

Global assessment

Assessment summary

Average



Faced with low operational and financial performances in 2005 and 2006 (decline in outstanding portfolio, high portfolio at risk, etc.), ARD has proven its ability to timely revise its procedures and take adequate steps when needed. Since 2007, ARD's operational and financial performances have greatly improved to compare favorably with national and regional benchmarks to date (high portfolio growth, enhanced portfolio quality, etc.). However, ARD still has to tackle several significant challenges to be able to maintain its good performance in the coming years, such as setting-up an efficient governance structure, implementing an adequate risk management policy, and decreasing the LOs' productivity, so as to maintain the portfolio at risk at a manageable level.

Assessment per domain

Areas for improvement

G



- Strengthen the governance structure through regular meetings of the BOD
- Develop scenario planning and proceed to variance analysis on a regular basis
- Set-up formal meetings of the management team
- Strengthen capacity building for the BOD, management, and field staff
- Update HR procedures and implement them on a regular basis

I



- Improve efficiency of the accounting information generation process
- Reinforce in-house command of the MIS through further capacity building
- Enhance data security (anti-virus software, secure storage of paper data, protection of information produced in Excel, etc.)

R



- Set-up an Internal Auditor function and design an annual IA plan
- Formalize or update existing procedures, especially internal controls and audit
- Improve hierarchical controls and the level of compliance with procedures
- Better mitigate cash risk

A



- Improve the monitoring of portfolio evolution
- Hire additional LOs to reduce LO productivity levels to manageable ones
- Reinforce supervision over LOs
- Further capacity building of LOs, especially on delinquency management
- Improve the level of compliance with write-off procedures

F



- Better define and formalize the funding strategy through a precise allocation of the funding needs per type of funding
- Design an adequate liquidity management process and define internal liquidity prudential ratios
- Reinforce the Finance Department which is currently understaffed

E



- Decrease LOs' productivity to sustainable levels, so as to reduce the PAR
- Improve the monitoring of portfolio evolution, especially management of fast growth

Institutional presentation

Association for Rural Development (ARD) is an independent NGO founded in 1986 by ARD's current Executive Director and Chairman of the Board to focus on community development so as to complement the activities of international NGOs operating in rural areas of Sierra Leone. ARD started its microfinance activities in 1998 with grant support from Christian Aid and is registered as an NGO with the Ministry of Finance and Economic Development. ARD offers both individual and group loans through a network of 4 branches located mainly in urban areas. As of June 2009, ARD served 14,503 active borrowers and had an outstanding loan portfolio of 4.2 billion SLL (1.2 M USD).

Legal form	As an NGO, ARD is registered with the Ministry of Finance and Economic Development.
Supervision	As a microfinance provider, ARD is governed by the "Other Financial Services Act" (OFSA) and is required to comply with the new guidelines issued by the Central Bank of Sierra Leone (BoSL) ¹ by December 2010. To date, ARD is not regulated by the BoSL and thus is not allowed to mobilize voluntary deposits. ARD reports to MITAF ² on a monthly and quarterly basis (respectively on portfolio and financial information).
Audit	ARD's financial year starts on January 1 st and ends on December 31 st . Since 2006, ARD's financial statements have been audited by "Emile Kargbo & Associates", Sierra Leonean certified public accountants, in accordance with International Standards on Auditing, with unqualified opinions.
Ownership	As an NGO, ARD has no owners.
Board of Directors	ARD is governed by a Board of Directors (BOD) composed of five members (including one non-voting seat for ARD's Executive Director). Members of the BOD comprise the two founders of ARD and 3 other Sierra Leonean members.
Donations	ARD has received about 3.5 billion SLL (1.03 M USD) in donations, essentially from Christian Aid and the MITAF project. In addition, ARD has benefited from in-kind technical assistance from MITAF.
Funding composition	As of June 2009, ARD's funding structure was composed for 48% of equity, 29% of long-term debt and 23% of savings (cash collateral).
Management team	The management team is made of the Executive Director (ED), Operations Manager (OM), Finance Manager (FM) and MIS Manager. The ED is one of the founders of ARD and has comprehensive background in rural finance and development.
Organization	ARD is organized into two levels: 1) The head office, in charge of strategic decision making, accounting and administrative activities; 2) The branches managed by Branch Managers (BM), assisted by Loan Officers (LOs), MIS Officers, and cashiers.
MIS	ARD uses Loan Performer for loan tracking and Excel for accounting information.
Market penetration	ARD has 4 branches (one of them located in headquarters in Freetown) serving main economic cities of Sierra Leone (Freetown, Makeni, Bo and Kenema).
Products and services	ARD offers two loan products (group and individual loans). Loan amounts range from 300 K SLL (89 USD) and 5 M SLL (1,480 USD) for group loans and a minimum of 3 M SLL (888 USD) with no maximum amount for individual loans. Average term is 6 months. The average effective interest rate (EIR) ranges from 50% for group loans to 65% for individual loans (60% to 77% including cost of savings).
Networks	ARD is a member of the Sierra Leone Association of Microfinance Institutions (SLAMFI).

¹ The BoSL issued new guidelines for credit only and deposit taking financial institutions in the 2nd quarter of 2009. Under the OFSA, all MFIs must be licensed by the BoSL under one of three types of legal forms: Limited Liability Company (LLC), cooperative or statutory body.

² Microfinance Investment and Technical Assistance Facility (MITAF) is a 5-year project launched in 2004 to provide technical assistance, funding and trainings to microfinance providers in Sierra Leone. The MITAF project is funded by KfW, UNDP, UNCDF and CORDAID. The first phase of MITAF was supposed to end in June 2009, but has been extended until December 2009. A second phase of the project is supposed to be launched in 2010.

