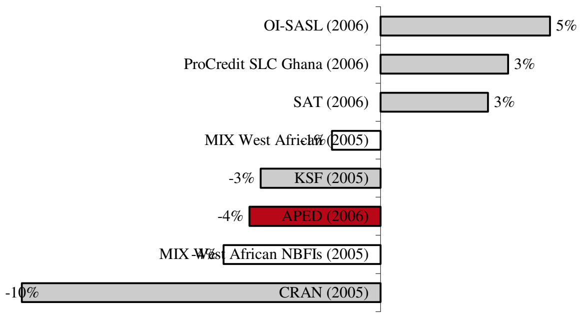
PAR 31-365



Financial revenue ratio



ROA



Source: MIX Market's website and MIX Benmarking African MFIs (2005)
MFIs: SAT, ProCredit, OI-SASL, CRAN

Performance indicators

Data in USD, unless otherwise stated

Loan Portfolio	September 2004	September 2005	September 2006
Loan portfolio evolution			
Loan portfolio	337,281	649,008	1,083,349
Loan portfolio (GHC)	3,105,343,257	5,922,199,129	10,274,477,607
Evolution	105.5%	90.7%	73.5%
Average outstanding loan	250,723	494,660	853,895
Active borrowers	5,005	7,028	11,011
Evolution	136.4%	40.4%	56.7%
Average outstanding loan per client	67	92	98
% of GDP per capita	15.8%	18.1%	17.8%
Average amount disbursed per loan	2,840	5,377	4,557
% of GDP per capita	667.4%	1,056.3%	824.3%
Portfolio quality			
Rescheduled loans	0.0%	0.0%	0.0%
PAR 31-365	3.9%	5.9%	4.2%
PAR > 365	0.0%	0.0%	0.0%
Write-off ratio	0.7%	1.3%	1.9%
Credit risk coverage			
Risk coverage ratio	79.7%	71.4%	71.6%
PAR 31 net of loan loss provision / Equity	0.7%	1.5%	1.2%
Staff			
Total number of staff	27	30	40
% Credit officers	48.1%	46.7%	57.5%
Turnover	4.5%	10.5%	25.7%
Profitability analysis			
ROE	(37.3%)	(2.1%)	(4.1%)
Liabilities / Equity	0.1x	0.1x	0.2x
ROA	(32.5%)	(1.9%)	(3.5%)
Profitability structure			
Portfolio Yield	64.3%	71.7%	58.3%
Operating expense ratio	105.9%	69.8%	61.0%
Cost per borrower	53	49	47
Staff productivity	185	234	275
Loan officer productivity	385	502	479
Average outstanding loan per client (USD)	67	92	98
Funding expense ratio	0.0%	0.0%	0.1%
Cost of savings	0.0%	0.0%	0.0%
Cost of liabilities	0.0%	0.0%	4.8%
Loan Loss Provision expense ratio	4.0%	4.4%	2.5%
PAR 31-365	3.9%	5.9%	4.2%
Write-off ratio	0.7%	1.3%	1.9%
Resource optimization			
Outstanding Loan Portfolio / Assets	73.5%	80.0%	77.9%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%
Liquidity			
Loans to deposits	0.0%	0.0%	0.0%
Liquidity / Total assets (LAR)	6.8%	8.3%	9.9%
Adjusted ratios			
Adjustment expense ratio	11.7%	15.5%	11.7%
AROE	(47.1%)	(15.8%)	(15.2%)
AROA	(40.9%)	(14.4%)	(13.0%)
Financial self-sufficiency	53.3%	80.1%	78.7%
Adjusted operating expense ratio	106.0%	69.9%	61.0%
Adjusted funding expense ratio	11.5%	14.6%	10.5%
Adjusted loan loss provision expense ratio	4.1%	5.2%	3.6%
Exchange rate 1 USD= xx GHC	**9,207**	**9,125**	**9,484**

Note: The PAR mentioned above could be underestimated since it was found in the largest branch that the unpaid installments are used as the PAR instead of the outstanding balance of all loans with overdue payments. Moreover, the write off ratio could be also higher because the write off policy was not always respected.

