

Microfinance Department of PRISMA (MDP), Peru

PRISMA, one of the foremost Peruvian development NGOs, launched its microfinance activities in 1994 with USAID funding within its food security program. In December 2003, the different microfinance programs implemented by PRISMA were consolidated into a single Microfinance Department. As of December, 2007, the MDP had an outstanding portfolio of 7.3 M USD and had 19,919 active clients in 14 branches and 4 satellite offices across the country. They continue to offer loans through the village bank, solidarity group, and individual loan methodologies.

GIRAFE Rating

Rating

B

The GIRAFE methodology has been revised. The changes will not affect the meaning of the rating. More information regarding the changes is available on our website, www.planetrating.com

Tendency

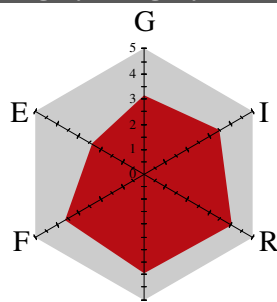
Positive

Rating Date

January, 2008

Valid until December, 2008

Rating by category



A
Government – Information – Risk
Management – Activities –
Financing – Efficiency

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[REF: EJ180208]

Rating highlights

- The satisfactory financial indicators from 2007 indicate that the MDP's period of recuperation from the noteworthy fraud of 2001-2002 is drawing to a close. Funding obtained in 2007 has allowed the MDP to significantly increase its credit portfolio, while also generating important economies of scale. However, operating costs remain high compared to national benchmarks, which reveals a latent capacity that would permit efficiency gains in the event of continued growth.
- Capable management of the village bank credit methodology, a solid information system and a comprehensive internal control system have enabled the MDP to achieve the growth of 2007 while maintaining the quality of its portfolio (a PAR>30 under 2% and reduced write-offs in 2007).
- The MDP has successfully positioned itself in the rural and peri-urban market as a financial entity which serves people with low economic resources, mainly through village banks. However, the development of an individual credit product has been limited, given the lack of experienced personnel in this area.
- The largest challenge in the short term will be the transition to a regulated entity, which calls for a profound analysis of future challenges, including the selection of a future associate and a potential change of information system.

Tendency

The MDP obtained a "Positive" trend, due to the good growth perspectives given an increased access to funding and improvements in the level of profitability. It will be important to reduce the operating costs and to look for mechanisms (like the diversification of credit products) which will allow the MDP to maintain its market niche when faced with a higher level of competition (principally from MiBanco). In the short and medium term, it will be important to analyze the investment that regulation signifies in light of a recently consolidated financial situation.

Performance indicators

USD	Dic. 2003	Dic. 2004	Dic. 2005	Dic. 2006	Dic. 2007
Assets	4,432,735	4,612,235	3,900,057	4,797,348	8,238,361
Growth	28.8%	(5.0%)	(11.6%)	14.6%	60.7%
Portfolio	6,086,037	4,239,388	4,051,786	4,521,800	7,349,230
Growth	8.7%	(36.4%)	(0.1%)	4.0%	52.1%
Active Clients	30,277	14,857	15,222	15,625	19,919
Personnel	131	113	118	115	132
ROE	n/d	(26.7%)	(29.6%)	1.3%	7.5%
ROA	n/d	(20.9%)	(21.1%)	0.7%	2.9%
Debt / Equity	0.25x	0.31x	0.52x	1.01x	2.05x
Portfolio Yield	29.2%	29.1%	38.4%	43.3%	46.6%
Operational Cost Ratio	46.9%	46.5%	60.2%	45.1%	40.1%
PAR 31 - 360 days	5.2%	5.4%	4.7%	2.2%	1.4%
PAR > 360 days	33.0%	2.6%	3.9%	0.2%	0.1%
Write-off ratio	0.0%	37.6%	1.5%	6.5%	0.6%

Microfinance Sector

The Peruvian microfinance sector is among the most dynamic and developed in Latin America. The free market policies of the early 1990's and the crisis caused by hyperinflation in the 1980's led to a restructuring of the financial system which limited the provision of financial services to the poorest segments of the population. As a response to this crisis the government established a policy to support the development of microcredit, through favorable legislation and the establishment of various funding mechanisms.

The regulatory framework in Peru with respect to the microfinance sector is one of the most developed in Latin America¹. The Peruvian Bank Superintendent (SBS) has been very dynamic in implementing improvements in the supervision mechanisms and in facilitating the development of MFIs². Nevertheless, the constant evolution of the industry leaves much to be desired with regards to regulation and supervision. For example, the SBS is for the first time regulating and supervising the transformation process of specialized microfinance entities (EDPYMEs) to formal financial entities that will allow these institutions to capture public deposits.

The legislation for the financial sector, which is also applicable to microfinance institutions, is composed primarily of a framework law (law No. 26702³) and the policies of the SBS which are designed to regulate specific activities⁴. The current legislation establishes formal legal structures specialized in microfinance like the Small and Micro Enterprise Development Companies (EDPYMEs) as well as sector-specific norms that allow for the expansion of the MFI operations except for the collection of savings. In terms of supervision, MFIs have to report their activities periodically⁵ to the SBS using specific formats. Through these reports, the SBS insures that the indicators are within established limits and in the case of non-compliance they apply the appropriate sanctions. Additionally, the SBS

¹ A study from The Economist (Oct 2007), in association with the BID and the CAF, identified Peru as second within the LAC in terms of a favorable climate for microfinance development. This study considered three categories: regulatory framework, investment atmosphere and development of the industry; Peru achieved the highest rating for the first category (81.3/100)

² Regulated MFIs can operate in Banco de la Nación (BN) offices. In certain districts on the interior of the country Banco de la Nación is the only banking presence. This agreement allows MFIs to establish a service model that takes advantage of BN infrastructure and receive preferential funding.