Governance requires need for improvement

Areas for improvement

- Strengthen the governing structure through regular meetings of the BOD and further capacity building for BOD members
- Develop scenario planning
- Proceed to variance analysis on a regular basis
- Set-up formal meetings of the management team, documented in minutes
- Strengthen capacity building for senior and middle management
- Update HR procedures and implement them on a regular basis

■ Governance

Decision making

- Overall, the decision-making process is not yet functional to ensure that appropriate decisions are taken in a timely, transparent and participative manner. Therefore, key decisions have been taken by the management team to date.
- ARD operates as a NGO registered with the Ministry of Finance and Economic Development but has not yet obtained a license from the BoSL. However, as a microfinance provider, ARD is governed by the “Other Financial Services Act” and is supposed to comply with the new regulations and thus register with the BoSL by December 2010. BOD members and management are aware of that issue and are currently studying transformation options into a private company (Limited Liability Company) with the support of a local lawyer and MITAF.
- + Key decision-makers show strong commitment to ARD’s strategic vision and double bottom line mission (profitability and development impact).
- + ARD has been active over the past few years in strengthening its governance with the setting-up of a local BOD in 2007, which has been reinforced in 2009 with the appointment of 2 new BOD members.
- BOD members have diversified skills and backgrounds (bankers, former Deputy Minister and development consultant, etc.) but suffer from limited experience in microfinance to be able to fully assume their responsibilities.
- The new governing structure is not yet fully functioning to allow a well-balanced decision-making between management and the BOD and ensure that adequate decisions are taken in a timely manner as 1) the BOD did not formally meet since its creation (despite informal meetings between the ED and the BOD Chairman), and 2) BOD members have been selected by the ED to date thus not ensuring sufficient independence of thinking of BOD members.
- Management and BOD members are aware of that issue and plan to reinforce ARD’s governance structure through the setting-up of formal quarterly BOD meetings, development of a BOD policy manual and further capacity building of BOD members especially in finance and portfolio management. Two BOD members have already participated in dedicated trainings organized by MITAF and ARD has developed an in-house training course for BOD members.
- In 2009, BOD members received comprehensive quarterly monitoring portfolio and accounting information but did not make use of them in the absence of formal BOD meetings.
- As BOD meetings are informal, decisions are not formalized in minutes, which does not allow for an efficient implementation of the decisions.

Planning

- + The strategy and medium term goals (2009-2011) are defined in a well-detailed narrative plan and are based on a good analysis of the current situation of the institution, external environment, and the competition (SWOT analysis).
- + The institutional and operational projects needed to carry out the strategic plan are identified for the next three years and broken down per department and branch into simple targets (with estimated cost, conclusion date, etc.) that will help measure ARD’s performances over the following 3 years.
- ARD has demonstrated its ability to proceed to timely revisions of the business plan when needed as it has already done in 2007 when previous targets were too ambitious and have not been reached, mainly due to high PAR.
- Financial projections are produced annually and are available for the next three years including expected income statement, balance sheet and performance indicators. Projections for 2009-2011 are more realistic than the previous ones

(2006-2008). Some targets for 2009 have already been exceeded (number of active borrowers, outstanding loan portfolio), but other targets may not be reached such as the decrease in staff and LO productivity given delays already faced by ARD in recruiting new staff. Thus, ARD would gain in developing scenario planning (with optimistic and pessimistic scenario) as only one scenario has been formalized to date in the BP.

- Detailed budget are produced annually at the branch and institutional level. However, variance analysis is only done once a year and is not formalized, which does not allow for a good follow-up on the achievement of the projections and budget.
- + The planning process is participative involving staff at all levels, which allows for a good buy-in of strategic goals at all levels.

Management team

- ARD enjoys a skilled and growing management team showing strong dedication to ARD's mission, which however would benefit from a broader range of analytical insights and leadership skills.
- The management team relies mainly on the ED and OM who are skilled, experienced and polyvalent and have benefited from numerous national and international trainings in microfinance mainly organized by MITAF. ED and OM have proven their ability to formulate sound strategic decisions and adjust plans in the past such as redesigning the credit methodology in 2006-2007 to mitigate ARD's exposure to credit risk.
- The two top-managers are backed by growing HO department managers. However, as new managers (FM, MIS Manager) have joined the management team starting January 2009, they still lack sufficient experience to be able to fully assist ED and OM in strategic thinking.
- In addition, as the Head of Internal Auditor is still vacant, the OM is slightly overloaded as he is also in charge of identifying operational risks and defining internal controls procedures thus lacking time on loan portfolio monitoring (PAR is on an upward trend in the second quarter of 2009). Management is aware of this issue and plans to hire an IA by year-end.
- The global performance of the management team may be improved through setting-up of formal meetings with dedicated agenda and decisions documented in minutes as daily meetings are informal to date without formalized minutes, which does not allow for a systematic and efficient control over the implementation of the decisions. Middle management meetings (with BMs) are organized quarterly and are formalized minutes.
- With the expected growth in activities, ARD would gain from improved division of tasks through further delegation of operational tasks to middle managers (BMs) while top managers focus on strategic issues.
- Despite some knowledge transfers and decentralization of main operational tasks to BMs, ARD is still exposed to key-person risk (on the ED and OM) as middle managers are growing in their positions, decision-making is not yet collective on key issues (due to the lack of formal management meetings) and ARD has not yet draft a formal succession plan.

Human resource management

- Despite formalized HR procedures designed to identify staff with appropriate skills and profiles (recruitment tests, job descriptions, etc.) and continuously improve staff's competences (in-house and external trainings, staff appraisal, etc.), HR management suffers from delays faced in updating procedures and inconsistency in their implementation across the branches.

- The recruitment process is well organized through methodical review of candidates' competencies and motivation (1 to 3 months' in-house trainings, interviews and testing). However, such process is time-consuming and costly, as ARD trained more candidates than it recruits and selected candidates may deny the offer after the training.
- Overall, staff received a good mix of internal and external trainings, mainly organized by MITAF. However, lack of formalized training plans based on an appropriate identification of staff training needs does not help further improve staff competences. Indeed, additional trainings are needed, especially on delinquency management for loan officers.
- Some mechanisms have been introduced to enhance staff retention and motivation (incentive scheme, staff appraisal, internal promotion, medical coverage, etc.) but some of them are not fully implemented (staff's evaluations³ are not regularly done; medical coverage was stopped in 2009). In particular, the introduction late 2007 of a monthly bonus scheme for LOs based on individual performances⁴ has led to good operational performances (decrease of the PAR) but is not fully effective as LOs find it difficult to reach some targets (e.g. PAR 1 day below 1%), which might hamper staff motivation.
- Therefore, despite overall good staff morale, current retention mechanisms are not yet sufficient (absence of bonus scheme for top managers or non-financial incentives, etc.) as highlighted by the upward trend of the turnover rate since 2007 (around 15%).