APED		GHC				USD				Evolution		
Income Statement	**Notes**	**Sep. 2003**	**Sep. 2004**	**Sep. 2005**	**Sep. 2006**	**Sep. 2003**	**Sep. 2004**	**Sep. 2005**	**Sep. 2006**	**2004/2003**	**2005/2004**	**2006/2005**
Financial Revenue (a)		**604,791,000**	**1,496,507,000**	**3,241,298,000**	**4,792,021,400**	**68,169**	**162,540**	**355,211**	**505,274**	**147.44%**	**116.59%**	**47.84%**
Financial Revenue from Loan Portfolio		594,585,000	1,484,939,000	3,234,564,000	4,719,619,000	67,018	161,284	354,473	497,640	149.74%	117.82%	45.91%
Interest on Loan Portfolio		594,585,000	1,444,349,000	3,083,761,000	4,220,192,000	67,018	156,875	337,946	444,980	142.92%	113.51%	36.85%
Fees and Commissions on Loan Portfolio		-	40,590,000	150,803,000	499,427,000	-	4,409	16,526	52,660	-	271.53%	231.18%
Penalty Revenue on Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments		-	-	-	-	-	-	-	-	-	-	-
Other Operating Revenue	A	10,206,000	11,568,000	6,734,000	72,402,400	1,150	1,256	738	7,634	13.35%	-41.79%	975.18%
Financial Expense (b)		**-**	**-**	**-**	**6,155,323**	**-**	**-**	**-**	**649**	**-**	**-**	**-**
Interest paid on borrowings	B	-	-	-	6,155,323	-	-	-	649	-	-	-
Interest paid on deposits		-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense		-	-	-	-							
Other Financial Expenses		-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]		**604,791,000**	**1,496,507,000**	**3,241,298,000**	**4,785,866,077**	**68,169**	**162,540**	**355,211**	**504,625**	**147.44%**	**116.59%**	**47.65%**
Net Loan Loss provision expense (d)		**36,554,000**	**91,362,000**	**199,126,000**	**200,814,400**	**4,120**	**9,923**	**21,822**	**21,174**	**149.94%**	**117.95%**	**0.85%**
Loan loss provision expense and write-off		36,554,000	96,046,000	214,206,000	214,203,000	4,120	10,432	23,475	22,586	162.75%	123.02%	0.00%
Recovery from Loans written off		-	4,684,000	15,080,000	13,388,600	-	509	1,653	1,412	-	221.95%	-11.22%
Operating expense (e)		**1,374,300,000**	**2,443,671,000**	**3,149,163,000**	**4,936,020,677**	**154,903**	**265,414**	**345,114**	**520,458**	**77.81%**	**28.87%**	**56.74%**
Personnel Expense (includes fringe)		737,413,000	1,438,497,000	1,626,251,000	2,534,823,000	83,117	156,239	178,219	267,274	95.07%	13.05%	55.87%