³ The General Law of the Financial and Insurance Systems of the SBS.

⁴ Regulates activities such as: evaluation and classification of the debtor, provisioning norms/minimums, internal control systems, internal auditing, among others.

⁵ The periodicity varies according to the activity/transaction that is being reported: financial records, interest rates, loan term and currency matching, and capital adequacy, among others.

audits MFIs at least once a year. The work of the SBS has a good reputation at the local and international level⁶. Qualified personnel and a department specialized in microfinance allow it to effectively supervise MFI operations.

The interest rates are determined by the behavior of the market and regulated MFIs are obligated to give information to the SBS regularly for publication on their website. The SBS is also in charge of compiling and consolidation information on the financial system's debtors. This information is sold to the local credit reporting agency, Equifax, who complement it with other sources and put it at the disposal of MFIs for use during the evaluation of clients.

The Peruvian microfinance industry is one of the most competitive in the region. It is composed of regulated and non-regulated institutions, which represent 98% and 2% of the market in 2007⁷, respectively.

Type of entity	Number of entities	Regulated/Supervised by the SBS	Portfolio (K USD) ¹⁾	%
Commercial Banks	11	Yes/ Yes	706.5	24%
MiBanco + Banco del Trabajo	2	Yes / Yes	527.50	18%
CACs	169	Yes / No (3)	496.5	17%
EDPYMEs	14	Yes / Yes	308.7	10%
CMACs	13	Yes / Yes	720.2	24%
CRACs	12	Yes / Yes	144.7	5%
NGOs (2)	17	No / No	43.2	1%

Figures through Dec. 07 according to FENACREP and the SBS, and Sep. 07 according to COPEME.

(1) Portfolio classified as "microenterprise" by the SBS

(2) NGOs that report to COPEME

(3) The CACs are supervised by the Peruvian Nacional Cooperative Federation (FENACREP)

Currently, local banks also form part of the sector, which they have identified as a promising market niche. Both the Banco Financiero (through its division Solife), and the Banco de Crédito (which absorbed its associate Financiera Solución) have entered the market, followed by Scotiabank, and most recently Interbank and Banco Continental.

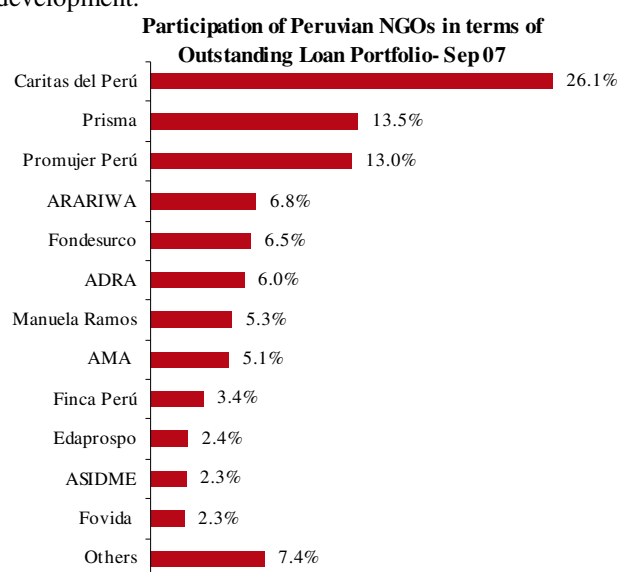
The increased competition has had positive repercussions for the sector, seen in the diversification of financial services and a tendency towards the reduction of interest rates.

⁶ The SBS obtained a rating of 96.6/100 from the World Bank- IMF mission to determine the quality of regulation and supervision in the financial system.

⁷ Considering the total allocation of the country's financial institutions between consumers and small and medium businesses (including Banco de la Nación), the participation of NGOs was only 0.71% at the end of 2006.

Negative effects are seen principally in the growing debt of the clients⁸.

In general, NGOs have not benefitted significantly from the growth that the Peruvian microfinance sector has had. This is due to the fact that they are subject to tributary costs which minimize the competitiveness of their services⁹ as well as their limited capacity to obtain new sources of funding, principally commercial (which have mainly been directed towards regulated entities) and the fact that their funders demand that they give preferential attention to remote areas and areas with limited potential for economic development.



Source: COPEME

The Peruvian microfinance industry is currently very attractive for local and foreign investors. The financial solvency, especially the high levels of return with low levels of default, and a good investment climate are factors which determine the development of the sector. In effect, the present panorama is ripe for acquisitions, mergers and transformations which aim both to consolidate the operations of current participants and to encourage the entrance of new participants. All of this translates into a highly competitive market that forces the MFIs to be more efficient in the sale of their products and services, lest their presence in the industry become uncertain.

Political & Economic Environment

Growth should continue to be among the highest in Latin America in 2008, in spite of a slight deceleration due to moderate growth in external demand. In this way, Peru is enjoying its longest period of expansion in the last thirty

⁸ Index from the Economist Intelligence Unit – BID 2007.

⁹ Although NGOs are exempt from taxes on their profit because they are being non-profit institutions, their revenues from interest and commissions are subject to the General Sales Tax (IGV), equivalent to 19%.

years. The effects of the turbulent international finance market of 2007 should be limited, given that the growth is grounded in relatively solid base of which internal demand is the principal driver.