Information

Information requires need for improvement

Areas for improvement

- Improve efficiency of the accounting information generation process
- Reinforce in-house command of the system through further capacity building of IT staff (MIS Manager and officers)
- Enhance data security through adequate antivirus protection, improved paper storage and appropriate security systems in the Excel files

- Despite significant improvements since 2005 (e.g. implementation of a computerized loan tracking system), current MIS does not allow producing all the consolidated information needed for a well-informed strategic decision-making in a timely manner, especially due to the length for the generation of accounting information in Excel which is time-consuming.
- Portfolio information is instantly available at the branch level in Loan Performer (e.g. outstanding portfolio, non-performing clients, PAR, etc.). However, as branches are not interconnected⁵, consolidated portfolio data are only produced monthly both in LP⁶ and an Excel file as LP standardized reports do not fully fit ARD's needs.
- Accounting information is comprehensive and includes detailed monthly reports at the required level of detail (e.g. monthly profitability per branch, integrated budget control) and balance sheet on a quarterly basis. However, production of accounting information in Excel is time-consuming as it requires numerous manual reprocessing, which may affect the quality of the information produced. Management is aware of this issue and is studying options to integrate its loan tracking and accounting systems.
- ARD has set some satisfactorily security systems on its MIS through appropriate features of Loan Performer (restricted user rights, password protection, audit trail, etc) and a well-formalized back-up procedure (daily back-up, weekly and monthly back-ups on different sources, of which one is offsite). However, antivirus protection and paper storage are not yet adequate as some computers

³ Loan officers are evaluated on a yearly basis in some branches but not in all the branches. Staff appraisal is not done for other categories of staff (middle and top managers, MIS officers, cashiers, etc.).

⁴ The new LOs' bonus scheme introduced in 2007 is based on three criteria: number of active clients (20% of the bonus), amount disbursed (20%) and PAR 1 day below 5% (60%). BMs incentives are based on performances of LOs of the branch.

⁵ Telecommunication infrastructure is limited in Sierra Leone.

⁶ ARD bought a corporate license to be able to produce consolidated information in the system.

are exposed to virus and most important documents (daily cash reconciliations, loan contracts, etc.) are not stored in closed cabinets. In addition, accounting information produced in Excel is not protected to date by adequate security systems (e.g. password).

- A dedicated MIS Manager has just been nominated to be able to manage and improve the systems internally as there is no local support for the MIS despite good vendor support from the external developer based in Uganda⁷. Further capacity building of IT staff is planned (MIS Manager and officers) as they are still growing in their positions.
- + Further IT developments are well-identified to reinforce ARD's computational infrastructures and thus enhance the information flow (buying of servers, interconnection between branches and HQ, larger access to LP as only MIS officers have access to LP to date). In addition, ARD is studying options to switch to a more suitable system because of internal LP limitations that might hamper ARD's expected growth (the performances of the system might decrease exceeding 50,000 clients within the system).

Risk management requires **urgent need for improvement**

Areas for improvement

- Set-up an internal audit function and hire an Internal Auditor
- Formalize or update all existing procedures, especially internal controls and audit
- Design an annual IA plan based on a global identification of all potential risks
- Improve hierarchical controls
- Improve the level of compliance with procedures
- Better mitigate cash risk

Risk management

Procedures and internal controls

- + Following frauds that occurred in 2006 (e.g. ghost clients) due to insufficient internal controls, ARD has implemented good standardized procedures in most areas of operations (group and individual lending, MIS, etc.) and central functions (accounting, HR, etc.) based on a well-formalized mapping of operational risks.
- However, the lack of a global identification of all potential risks (e.g. non-operational risks), insufficient formalization or update of all existing procedures (e.g. internal controls) and inconsistency in their implementation (e.g. HR) does not allow to efficiently mitigate ARD's exposure to all existing risks.
- Overall the basics of internal controls are in place, except hierarchical controls that are not yet adequate: 1) segregation of duties is effective (loan application, data entry, loan approval, disbursement are not handled by the same person), 2) limitation of power has been improved, especially on loan approval (credit committees, ceiling by branch, etc.) and daily branch expenses, and 3) acceptable steps have been taken to address under-performance when needed (e.g. firing of persons responsible of frauds), even if the efficiency of the incentive system may be improved to further motivate performing LOs (see "Governance").
- However, hierarchical controls are not yet sufficient. Greater formalization of controls performed by BMs, OM and FM, especially on data entry, is required to further verify staff compliance level to procedures.
- Despite some procedures in place (disbursements at the bank, physical cash transfers done by at least 2 people, etc.), cash risk is not yet adequately mitigated as physical limitations for cash storage are not yet appropriate (there is no safe in some branches, existing safes can be accessed by a single person, etc.) and ARD has no cash insurance against theft (cash is kept overnight in the branches).
- Overall, mechanisms to ensure data reliability are in place (e.g. adequate features of LP, accounting, loan portfolio and bank reconciliations on a monthly basis), even if additional cross-checks on data posted in LP and Excel will further improve the quality of the information produced.

⁷ Crystal Clear Software Limited, based in Uganda.

Internal audit

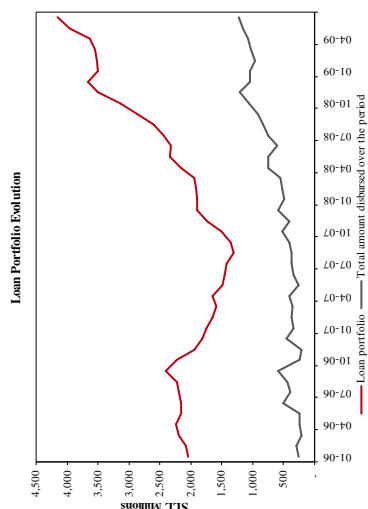
- ARD does not yet have a dedicated Internal Auditor and has not formalized an IA manual or an annual IA plan approved by the BOD.
- ARD has not put in place an alternative to the IA function as to date current spot-checks performed by senior and middle managers do not cover all areas of operations (cash, credit, accounting, etc.) nor all level of the organization (from branches to central functions).
- In addition, as field visits to clients are not done on a regular basis (by BMs or OM), the institution may not be able to detect ghost loans.
- BOD and management are aware of IA's importance, and IA is expected to be fully in place by year-end.
- + Internal controls are supplemented by external evaluations, audits and due diligence performed mainly by external auditors (Emile Kargbo and Associates), and MITAF (three institutional appraisals conducted since 2006). Main recommendations by the audits have been implemented up to now by ARD.

Activities

Activities is assessed as **average**

Areas for improvement

- Improve the monitoring of portfolio evolution, especially management of fast growth
- Hire additional LOs to reduce LO productivity levels to manageable ones
- Reinforce supervision over LOs
- Further capacity building of LOs, especially on delinquency management
- Improve the level of compliance with write-off procedures



Financial services evolution

After a significant decrease from 2005 to 2006 (-11.1%) due to ARD's decision to stop disbursing to "bad clients" in order to improve its portfolio quality, ARD's loan portfolio has been on an upward trend starting 2007 as a result of timely adjustments of the credit methodology. FY08 growth (+93.9%) shows a significant increase as compared to FY07 growth (+4%) fueled by donations and loans received from UNDP and by the opening of a new branch (in Kenema).