Administrative Expense (non-staff operating expenses)		636,887,000	1,005,174,000	1,522,912,000	2,401,197,677	71,786	109,175	166,894	253,184	57.83%	51.51%	57.67%
Depreciation and amortization		134,059,000	179,702,000	247,906,000	360,595,000	15,110	19,518	27,168	38,021	34.05%	37.95%	45.46%
Consulting fees	C	-	-	61,852,000	76,767,000	-	-	6,778	8,094	-	-	24.11%
Communication expenses		69,963,000	127,203,000	138,792,000	186,290,000	7,886	13,816	15,210	19,643	81.81%	9.11%	34.22%
Occupancy		61,973,000	119,964,000	145,261,000	193,293,000	6,985	13,030	15,919	20,381	93.57%	21.09%	33.07%
Travel and transport		97,376,000	183,251,000	571,811,000	982,501,000	10,976	19,903	62,664	103,596	88.19%	212.04%	71.82%
Baseline survey		74,220,000	-	-	-	8,366	-	-	-	-100.00%	-	-
Administrative Expense		111,448,000	161,024,000	210,508,000	385,556,000	12,562	17,489	23,069	40,653	44.48%	30.73%	83.16%
Clients training		51,802,000	20,466,000	-	-	5,839	2,223	-	-	-60.49%	-100.00%	-
Monitoring and evaluation		-	144,761,000	-	-	-	15,723	-	-	-	-100.00%	-
Others		36,046,000	68,803,000	146,782,000	216,195,677	4,063	7,473	16,086	22,796	90.88%	113.34%	47.29%
Net Operating Income Before Taxes and Donations [f=c-d-e]		**(806,063,000)**	**(1,038,526,000)**	**(106,991,000)**	**(350,969,000)**	**(90,855)**	**(112,797)**	**(11,725)**	**(37,006)**	**28.84%**	**-89.70%**	**228.04%**
Income Taxes (g)		-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]		**(806,063,000)**	**(1,038,526,000)**	**(106,991,000)**	**(350,969,000)**	**(90,855)**	**(112,797)**	**(11,725)**	**(37,006)**	**28.84%**	**-89.70%**	**228.04%**
Non Operating Revenue (i)		-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)		-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]		**(806,063,000)**	**(1,038,526,000)**	**(106,991,000)**	**(350,969,000)**	**(90,855)**	**(112,797)**	**(11,725)**	**(37,006)**	**28.84%**	**-89.70%**	**228.04%**
Donations (l)	D	736,048,000	565,099,000	169,569,000	849,710,000	82,963	61,377	18,583	89,594	-23.23%	-69.99%	401.10%
Net Income (after Taxes and Donations) [m=k+l]		**(70,015,000)**	**(473,427,000)**	**62,578,000**	**498,741,000**	**(7,892)**	**(51,420)**	**6,858**	**52,588**	**576.18%**	**-113.22%**	**696.99%**