The current center-left president, Alan García, assumed the functions as head of state in July 2006. It is hoped that he will implement a prudent economic policy grounded in agreements with the IMF, limiting the fiscal deficit. The position outside of the country is also reinforced, with the level of foreign debt among the best in the region. Furthermore, the incoming repayment of the Paris Club at the end of 2007 should contribute to a reduction in foreign debt. The export of raw materials and the free trade agreement with the United States will allow them to experience with a small surplus in foreign accounts, and it is hoped that the funding necessities will be totally covered by direct foreign investment. Furthermore, a prudent level of currency reserves strongly attenuates the risk of a liquidity crisis.

These improvements notwithstanding, the Peruvian economy is still vulnerable to a sudden fall in the global prices of raw materials. Despite having an already consolidated banking system, the volume of deposits and loans in dollars appears to be a weakness. The failure to diversify economically and the marked inequalities constitute a risk to the social cohesion.

The mining and energy sectors continue to be the most dynamic, as well as the construction sector after the earthquake of August 2007. In contrast, the textile and clothing industry was affected by foreign competition and the appreciation of the local currency.

Strengths:

- Peru has abundant mineral riches (gold, copper, zinc), which has allowed it to take advantage of the high prices of raw materials.
- The country also has abundant energy, animal and agricultural resources; as well as an exceptional cultural heritage.
- The monetary and fiscal policies have been prudent.
- The ratio of foreign debt has improved as a consequence of good management of public finances, a sustained growth of the GDP and exports.
- The international reserves have been maintained at an adequate level in terms of months of imports.

Weaknesses:

- The country is vulnerable to external shocks, such as the decrease in the prices of raw materials or climate changes.
- The economy continues to be identified by the contrast between the relatively modern sector on the coast and the subsistence sector in the country's interior.

- The poverty which affects half the population has been a source of political instability, expressed in the indigenous population in the Andean regions.
- Taxes are not sufficient to cover social and infrastructure necessities.
- The extensive dollarization of the banking system could put its stability in danger in case of a crisis of confidence.

COFACE Country Rating **B**: the uncertain political and economic environment is liable to affect Peru's payment behavior. The probability of non-payment is therefore high.

(Millions of USD)	2005	2006	2007e	2008p
Economic growth (%)	6.4	8.0	7.2	6.0
Inflation (%)	1.5	1.1	2.1	2.0
Public sector balance (% of PIB)	-0.3	2.1	0.0	-0.5
Exports	17.3	23.8	26.2	27.8
Imports	12.1	14.9	18.2	21.9
Commercial balance	5.3	8.9	8.0	5.9
Current account balance (% of PIB)	1.4	2.6	1.6	0.5
Foreign debt (% of PIB)	36.1	30.3	26.4	24.5
Debt service (% exports)	30.1	12.4	13.1	14.2
International reserves (in months of imports)	8.1	7.7	8.4	8.0

(e) estimated (p) projected

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Institutional Presentation

Legal form, supervision and audit

The MDP forms part of and is supervised by the governing bodies of PRISMA, one of the most important NGOs in Peru. As an NGO, the MDP is not subject to any type of financial regulation; nevertheless it voluntarily follows the self-regulation guidelines established by the Consortium of Private Organizations for the Promotion of the Small and Micro Enterprise (COPEME). Likewise, in recent years the MDP has tried to align its policies with the requirements dictated for regulated financial entities by the SBS.

PRISMA and the MDP are audited together yearly. The MDP is audited in an independent manner as a business unit since 2004. The firm Portal Brown & Associates¹⁰ has carried out the audit of the MDP since 2004 and has been hired for the 2007 audit. The rulings of the external auditor indicate that the financial records were kept in accordance

¹⁰ The auditing firm is affiliated with Polaris International and has ample experience working in the microfinance sector. They have performed audits of Edpyme Edyficar, Edpyme Crear Arequipa, and Programa de Créditos Finca, among others. As of January 2008 they have changed their corporate name to Portal & Vega Asociados.

with the International Norms of Financial Information and were not significantly different from the institution's financial situation. In addition to the audit of the financial records, Portal Brown & Associates completed an audit of the credit portfolio (with a scope of 51%), an audit of the portfolio held in a trust by EDPYME Confianza and a performance report (including visits to 80% of the offices in 2006), such as is established in the requirements for affiliates of COPEME. This agreement requires that an auditor with experience in the field of microfinance carry out this work. The 2007 audit report is scheduled, and in fact has already begun.

Ownership

The MDP is not its own independent legal entity, due to the fact that it legally depends on the NGO PRISMA. Though PRISMA runs close to twenty programs related to health and food services, the MDP is the largest program.

At the end of 2002, with the objective of improving the control mechanisms and decision-making, a Consulting Committee (CC) was established with its own internal rules in order to complete the functions of a Board of Directors.

Members of the Consulting Committee		Function	Current Job	Entry Date
Jorge Vásquez	Mansilla	President	Estudio Canessa	09/2004
Manuel Prato	Cardenal	Vice-President	CARSA	09/2004
Diego Concha	Fernández Murazzi	Secretary	PRISMA	09/2004
Delia Ginhoven	Haustein van	Member	PRISMA	09/2004
Roxana Rodas	Mercado	Member	FINSOL	05/2007

As established in its internal regulations, the CC is responsible for supervising the advances of MDP's operations, approving policies and procedures, designating the director, and approving the Strategic Plan. Its members are designated by PRISMA's Board of Directors for the renewable period of two years. Since December, 2006, it has had five members¹¹ (two from PRISMA and three external) and one legal consultant¹², who is not a formal member. Since May, 2007, it has incorporated the General Director for Central and South America of FINSOL Mexico (also the ex-director of the Bolivian NGO CRECER), in order to replace one of the external members.