Financial services management

- + ARD has developed a comprehensive credit methodology adapted to its target market, leading to well-informed credit decisions.
- + The historical group lending methodology has been supplemented in July 2009 by an individual lending methodology, which has been designed with stricter eligibility criteria and analysis (1 year experience on the business compared to 6 months for group loans, second client visit done by the BM, additional collaterals needed such as mortgages or pledges on assets, etc.) so as to mitigate all potential risks linked to individual loans.
- + ARD has proven its ability to proceed to timely adjustments of its group credit methodology to improve its portfolio quality as the institution was facing very high credit risk levels as evidenced by PAR 30 above 12% in 2005 and 2006. With the support of a technical advisor, product's features (size, length, etc.) and lending procedures have been refined to better fit clients' needs and help mitigating credit risk through the reduction of average outstanding amount disbursed per client and loan amounts disbursed in the 1st cycle, use of a client's scoring based on repayment history to better assess client's repayment capacity, introduction of a second client visits prior disbursement and several pre and post-disbursement visits at the client's business and home, etc.
- + Loan approval is taken during participative weekly credit committees organized at the branch level with all LOs and BM. Individual loans above 5 M SLL (1,480 USD) have to be approved by OM, and above 10 M SLL (2,960 USD) by ED.
- + ARD put in place an efficient delinquency management on active loans thanks to clearly defined follow-up procedures coupled with the LOs' incentive scheme which sets very high targets on PAR 1 day (see "Governance").

- Monitoring of portfolio evolution, especially management of fast growth, is not yet adequate as evidenced by the upward trend of the PAR since 2008 (PAR 30 of 2% in 2008 and 3.1% as of June 2009) following high portfolio growth (93.9% in 2008, 13.5% in the first semester of 2009). The increase in PAR is explained by 1) unsustainable LO productivity (745 active borrowers per LO as of December 2008) as ARD has faced delays in recruiting LOs to cope with high portfolio growth, 2) inadequate formalization of clients' analysis (field visits reports are not formalized), and insufficient supervision over LOs (see "Risks").
- Overall, LOs have the basic skills to conduct their duties thanks to in-house and external induction and on-going trainings even if further capacity building is needed for LOs, especially on delinquency management. In addition, LOs performances are hampered by high LO productivity which does not allow them to properly perform their duties, especially monitoring on defaulted clients.

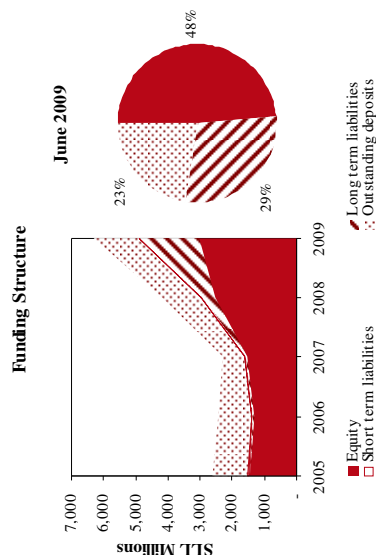
Credit risk

- + ARD has taken active steps since 2005 to decrease its exposure to credit risk from historically high levels of PAR 30 (12.7% in 2005; 14.2% in 2006) to levels which compares favorably with international benchmarks (1.6% in 2007; 2.0% in 2008), thanks to timely revisions of its credit methodology.
- However, ARD's credit risk is on an upward trend since 2007, especially on the first semester of 2009 (3.1% as of June 09), due to insufficient management of high portfolio growth (see above) leading to unsustainable levels of LO productivity.
- Loans are supposed to be written off after 180 days; however procedures have not been strictly followed until 2008 as evidenced by positive levels of PAR>180 (1.6% in 2006, 0.2% in 2007, 0.1% in 2008, etc.), thus not allowing for reliable information on write-off ratios. Write-off ratios were supposed to be higher than 5% in 2006 and 2007 after huge write-offs done to clean-up bad debts resulting from bad portfolio quality and frauds (ghost clients) until 2007. In 2008, the write-off ratio significantly decreased to reach 0.9%, which is in line with international benchmarks, even if a few loans with more than 180 days of arrears have not been written-off (5.2 M SLL; 1,682 USD), which would have led to a write-off ratio standing around 1.1% as of December 2008.
- Follow-up on written-off loans is not yet efficient in the absence of dedicated formalized procedures. Indeed, only a small amount of written-off loans has been recovered since 2005 (less than 10%).
- + Some factors likely to trigger an increase in the credit risk are well mitigated: 1) rescheduling is forbidden; 2) there are no loans to related parties; and 3) product launch is cautious and well-managed through market studies and pilot testing (done with the assistance of MITAF and MicroSave prior the launch of individual loans).
- However, branch network development is not yet adequate, as the market studies done prior the opening of a new branch are informal and not formalized.
- ARD does not actively monitor concentration risk and has not set up targets or limitations per industry or geographical areas; even if some restrictions have been set for individual loans that cannot be granted for agricultural crop production activities for example.

Funding and liquidity is assessed as average

Areas for improvement

- Better define and formalize the funding strategy through a precise allocation of the funding needs per type of funding
- Design an adequate liquidity management process and define internal liquidity prudential ratios
- Reinforce the Finance Department which is currently understaffed



Credit risk coverage

- + In the absence of legal provisioning policy, ARD has adopted relatively conservative provisioning rules compared to international standards⁸.
- Over the years, ARD shows a volatile and declining credit risk coverage ratio (86.6% in 2007; 30.5% in 2008), which stands below international standards as of December 2008. Such volatility is mainly explained by a low compliance level to write-off policies (see above).
- + The credit risk coverage is reinforced by the use of compulsory savings (10% to 30% of loan size depending on the product) and more solid collateral for individual loans (mortgages, pledge on assets, etc.) as they are considered as riskier.

Funding and liquidity

Capitalization and funding strategy

- + Historically based on donated equity received from Christian Aid and MITAF, ARD began diversifying its funding structure in 2007, in order to gain independence from the donors and find sufficient financial resources to fund its portfolio growth.
- + Therefore, ARD had growing recourse to borrowings to fund its activities starting 2007 (29% of total assets as of June 2009), mainly through interest-free loans received from Transform Africa and UNDP, and subsidized loans received from CORDAID.
 - Mandatory savings (cash collateral) represent a declining part of ARD's funding structure since 2006 (43.7% in 2006; 23% as of June 2009). ARD do not collect voluntary savings as ARD did not ask yet for the license from BoSL, which is required to collect voluntary savings.
- + Capital Adequacy Ratio (CAR) stands at a satisfactory level as of December 2008 (total capital represents 66.5% of risk-weighted assets).
 - The funding needs are identified for 2009-2011 in the Business Plan and revised annually. Funding needs are secured until year-end and additional funding is under negotiation, mainly with the funders of the MITAF project. In addition, ARD has begun developing some other interesting contacts with potential fund providers such as KIVA.
- However, ARD would gain from better defining and formalizing its funding strategy through a precise allocation of its funding needs per type of funding, which has not been done to date as the Finance Department is currently understaffed and lacks time to focus on strategic thinking.