Notes:

A: Membership fees, sale of passbooks, and exchange rate gains.

B: Accrued interest for August and September 2006 on the 100 000 USD loan from the Vision Fund.

C: Training given to clients and assistance fees paid to World Vision

D: Donations from the USAID and World Vision.

APED		GHC				USD				Evolution		
Balance sheet	**Notes**	**Sep. 2003**	**Sep. 2004**	**Sep. 2005**	**Sep. 2006**	**Sep. 2003**	**Sep. 2004**	**Sep. 2005**	**Sep. 2006**	**2004/2003**	**2005/2004**	**2006/2005**
ASSETS		**2,307,987,000**	**4,091,479,000**	**7,093,086,000**	**12,795,462,000**	**260,143**	**444,388**	**777,324**	**1,349,163**	**77.27%**	**73.36%**	**80.39%**
Short Term Assets		**1,728,465,000**	**3,308,818,000**	**6,399,403,000**	**11,691,033,000**	**194,822**	**359,381**	**701,304**	**1,232,711**	**91.43%**	**93.40%**	**82.69%**
Cash and Due from Banks		166,044,000	278,814,000	586,488,000	1,261,910,000	18,716	30,283	64,273	133,057	67.92%	110.35%	115.16%
Short Term Investments		-	-	-	-	-	-	-	-	-	-	-
Short Term Net Loan Portfolio		1,494,890,000	3,008,852,000	5,671,602,000	9,964,611,000	168,495	326,800	621,545	1,050,676	101.28%	88.50%	75.69%
Short Term Gross Loan Portfolio		1,511,461,900	3,105,343,257	5,922,199,129	10,274,477,607	170,363	337,281	649,008	1,083,349	105.45%	90.71%	73.49%
(Loan Loss Reserve)		16,571,900	96,491,257	250,597,129	309,866,607	1,868	10,480	27,463	32,673	482.26%	159.71%	23.65%
Interest Receivable		-	-	-	-	-	-	-	-	-	-	-
On loan portfolio		-	-	-	-	-	-	-	-	-	-	-
On investments		-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		67,531,000	21,152,000	141,313,000	464,512,000	7,612	2,297	15,486	48,978	-68.68%	568.08%	228.71%
Long term assets		**579,522,000**	**782,661,000**	**693,683,000**	**1,104,429,000**	**65,320**	**85,007**	**76,020**	**116,452**	**35.05%**	**-11.37%**	**59.21%**
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		579,522,000	782,661,000	693,683,000	1,104,429,000	65,320	85,007	76,020	116,452	35.05%	-11.37%	59.21%
Other Long Term Assets		-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY		**2,307,987,000**	**4,091,479,000**	**7,093,086,000**	**12,795,462,000**	**260,143**	**444,388**	**777,324**	**1,349,163**	**77.27%**	**73.36%**	**80.39%**
Liabilities		**440,137,000**	**393,186,000**	**601,503,000**	**2,289,949,000**	**49,610**	**42,705**	**65,918**	**241,454**	**-10.67%**	**52.98%**	**280.70%**
Short term liabilities		440,137,000	393,186,000	601,503,000	2,032,453,000	49,610	42,705	65,918	214,303	-10.67%	52.98%	237.90%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	-	-	-	-	-	-	-	-	-	-
Interest payable	A	-	-	-	6,155,323	-	-	-	649	-	-	-
Accounts Payable and Other Short Term Liabilities		440,137,000	393,186,000	601,503,000	2,026,297,677	49,610	42,705	65,918	213,654	-10.67%	52.98%	236.87%
Long term liabilities		-	-	-	257,496,000	-	-	-	27,151	-	-	-
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	B	-	-	-	257,496,000	-	-	-	27,151	-	-	-
Other Long Term Liabilities		-	-	-	-	-	-	-	-	-	-	-
Equity		**1,867,850,000**	**3,698,293,000**	**6,491,583,000**	**10,505,513,000**	**210,533**	**401,683**	**711,406**	**1,107,709**	**98.00%**	**75.53%**	**61.83%**
Paid-In Capital		-	-	-	-	-	-	-	-	-	-	-
Donated equity	C	1,899,450,000	4,203,320,000	6,934,032,000	10,449,221,000	214,095	456,535	759,894	1,101,774	121.29%	64.97%	50.69%
Retained earnings without donations and reserves		(31,600,000)	(505,027,000)	(442,449,000)	56,292,000	(3,562)	(54,853)	(48,488)	5,935	1498.19%	-12.39%	-112.72%
Current year		(806,063,000)	(1,038,526,000)	(106,991,000)	(350,969,000)	(90,855)	(112,797)	(11,725)	(37,006)	28.84%	-89.70%	228.04%
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-

Notes:

A: Provisions made to pay interests on the loan contracted from the WV fund. The provision was made based on the local commercial rate of 20% to offset the exchange rate fluctuation.

B: Deferred grant for 2007 received from World Vision, staff's provident fund and short term debt contracted from depositors.

C: Donated by World Vision USA and Ghana as loan capital.

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 savings ratio:	Interest and fees paid on deposits/Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings/Average borrowing
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 a % of assets:	Net outstanding portfolio / total assets (end of period)
Financial self-sufficiency:	Revenue from operations / (Expenses (financial, loan loss, operating) + Adjustments)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / 13-month average gross outstanding portfolio

Rating scale

Rating	Definition
A+ 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.
B+ B 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.
C+ C C-	**Minimum required** Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
D	**Insufficient** Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	**Immediate risk of default or very insufficient** There are immediate or underlying risks for operations or an unacceptable under performance.