¹¹ Previously these were 4 members, with 2 external members.

¹² Up until mid 2007 they had a permanent financial consultant.

Donations

The MDP has received 44.1 M PEN (14.7 M USD) in donations and technical assistance since the commencement of its operations, including donations received for various microfinance programs before they consolidated into a single Microfinance Department. These resources were provided mostly (92%) by the United States Agency for International Development (USAID). The volume of subsidies was reduced drastically in recent years and the source of the funding has changed. Between 2006 and 2007, the MDP received less than 600,000 PEN in subsidies, provided by BID-CGAP, AECI, INAFI, Freedom from Hunger and Chemonics International.

Funding composition

The MDP has a diversified funding structure. In the beginning it received donated funds principally from USAID but after the fraud in 2001-2002 and their subsequent loss of credibility, the MDP started to search for other funds to finance its growth. Initially, funds were not supplied and conditions were not favorable, but in accordance with improvements in their financial performance, donations began to increase and conditions improved. Between 2006 and 2007, the MDP collected 10.4 M PEN provided by foreign investors.

Management team

The management team includes the Executive Director, an Administration and Finance Manager, an Operations Manager, an Internal Auditor and the Supervisor of Internal Controls. Their work depends on six other managers who are also part of the executive ranks: Heads of Treasury, Accounting, IT, Human Resources¹³, Recuperations, and Education. The position of Chief of Supervision has been eliminated and its responsibilities are shared among the other areas. The members of the executive ranks have profiles according to the work that they are responsible for. They have complemented their undergraduate studies with postgraduate degrees as well as trainings in team development. They also have a wide range of experience in the microfinance field and especially in NGO-run microcredit programs.

In mid-2002, the management team was completely renewed with people from within and outside of PRISMA, but unrelated to the previous microcredit program. This is true of the Director, Diego Fernández Concha, who before joining the microcredit department at the end of 2003 had worked in various PRISMA programs since its foundation in

1986. He holds a degree from the Boulder Microfinance Training Program.

At the end of 2007, the MDP suffered the loss of a key employee, the Chief of Operations. After a transitional period this post was assumed by the previous Chief of Supervision.

Organization

MDP's headquarters is located in PRISMA's office building in the district San Miguel in Lima. The managers, executives, and the organization's administrative departments work in the headquarters.

As of December, 2007, MDP had a network of 14 branches and 4 satellite offices. While the former all have Branch Managers, the satellite offices depend on the nearby agencies and only have credit officers. The previous operational model with two levels (branches and agencies) was eliminated in December, 2003 in order to reduce operational costs. The branch manager's job is both administrative and business-oriented, and they are required to report on both areas. Each branch has an Administrative Assistant to assist with administrative tasks.

The software used is El Cautivo, which is appropriate for MFIs with the village bank product. This system produces timely and reliable information which allows the monitoring of the MDP's operations. Furthermore, it is the easiest to use for personnel and permits different levels of access according to the user profile.

Loan approval is principally carried out in the agencies, given that the credit committee has autonomy for the loans to village banks, solidarity groups and individuals up to 10 K PEN (3,300 USD). While the credit committee for village banks and solidarity groups is made up only of the branch manager and the loan officer in charge of the operation, in the case of individual loans the committee is made up of all of the loan officers in the agency. The headquarters approves individual loans greater than 10K PEN.

Before and after loan approval, the administrative assistant reviews loan documentation and assures that the loan has been entered in the system. He then sends the documented result of the loan committee to headquarters, where it is revised and the Operations Manager authorizes the loan disbursement. The institution's policies do not allow it to renegotiate loans, except in specific cases that are approved by headquarters. The disbursement of cash to the clients is done principally through non-negotiable checks and the payment of the installments is also done through the banks.

¹³ The HR department is run by PRISMA's payroll manager, who reports to MDP's Administration and Finance Manager.

Market penetration

As part of its streamlining process since 2004, the institution has closed branches¹⁴ in the cities of Ayacucho, Cajamarca, Huancavelica and San Martín as well as 17 satellite offices that held a small portfolio with a large portion of the loans in the judicial recuperation process. Its present network of offices has a national coverage of 14 Regions (13 ex-departments and the Constitutional Province of Callao). These are concentrated primarily in the Amazon region, in the departments of Ucayali, Junín, Cusco and Ayacucho (the last two make up the Apurímac and Ene River Valley, AERV) as a result of having started the loan program with USAID funds directed towards financing alternative development. PRISMA is also present in the rural and peri-urban zones of the departments of Ancash, San Martín, Piura, Lima-Callao and Puno. The geographical diversification allows the MDP to act in various economic sectors and finance a greater variety of activities.

The level of competition in the MDP's areas of operation will grow and comes from all types of MFI's, from the subsidiaries/microcredit programs of traditional banks to the non-regulated entities (NGOs). Among their principal competitors are: Mi Banco, EDPYME Edyficar, Scotiabank, Caritas del Peru and CMAC Huancayo.

Products and services

The MDP offers three loan products exclusively in PEN directed towards financing productive activities in rural and peri-urban areas. In mid-2007, the MDP modified the conditions of the loans increasing the terms and the amounts.