Liquidity risk

- ARD has not yet put in place a satisfactory liquidity management process to prevent potential cash shortages, due to current under-staffing of the Finance Department. Cash flow projections are only done on a yearly basis in the Business Plan, but variance analysis is not done regularly and projections are only adjusted once a year.
- Despite the lack of adequate liquidity management, ARD is not exposed to liquidity risk as highlighted by adequate levels of the Liquidity/total assets ratio standing above 9% since 2005 and at a very high level as of June 2009 (31.5%) following the reception of the loan from CORDAID.

⁸ ARD's provisioning policy: 1% for loans with less than 30 days of arrears; 10% for 31-60 days; 25% for 61-90 days; 50% for 91-180 days, and 100% above 180 days.

- However, ARD would gain from defining internal liquidity prudential ratios and proceeding to timely investments in the portfolio and in short-term financial instruments when idle cash exceeds defined targets.
- Even if ARD does not actively monitor maturity risk on a regular basis, the matching of maturities is adequate as evidenced by a current ratio standing above 100%, in line with international best practices.

Market risk

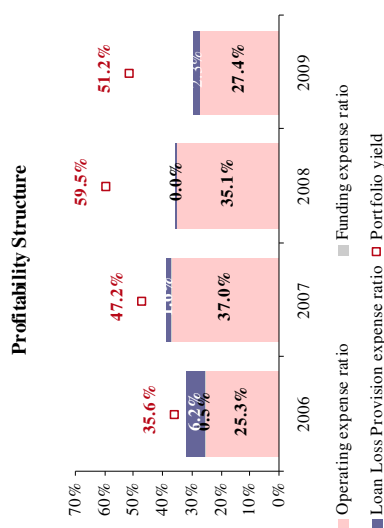
- As of June 2009, ARD is not faced with foreign exchange (FX) risk. However, ARD is likely to become exposed to FX risk in the near future as the institution is currently negotiating a loan from KIVA, which will be recognized in USD. However, KIVA and ARD are aware of this issue, and KIVA will reportedly offer some conditions to maintain the institution's open position within defined limits, while ARD is studying additional options to adequately mitigate FX risk.
- As of June 2009, ARD was not exposed to interest rate risk.

Efficiency and profitability

Efficiency and profitability is assessed as **satisfactory**

Areas for improvement

- Decrease LOs' productivity to sustainable levels, so as to reduce the PAR
- Improve management of fast growth



Profitability analysis

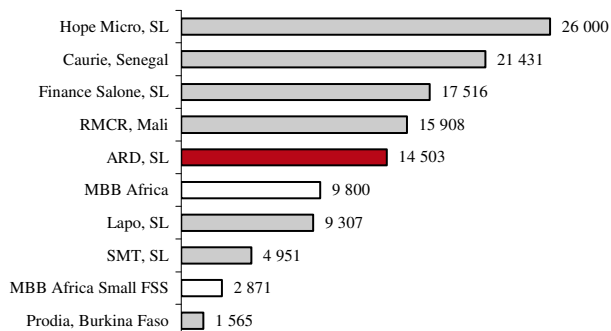
- + ARD has shown increasing profitability over the years, with a ROA without donations standing over 4% since 2006 and around 18% as of December 2008. ROE follows the same positive trend than ROA to reach 28.4% in 2008 up from 7.6% in 2006.
- + ARD's good financial performances have been achieved thanks to a high portfolio yield (above 50% since 2007), a decreasing operating expense ratio, and low levels of loan loss provision and funding expense ratios.
- + The portfolio yield is on an upward trend from 35.6% in 2006 to reach 59.5% in 2008, in line with the average effective interest rate (50% for group loans and 65% for individual loans, respectively 60% to 77% including cost of savings) thanks to improving quality of portfolio. However, portfolio yield started decreasing in the first semester of 2009 (51.2% as of June 2009) as a result of the increase of the PAR starting January 2009.
- Despite rising competition, ARD's revenue quality has improved. The institution managed to strengthen its market position thanks to high portfolio growth since 2008 and competitive advantages such as a well-known and respected institution's name, a cautious product development process ensuring that new products are adapted to clients' needs (e.g. launch of individual loans in July 2009), and introduction of non-financial services such as a raffle scheme for good clients.
- The operating expense ratio is on a downward trend since 2007 (from 37% in 2007 to 27.4% as of June 2009) due to rising staff and LO productivity, which reached very high levels as compared to international benchmarks (respectively 315 and 631 clients as of June 2009 vs. 84 and 316 clients in 2006). Such high productivity levels are unsustainable in the future and are likely to significantly affect ARD's future performances as highlighted by rising PAR30 since 2007, especially on the first semester of 2009 (3.1% as of June 09) that has reduced the financial incomes of ARD.
- Despite growing recourse to borrowings, the funding expenses ratio is still low and null since 2008 as ARD benefited mainly from interest-free loans to date. However, it is likely to increase in the coming years as ARD received an interest-bearing loan from CORDAID in June 2009 (13%) and is looking for additional borrowings to fund its activities.

- Since 2006, the loan loss provision expense ratio has shown a high volatility (6.2% in 2006, 1.6% in 2007, 0.9% in 2008) mainly explained by inconsistent implementation of the write-off policy.
- ARD's resource optimization was on an upward trend since 2006 (from 68.8% in 2006 to 86.2% in 2008) but has decreased in the first semester of 2009 (64.9% as of June 2009). This is mainly attributable to the lack of formal and active liquidity management policy resulting of a high level of idle-cash as of June 2009 (see "Funding and liquidity").
- The profitability outlook for ARD is stable as the institution has demonstrated its ability to quickly revise its procedures when needed (e.g. credit methodology) but still has to tackle some significant challenges such as maintaining its portfolio at risk at a manageable level through improved management of fast growth, enhanced supervision over LOs, further capacity building at all levels, and mostly decrease in LO productivity to achieve sustainable levels in the long run.

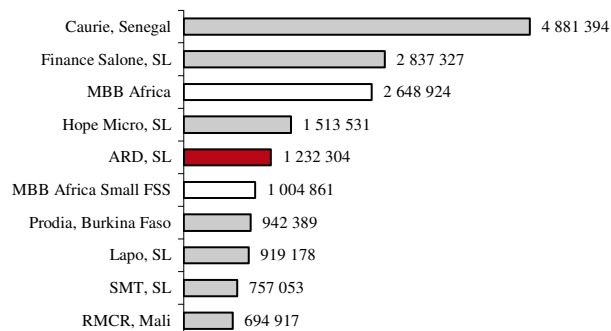
The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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.

Benchmarking

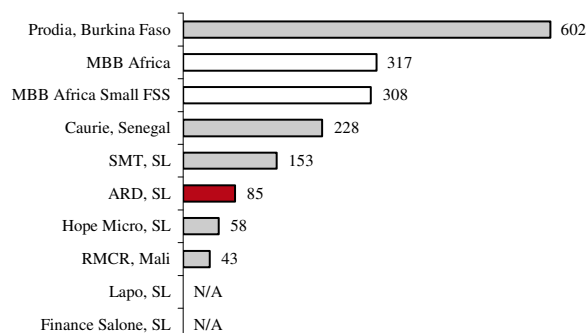
Active borrowers



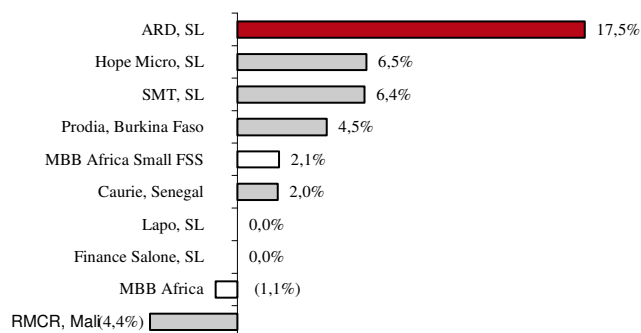
Loan portfolio (USD)



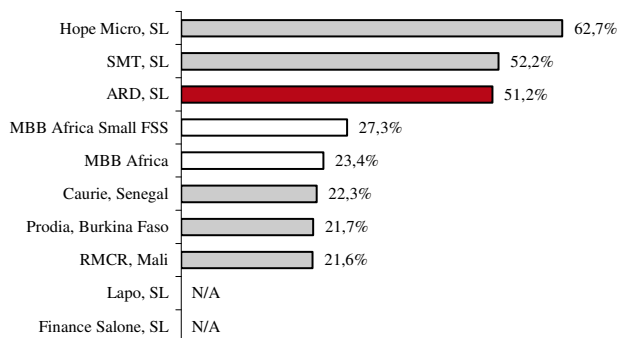
Average outstanding loan per client (USD)



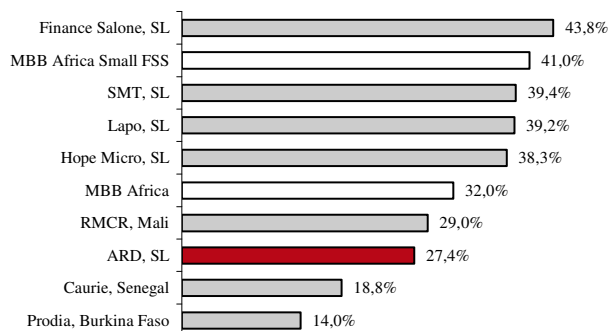
ROA



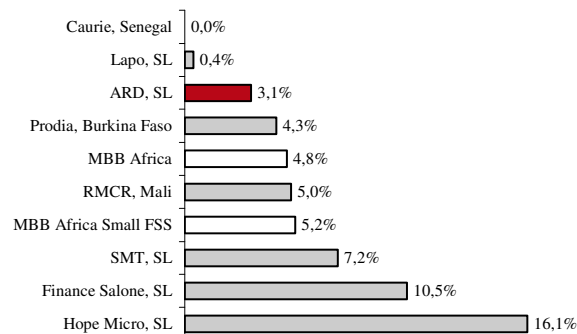
Portfolio yield



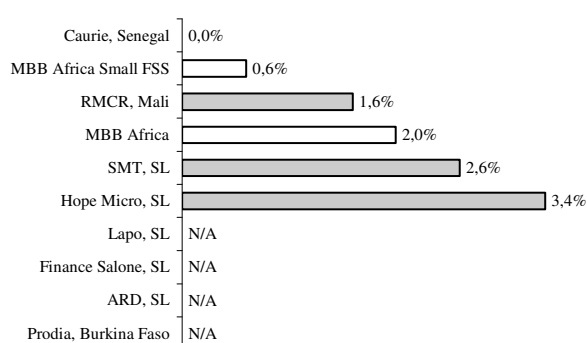
Operating expense ratio



PAR 31-365



Write-off ratio



Sources: MBB Africa and MBB Africa Small FSS (MixMarket 2007), Caurie (MixMarket 2008), RMCR (Planet Rating Sept. 2007), Prodia (Planet Rating Dec. 2008), SMT (Planet Rating May 2009), ARD (Planet Rating June 2009), Hope Micro (Planet Rating July 2009), Lapo & Finance Salone (MITAF June 2009) - SL: Sierra Leone