- Microcredit Program of PRISMA (MCP): Initially they gave these loans under the village bank and Solidarity Group methodologies. In the case of village banks, the terms run from 6-12 months and the amounts run from a minimum of 300 PEN (100 USD) to 1,000 PEN (333 USD) in the first cycle up to 7,500 PEN (2,501 USD) in the ninth cycle (and in the future). The loan amount is directly related to the amounts in the client's internal savings account; likewise the client has to make monthly contributions of 2% of the loan amount into the internal savings account. For the SG, the maximum term is 12 months and the amounts run from 3,700 PEN (1,234 USD) in the first cycle up to 10,000 PEN (3,334 USD) in the tenth cycle (and in the future). Both methodologies have solidarity guarantees, a 1% commission at the time of the disbursement, and monthly payments that include capital and interest. For loans financing productive activities, repayment of 60% of the principal can be postponed until the end of the loan cycle. The TEG of these loans varies

between 39% and 66% (not including IGV). In the last two years, products using the individual loan methodology have been incorporated into the MCP. The MDP is giving greater emphasis to individual lending through Parallel loans, Direct loans, and Individual loans through graduation. Parallel loans offer the MDP clients a maximum amount of 4,000 PEN (1,333 USD), a maximum term of 12 months and a commission of 1% at the loan disbursement. The TEG of the Parallel loans varies between 45% and 49%. Direct loans are offered for commercial activities in areas where only this product is offered. The maximum amount is 20,000 PEN (6,700 USD), the maximum term is 18 months and the commission is 1%. The TEG is around 47% to 50%. Individual loans through graduation (from solidarity groups) have similar conditions to the Direct loans, except that the TEG varies between 37% and 50%. Individual loans are guaranteed by personal or collateral according to the loaned amount.

- Individual Credit Product – Fideicomiso: individual loans financed with USAID resources, through a trust managed by PRISMA (since 2006), whose trustee is EDPYME Confianza (since March, 2006, before which it was EDPYME Edyficar) and suboperator the MDP. The terms vary between 3-12 months, with monthly payments. The amounts scale up from 500 PEN (156 USD) to 6,000 PEN (1,875 USD). The loans are guaranteed by property titles. The TEG is 44.2%¹⁵ (not subject to IGV).
- Individual Credit Product – Productive Chains: loans given with inherent resources to small farmers who hold purchasing contracts with larger companies (who also provide partial financing to MDP) and include technical assistance paid for by the farmers and provided by another organization. The terms are from 3 to 12 months and payments are made at the end of the loan cycle. The amounts vary between 1,000 PEN (333 USD) and 10,000 PEN (3,334 USD). The loans are guaranteed by agricultural pledges. The TEG oscillates between 8% and 56%.

Networks

The MDP is a member of COPEME, the Consortium of Microfinance Institutions which develop the Communal Bank methodology (PROMUC) (of which the Director of the MDP is currently President), and the National Association of Investigation, Social Promotion and Development Centers (ANC). At the international level it is a member of the International Alternative Network of Financial Institutions for Latin America (INAFI-LA), of the Latinamerican Development Fund (FOLADE) and of Freedom from Hunger; furthermore it reports financial and operational information periodically to the MIX Market. The MDP is an associate of

¹⁴ The criteria that are considered for creating or maintaining branches are: the size of the loan portfolio, prospects for growth, portfolio quality and operational sustainability.

¹⁵ New clients are charged a nominal rate of 4% compared with 3.5% which is charged to current clients, this translates to a TEG of 50.2%.

the cooperatives ETIMOS of Italy and Fortalecer of Peru. It is also a member of the Lima's Chamber of Commerce.

The fraud

Between November 2001 and March 2002, the MDP suffered a fraud costing 7 M PEN (2.2 M USD), organized by a group of employees from the Cajamarca and Piura branches, as well as a HQ employee; these cases were taken to trial but the probability of a recuperation of any of the funds is low. To implement the fraud, the employees created ghost borrowers on the back of weak information system and deficient internal controls. In November 2002, these loans were written off and fully restituted to USAID in August 2006.

After a restructuring process, the MDP carried out a write-off for 1.95 M USD which was considered an illegitimate cost by USAID. Today, PRISMA and the MDP been able to return loans received from USAID into MDP's net worth despite the fact that USAID had initially asked for these funds to be returned after the fraud¹⁶. As of December 31, 2007, the amount of 627,732 USD was still left to be included in MDP's net worth. Considering the achieved growth and the plans for 2008, it is probable that the MDP will achieve the objectives laid out in the agreement with USAID, which expires in September, 2008.

■ Governance

Governance and Decision-making is rated "b"

Decision making

The responsibility for decision-making falls on the Consulting Committee (CC); the team performs the functions of a Board of Directors and safeguards the legacy of the MDP. This unit has shown a good capacity for supervising the organization thanks to its diverse profiles, agility and commitment to the social mission of the NGO. The regulatory process will be a challenge for the MDP and presents important risks for an institution which only recently began to generate positive returns. Given its social objectives and its present financial situation, they will require an extensive analysis of the local legislation and the requirements for completing this transformation process.

The CC benefits from the membership of professional experts representing diverse fields, which assure a good balance between social objectives and financial sustainability. The recent incorporation of a specialist from

¹⁶ The current Restitution Agreement establishes that the 1.95 M USD debt will be considered restored when revenues from interest paid on loans reach 1.7 M USD (corresponding to the PL-480 Título II program) and they reimburse 242,673 USD (in accordance with the PDA program).

the Bolivian Microfinance sector¹⁷ as well as the participation of the members of the CC in microfinance conferences increases the group's knowledge of the sector. To date, the participation of a member of the Peruvian finance sector has not generated conflicts of interest given that the target audience and geographic market do not overlap. However, the MDP lacks an explicit policy that defines conflicts of interests in order to be able to prevent them. The participation of the General Director in the CC does not undermine the independence of the decision-making process since three of its members are independent from the NGO PRISMA.