Data in USD, unless otherwise stated

■ Performance indicators

	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Loan Portfolio					
Loan portfolio evolution					
Loan portfolio	867,120	770,537	629,082	1,196,316	1,232,304
Loan portfolio (SLL)	2,046,403,000	1,818,467,000	1,891,882,000	3,667,545,000	4,163,351,988
Growth	N/A	(11.1%)	4.0%	93.9%	13.5%
Active borrowers	5,149	2,528	6,115	12,666	14,503
Growth	66.2%	(50.9%)	141.9%	107.1%	14.5%
Average outstanding loan per client	168	305	103	94	85
% of GDP per capita	61.7%	95.5%	35.7%	29.2%	25.5%
Average amount disbursed per loan	502	353	172	154	149
% of GDP per capita	183.9%	110.5%	59.6%	47.8%	44.8%
Portfolio quality					
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-180	12.7%	12.7%	1.3%	1.9%	2.5%
PAR>180	0.0%	1.6%	0.2%	0.1%	0.6%
Write-off ratio (*)	N/A	N/A	N/A	0.9%	0.0%
Credit risk coverage					
Risk coverage ratio (PAR 30)	37.6%	51.6%	86.6%	30.5%	49.9%
PAR 30 net of loan loss provision / Equity	10.8%	9.4%	0.3%	2.0%	2.1%
Savings					
Outstanding deposits	482,366	453,627	231,636	409,859	423,231
Outstanding deposits (SLL)	1,138,384,000	1,070,560,000	696,615,000	1,256,506,000	1,429,889,082
Growth	N/A	(6.0%)	(34.9%)	80.4%	13.8%
Cash collateral (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Active savers	5,284	2,596	6,263	13,096	15,117
Growth	67.6%	(50.9%)	141.3%	109.1%	15.4%
Average outstanding deposit per saver	91	175	37	31	28
Staff					
Total number of staff	28	30	32	36	46
% Credit officers	25.0%	26.7%	31.3%	47.2%	50.0%
Turnover	4.0%	6.9%	16.1%	14.7%	0.0%
Profitability analysis					
ROE	N/A	7.6%	9.5%	28.4%	32.8%
Core capital adequacy ratio	69.3%	69.0%	76.0%	66.5%	70.8%
ROA	N/A	4.6%	11.9%	17.9%	17.5%
ROA (without donations)	N/A	4.2%	5.8%	17.9%	17.5%
ROA (microfinance operations)	N/A	4.2%	5.8%	17.9%	17.5%
Profitability structure					
Total revenue ratio	N/A	37.0%	47.6%	59.5%	54.6%
Portfolio yield	N/A	35.6%	47.2%	59.5%	51.2%
Operating expense ratio	N/A	25.3%	37.0%	35.1%	27.4%
Cost per borrower	36	91	31	23	21
Staff productivity	184	84	191	352	315
Loan officer productivity	736	316	612	745	631
Average outstanding loan per client (USD)	168	305	103	94	85
Funding expense ratio	N/A	0.5%	0.2%	0.0%	0.0%
Cost of savings	N/A	0.0%	0.0%	0.0%	0.0%
Cost of borrowings	N/A	0.0%	0.0%	0.0%	0.0%
Loan Loss Provision expense ratio	N/A	6.2%	1.6%	0.9%	2.3%
PAR 31-180	12.7%	12.7%	1.3%	1.9%	2.5%
Write-off ratio (*)	N/A	N/A	N/A	0.9%	0.0%
Resource optimization					
Outstanding Loan Portfolio / Assets	73.7%	68.8%	80.6%	86.2%	64.9%
Revenue from investment as a % of financial revenues	0.0%	1.8%	0.0%	0.0%	0.0%
Liquidity					
Cash to demand deposits	n/a	n/a	n/a	n/a	n/a
Liquidity / Total assets (LAR)	18.3%	21.3%	10.8%	9.1%	31.5%
Current ratio (1 year)	213.9%	209.4%	307.9%	321.9%	427.2%
Exchange rate 1 USD= xx SLL	2,360.0	2,360.0	3,007.4	3,065.7	3,378.5

(*) The reliability of write-off ratios is not ensured in 2005, 2006 and 2007. They are expected to be above 5% for these years.

Financial statements - SLL

Income Statement (SLL '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Interest and fee income on loan portfolio	613,374	764,543	737,223	1,481,547	941,881
Interest and fee income on investments	-	13,867	-	-	-
Interest and other financial expenses	21,304	11,530	3,110	-	-
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-
Net financial income	592,070	766,880	734,113	1,481,547	941,881
Fees and commissions on other financial services	2,262	-	-	-	-
Other operating income	-	17,689	6,980	-	64,119
Operating expenses	434,559	543,035	578,463	874,535	503,623
<i>Personnel expenses</i>	<i>246,182</i>	<i>299,041</i>	<i>303,954</i>	<i>488,877</i>	<i>315,303</i>
<i>Administrative and other expenses</i>	<i>188,377</i>	<i>192,109</i>	<i>223,759</i>	<i>314,661</i>	<i>158,483</i>
<i>Depreciation</i>	<i>-</i>	<i>51,885</i>	<i>50,750</i>	<i>70,997</i>	<i>29,838</i>
Non operating income (net)	29,561	-	-	-	-
Gross operating income	189,334	241,534	162,630	607,012	502,376
Net loan loss provision expense	93,932	133,588	24,861	21,472	42,046
Net operating income	95,402	107,946	137,769	585,540	460,330
Extraordinary income (net)	-	-	-	-	-
Net income before tax	95,402	107,946	137,769	585,540	460,330
Income Tax	-	-	-	-	-
Net income before donations	95,402	107,946	137,769	585,540	460,330
Donations	925,379	10,500	144,800	-	-
Net Income	1,020,781	118,446	282,569	585,540	460,330

Balance Sheet (SLL '000)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
ASSETS	2,645,933	2,449,892	2,314,803	4,228,953	6,316,893
Liquid assets	484,865	522,647	250,889	385,917	1,986,966
Net loan portfolio	1,949,149	1,684,879	1,866,304	3,644,837	4,098,501
<i>Gross loan portfolio</i>	<i>2,046,403</i>	<i>1,818,467</i>	<i>1,891,882</i>	<i>3,667,545</i>	<i>4,163,352</i>
<i>(Loan loss reserve)</i>	<i>97,254</i>	<i>133,588</i>	<i>25,578</i>	<i>22,708</i>	<i>64,851</i>
Interest receivable	-	-	-	-	-
Financial investments	-	-	-	-	-
Net fixed assets	190,519	207,701	169,693	184,282	208,759
Intangible assets	-	-	-	-	-
Other assets	21,400	34,665	27,917	13,917	22,667
LIABILITIES AND EQUITY	2,645,933	2,449,892	2,314,803	4,228,953	6,316,893
Liabilities	1,147,898	1,120,560	746,615	1,671,506	3,252,389
Demand deposits	-	-	-	-	-
Time deposits	-	-	-	-	-
Cash collateral	1,138,384	1,070,560	696,615	1,256,506	1,429,889
Borrowings	-	50,000	50,000	415,000	1,822,500
Subordinated debt	-	-	-	-	-
Other liabilities	9,514	-	-	-	-
Equity	1,498,035	1,329,332	1,568,188	2,557,447	3,064,504
Core capital	1,498,035	1,329,332	1,568,188	2,557,447	3,064,504
<i>Paid-in capital</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Donated equity</i>	<i>3,059,959</i>	<i>2,793,810</i>	<i>3,039,697</i>	<i>3,443,415</i>	<i>3,490,142</i>
<i>Retained earnings</i>	<i>(1,561,924)</i>	<i>(1,464,478)</i>	<i>(1,471,509)</i>	<i>(885,968)</i>	<i>(425,638)</i>
Other equity accounts	-	-	-	-	-

Off Balance Sheet Accounts	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Portfolio under management	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-
Guarantees	-	-	-	-	-

Balance Sheet Averages	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Gross loan portfolio	N/A	2,149,338	1,562,354	2,492,061	3,682,366
Assets	N/A	2,547,913	2,382,348	3,271,878	5,272,923
Deposits	N/A	1,104,472	883,588	976,561	1,343,198
Borrowings and subordinated debt	N/A	25,000	50,000	232,500	1,118,750
Equity	N/A	1,413,684	1,448,760	2,062,818	2,810,975