The size of the group, the frequency of its meetings and timely information streamline the decision-making process with respect to fundraising, financial performance and institutional planning. Follow-up on decisions is ensured through official documents, and the participation of the Director of the MDP in the CC assures the MDP's compliance.

Motivated by the trend towards consolidation and regulation in the Peruvian microfinance sector, the MDP has evaluated options for the conversion into a regulated entity. Despite already having begun discussions with several regulated entities, they still have not done an in-depth analysis of the consequences of a change in regulatory status (planned for 2009) in aspects such as:

- Deciding on a strategy about ownership and control which will conserve the participation of the founding organization;
- Definition and identification of the ideal partner;
- Study of costs (including office renovation, changes in the information system, training of new personnel, among others)
- Evaluation of related risks (of reputation, capacity, operational, credit, shifts in strategy)

Planning

The Strategic Plan (SP) 2007-2011 shows a veridical analysis of the institutional situation; however the planning process demonstrated a small delay in 2008. To date the MDP does not have a detailed budget that would allow for the optimum use of the SP. This untimely delay in the finalization of the Strategic Plan for the year 2008 demonstrates the necessity of developing internal abilities to manage this process.

The SP 2007-2011 was developed through a process which involved all of the personnel and was supplemented by market studies and some plans by area (IT and Internal Auditing) The growth strategy, focused on the expansion of

¹⁷ Roxana Mercado, ex head of CRECER and current General Director of Finsol, joined the CC in May 2007 (see Institutional Presentation).

services within areas with limited competition (rural and marginal-urban) is compatible with social objectives and financial sustainability. Within the SP they have formulated strategies to assure their continued presence and the development in key areas (an area dedicated to the development of products, customer loyalty plan, marketing strategies, etc.), even though they have not been wholly implemented. In a similar way, the basic projections which look at the growth of the portfolio and the financial necessities have been completed, but they lack detail (e.g. goals in terms of the level of operational efficiency, infrastructure needs, personnel, etc.).

The guidelines of the SP are elaborated in a yearly Operating Plan done on both the agency and headquarter level. The operating plan is a good management tool given that it constitutes an evaluation of the present situation, the competition, market risks and financial goals. However, it lacks a more in-depth analysis of institutional indicators (presently limited to operational expenditures and productivity).

The consolidated budget of the MDP quantifies monthly operating costs, however it does not compare the predicted spending to actual spending. This is planned for 2008.

Management team

The management team has all of the capacities and a good level of cohesion necessary for the proper execution of the established plans. The dynamism, experience and network of contacts of the Executive Director are a strength for the institution. However, given the future challenges (the possibility of regulation), the DMP will have to consider updating the technical competency of their management team and of middle management, or perhaps hiring personnel with more experience managing regulated financial institutions.

The management team is made up of managers, experienced in their respective areas, who have the help of the middle managers in implementing the institution's strategies. The members have years of experience in the microfinance sector, similar to the long career of the MDP's Executive Director, Diego Fernandez Concha, who has vast experience in the administration of social development projects, although his financial experience comes exclusively from his experience within the microfinance projects of PRISMA. Even so, his leadership within the organization and his contacts with international research organizations, funders and donors has been an important part of the institutional growth.

Good communication and cohesion within the management team has allowed a high level of commitment to the

established objectives and coordinated actions. Monitoring established plans is carried out through communication by mail, skype and frequent visits to the agencies carried out by the Director of Operations, the Chief of Internal Control and the Chief of Education/Social Responsibility.

The key person risk has become more tangible after the departure of the Director of Operations (whose ample experience with business and loan management lent him an important level of credibility with personnel of all levels). However, this risk is mitigated thanks to a high level of participation in the important decision-making, the contribution of the CC in the institutional management as well as availability in Peru of people with the education and experience adapted to the challenges of microfinance institutions.

The MDP has promoted a growing level of decentralization within the organization, with the CA and the Section Chiefs assuming greater leadership and autonomy. In spite of the frequent trainings in these areas, it will be important in light of future regulation that these actors are given the necessary training in order to overcome the new challenges of growth and the profitability and productivity demands.

Human resource management

The management of human resources is carried out by the Human Resources Department of the NGO PRISMA and is principally directed towards operational tasks. Presently, the MDP does not have personnel exclusively for this work which could free some responsibility from the Executive Director. However, the Executive Director as well as the education department of the MDP has demonstrated a growing preoccupation with human resources, evidenced by internal trainings, internships and courses organized outside of the institution.

The organization lacks a formal plan for induction, evaluation (planned for 2008) and training. However, the recruitment process, training and evaluation are basic but sufficient for employees to carry out their work. The absence of a formal Human Resources plan has been partially corrected by courses organized at an internal level (on subjects of risk, credit, planning and internal controls) and on an external level for headquarter's personnel and some of the branch managers. In terms of the field personnel, there has been little emphasis on their continued training, despite one training at headquarters which served as a motivational mechanism as well as a reinforcement of their financial evaluation training.