■ Financial statements - USD

Income Statement (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Interest and fee income on loan portfolio	259,904	323,959	245,139	483,265	278,786
Interest and fee income on investments	-	5,876	-	-	-
Interest and other financial expenses	9,027	4,886	1,034	-	-
Net inflation adjustment expense	-	-	-	-	-
Net foreign exchange income (expense)	-	-	-	-	-
Net financial income	250,877	324,949	244,105	483,265	278,786
Fees and commissions on other financial services	958	-	-	-	-
Other operating income	-	7,495	2,321	-	18,978
Operating expenses	184,135	230,100	192,348	285,264	149,067
<i>Personnel expenses</i>	<i>104,314</i>	<i>126,712</i>	<i>101,070</i>	<i>159,467</i>	<i>93,326</i>
<i>Administrative and other expenses</i>	<i>79,821</i>	<i>81,402</i>	<i>74,404</i>	<i>102,639</i>	<i>46,909</i>
<i>Depreciation</i>	-	<i>21,985</i>	<i>16,875</i>	<i>23,158</i>	<i>8,832</i>
Non operating income (net)	12,526	-	-	-	-
Gross operating income	80,226	102,345	54,077	198,001	148,698
Net loan loss provision expense	39,802	56,605	8,267	7,004	12,445
Net operating income	40,425	45,740	45,810	190,997	136,252
Extraordinary income (net)	-	-	-	-	-
Net income before tax	40,425	45,740	45,810	190,997	136,252
Income Tax	-	-	-	-	-
Net income before donations	40,425	45,740	45,810	190,997	136,252
Donations	392,110	4,449	48,148	-	-
Net Income	432,534	50,189	93,959	190,997	136,252

Balance Sheet (USD)	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
ASSETS	1,121,158	1,038,090	769,710	1,379,441	1,869,727
Liquid assets	205,451	221,461	83,425	125,882	588,119
Net loan portfolio	825,911	713,932	620,577	1,188,909	1,213,109
<i>Gross loan portfolio</i>	<i>867,120</i>	<i>770,537</i>	<i>629,082</i>	<i>1,196,316</i>	<i>1,232,304</i>
<i>(Loan loss reserve)</i>	<i>41,209</i>	<i>56,605</i>	<i>8,505</i>	<i>7,407</i>	<i>19,195</i>
Interest receivable	-	-	-	-	-
Financial investments	-	-	-	-	-
Net fixed assets	80,728	88,009	56,426	60,111	61,790
Intangible assets	-	-	-	-	-
Other assets	9,068	14,689	9,283	4,540	6,709
LIABILITIES AND EQUITY	1,121,158	1,038,090	769,710	1,379,441	1,869,727
Liabilities	486,397	474,814	248,262	545,228	962,670
Demand deposits	-	-	-	-	-
Time deposits	-	-	-	-	-
Cash collateral	482,366	453,627	231,636	409,859	423,231
Borrowings	-	21,186	16,626	135,369	539,439
Subordinated debt	-	-	-	-	-
Other liabilities	4,031	-	-	-	-
Equity	634,761	563,276	521,448	834,213	907,058
Core capital	634,761	563,276	521,448	834,213	907,058
<i>Paid-in capital</i>	-	-	-	-	-
<i>Donated equity</i>	<i>1,296,593</i>	<i>1,183,818</i>	<i>1,010,749</i>	<i>1,123,207</i>	<i>1,033,042</i>
<i>Retained earnings</i>	<i>(661,832)</i>	<i>(620,542)</i>	<i>(489,301)</i>	<i>(288,994)</i>	<i>(125,984)</i>
Other equity accounts	-	-	-	-	-







Off Balance Sheet Accounts	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Portfolio under management	-	-	-	-	-
Written-off loans under collection	-	-	-	-	-
Guarantees	-	-	-	-	-

Balance Sheet Averages	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2008	Jun. 2009
Gross loan portfolio	N/A	910,736	519,508	812,885	1,089,938
Assets	N/A	1,079,624	792,170	1,067,253	1,560,724
Deposits	N/A	467,997	293,807	318,544	397,571
Borrowings and subordinated debt	N/A	10,593	16,626	75,839	331,137
Equity	N/A	599,018	481,737	672,870	832,016

■ Formulas

Return on assets (ROA):	$\text{Net operating income} / \text{Average assets}$
ROA (without donations):	$\text{Net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Liabilities} / \text{Equity (end of period)}$
Capital adequacy ratio:	$\text{Capital} / \text{Risk weighted assets (end of period)}$
Total revenue ratio:	$\text{Total revenue} / \text{Average gross outstanding portfolio}$
Portfolio yield:	$\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{Average gross outstanding portfolio}$
Cost per borrower:	$\text{Operating expense} / \text{Active borrowers (end of period)}$
Staff productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{Average gross outstanding portfolio}$
Cost of savings:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings:	$\text{Interest and fees paid on borrowings} / \text{Average borrowings}$
Loan loss provision expense ratio:	$\text{Net loan loss provision expense} / \text{Average gross outstanding portfolio}$
Write-off ratio:	$\text{Loans written off} / \text{Average gross outstanding portfolio}$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk} > 30 \text{ days}$
Cash to demand deposits:	$\text{Instantly available liquid assets} / \text{Demand deposits (end of period)}$
Current ratio (1 year):	$\text{Short term assets} / \text{Short term liabilities (end of period)}$

■ Assessment scale

Assessment	Assessment summary
Good 	Strong operational and financial performance resulting in a high likelihood of institutional sustainability. Good execution capacity is present within the institution to address existing weaknesses.
Satisfactory 	Satisfactory operational and financial performance resulting in a good likelihood of institutional sustainability. Adequate execution capacity is present within the institution to address existing weaknesses.
Average 	Sufficient operational and financial performance with remaining weaknesses in some areas of operations, which could affect institutional sustainability. Execution capacity is present within the institution to address existing weaknesses.
Need for improvement 	Moderate operational and financial performance with important weaknesses in several areas of operations, which undermines potential institutional sustainability. Basic execution capacity is present within the institution to address existing weaknesses.
Urgent need for improvement 	Poor operational and financial performance with important weaknesses in most areas of operations which highly limits institutional sustainability. Limited execution capacity is present within the institution to address existing weaknesses.
Immediate need for improvement 	Very poor operational and financial performance with important weaknesses in most areas of operations. Long term institutional sustainability is doubtful. Execution capacity present within the institution is insufficient to address existing weaknesses