There is a high level of motivation among the personnel, thanks to the integration into the team and the possibility of advancement within the institution. However, the basic

salary scale is low for the market compared to the major regulated entities with which the MDP competes (especially in the case of the junior credit officers). This was evidenced by the high turnover in personnel in the years 2006 and 2007 (41.2% and 30.8% respectively), which led to the raising of daily salaries in 2007 and the implementation of new mechanisms to improve the salaries of new loan officers¹⁸. A salary adjustment for the headquarters and the branches has been planned for January and August 2008. Similarly, the modifications of the incentive system in 2007 were directed towards the retention and motivation of the personnel at the branch level. The growing level of competition will force the institution to look for even more ways to retain the credit officers.

■ Information

Information is rated “b”

The MDP has a user-friendly and speedy Management Information System (MIS) which produces timely information that allows real-time monitoring of the institution. Similarly, the connection of all the agencies to the internet and the hardware upgrade planned for 2008 will strengthen the informational infrastructure in preparation for the implementation of a new MIS in the short/medium term.

The portfolio and accounting system, el Cautivo, is used by various Peruvian MFIs, as it is appropriate for use with the communal bank methodology. The software generates adequate reports for daily portfolio tracking. However, given that they do not have the source code, there is a dependence on the system provider for the upgrades. To date this has not generated large setbacks in the operations, however being a small company there exists vulnerability in the case of the absence of the founder.

The software “El Cautivo” is easy for the personnel to use. It has sufficient security measures which minimize the risk of information loss such as different levels of access for different users, periodic password changes, multiple backups stored within and outside of the company, firewalls and antivirus programs.

The portfolio information is available daily in all of the agencies. El Cautivo has enough capacity to generate reports by credit officer, agency and lateness of payment. This information is consolidated in monthly management reports, although the process is slightly tedious given that the data has to be translated into an Excel spreadsheet. Branch-level financial statements and performance indicators permit a timely tracking of branch performance, although in order

¹⁸ Many loan officers fail to reach goals set in their first months and cannot Access the incentive system. This leaves them with the basic salary which is lower than some of the MDP’s competitors.

to determine the real level of sustainability of each branch these would need to include the integration of Headquarter’s expenditures.

The MDP is analyzing the possibility of buying a “Business Intelligence” system to improve the quality and utility of the management information. The system makes possible automatic management reports at the local level, predictions of future behavior and the automatic tracking of portfolio trends. However, given the quantity of currently available resources, this proposal would have to undergo a cost-benefit analysis.

The challenge for the 2008 period will be finding a new MIS to meet the requirements of the upcoming regulatory process, given that the current system has not been approved by the SBS. To date, various MIS related courses have been attended but few solutions have proven viable either because of high costs or limited capacity. It will be important to include this investment (part of which will be covered by the mortgage of the PRISMA building) in the 2008 systems budget.

■ Risk Management

Risk management is rated “a”

Procedures and internal controls

After the 2001-2002 fraud, the MDP has established a chain of internal tracking systems to safeguard their assets and make another fraud of the same magnitude unlikely. Given the planned expansion, it will become imperative to integrate an entity dedicated to identifying and preventing risks (scheduled for 2008).

The MDP’s procedures are highly standardized and recorded in detailed manuals that are distributed to all levels of the organization. The internal control system is based on:

- Separation of tasks and double signatures limit the possibility of fraud
- An assessment of a representative sample of the client files by the credit department in the head office
- A biannual evaluation of the personnel by Equifax (credit bureau), as a first line filter for the monitoring activities

Constant supervision from the head office reinforces the control mechanisms, backed by serious and rapid sanctions in cases of noncompliance. The degree of intervention is appropriate given the wide geographical distribution of the branches and the institutional precedent.

The information is quite reliable. The integration of accounting and portfolio systems aids the correct consolidation of information. Likewise, mechanisms such as

passwords and profiles for each user, and locked interest rates, exist to assure the reliability of the information.

The risk of managing cash is minimized by disbursing loans through personal checks to members of village banks (although this process is not completely standardized) and depositing payments directly into the bank. A cash insurance and safes with access restricted to two people have been implemented, given that a small quantity of cash is kept on hand in each branch. However, the lack of security personnel in some of the branches during the distribution of loans increases the risk of managing cash in those agencies.

The presence of branch heads during the distribution of loans, the supervision of groups by branch heads, and visits by the Internal Control department and the General Manager to the clients decrease the opportunity for fraud and phantom clients (a risk more likely in MFIs that work with communal banks). Even so, these processes could be more standardized with the use of documentation and oversight by the Internal Control department.

Currently, the management of the internal savings account is not monitored in any effective way, which raises the possibility of fraud and mismanagement within the village banks. Although not a direct operational risk for MDP, they run the risk of losing clients in the potential disintegration of the village banking group.

Internal audit

Internal auditing duties, shared by the Internal Control (IC) and Internal Auditing (IA) departments, contribute to the adequate level of monitoring, control, and risk mitigation. Several creative strategies have been established to support this effort, such as a floating personnel system and monitoring visits by agency heads. In this way, the MDP achieves a high level of success in the execution of their risk-management procedures.

Frequent visits by the Internal Auditor and Internal Control department cover key operational risks. There is a consolidated annual work plan that adequately deals with the diverse branches, with a special focus on the larger branches and/or the branches with more serious problems (with internal control, portfolio quality, etc.). Auditing missions address most operational risks, and include visits to clients and/or village bank meetings. Observations from these missions are documented in comprehensive reports, however, these could be reinforced by timely follow through on previous observations.

It will be important to standardize IC processes with those of IA in order to encourage future, efficient collaboration between the two departments. Currently, there is no specific

internal control manual that covers systematic controls, clear standards for reports and comprehensive visits designed to follow up on the Internal Auditor's observations.

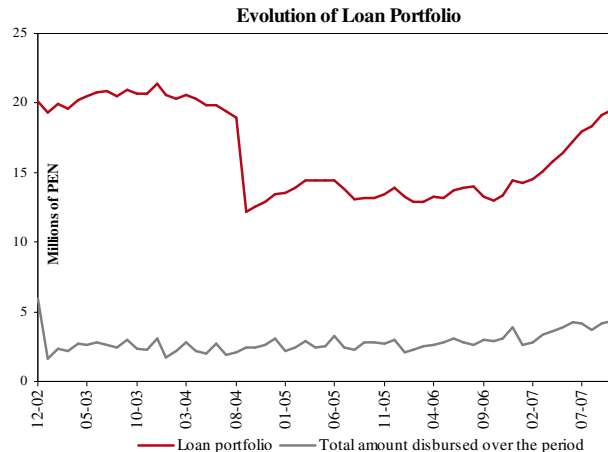
The IA team benefits from an auditor with ample experience, especially in the financial sector (Peruvian Savings and Loan Cooperative Federation and CMAC Sullana). His own budget and the fact that he reports directly to the consulting committee assures the auditor's independence.

The work of IA and IC is complemented by in-depth external audits and a system of floating personnel (1 branch head, 1 credit officer and 2 assistants). The latter has turned out to be an original approach to reinforcing the level of supervision, but nonetheless could be reinforced by more training for people occupying the floating personnel posts. The control and supervision mechanisms should be strengthened by a permanent oversight by the Auditing sub-committee and a continual revision of internal auditing missions, especially in light of the predicted growth and future regulation.

■ Activities

Activities: products and services is rated "b"

Portfolio evolution



In the wake of internal restructuring process, the loan portfolio registered significant and sustained growth in 2007. An important contributor was the availability of financial resources that allowed the MDP to respond promptly to market demands. The portfolio grew by 52.1% compared to Dec. 06 due primarily to the group lending product MCP. In the same time period the average loan size grew 27.7%.

In mid-2007, the MDP modified some of the characteristics of its products, propelling the growth of its portfolio. First, it increased the term and loan size limits for every credit cycle. In consequence the average loan size rose (from USD 289 to USD 369) and the average loan term rose (loans > 6 months

from 32.6% to 55.8%). Secondly, there has been more emphasis on individual credit through Parallel loans, Direct loans, and Individual loans through Graduation (registered under MCP), although through Dec.07 these only make up 6.63% of the loan portfolio.

The portfolio has not changed significantly in any other way:

- MCP remains the flagship product with 80.5% of the credit portfolio, and within MCP, the village banks¹⁹ are the most common methodology making up 80.4% of MCP loans;
- Average loan size is still 10% of GDP per capita nationally;
- Despite closing one branch, geographic diversification is still good. The MDP is present in 11 of the 24 departments in Peru, with more representation in rural and jungle zones.
- The main activity financed by the MDP is commerce, followed by agriculture.

The prospects for growth in 2008 are based on consolidating the MCP product and in increasing the take-up of individual loans. Likewise, it is predicted that the MDP will not expand geographically but consolidate in its current locations.

Loan portfolio management

The MDP demonstrates a constant commitment to strengthening their credit methodology. Currently, it is in the final stages of updating its credit manuals. The approval of the CC is scheduled for the first trimester of 2008. Formalization of the credit portfolio management as well as training everybody from branch managers to loan officers has allowed important improvements in credit risk management which will establish the foundations for healthy portfolio growth.

Specializing in the village banking methodology has familiarized the MDP with managing risks associated with communal banking. This positively impacts the quality of the portfolio given the high percentage of these loans (64.8% of the portfolio). The indicators of portfolio quality for this methodology are below the MDP average (PAR > 30 at 0.9% for village banks vs. 1.5% for the MDP through Dec.07). It's important to stress the role of social pressure exerted by the members of village banks on members who are late with their payments, which positively affects repayment and in the end reduces default. In addition, the internal account of these loans acts as a guarantee not only for all members of the village bank but also for the MDP. Still, the MDP has a ways to go to achieve good credit risk management under the individual methodology in spite of the greater rigor implemented in the evaluation of clients.

¹⁹ Asociación Comunal Pro Desarrollo (ACPD) uses the village banking methodology.

Faced with a highly competitive market, and with each expansion into the rural markets of its larger competitors becoming more aggressive than the last, the MDP has managed to effectively monitor the indebtedness of its clients. The exposure and behavior of the clients in the local financial system are monitored through the credit bureau Equifax before granting any loans. However, they still have not established precise limits on the indebtedness of the client, except for individual loans.

Daily monitoring of portfolio behavior through the branch and loan officer reports allows the efficient tracking of portfolio quality. Similarly, a close supervision of the credit officers is carried out through two mechanisms:

- Floating personnel which act as a way to monitor the correct application of the institution's credit policies.
- Double-checking a sample of approved loan applications at the central office every day before loan deliveries allows monitoring of compliance with client evaluation policies.

The credit officer team is sufficiently competent to adequately perform its functions. Given the focus of the MDP it is fundamental that credit officers specialize in the communal bank methodology. Nevertheless, training loan officers in the management of individual loans is important, especially given the projected growth of this type of loans (and the gradual increment of the average amount of the loans). On the other hand, the help that they receive from higher-ranking personnel at the branch and at the central office positively influences the control of the credit risk.

The adequate implementation of educational sessions²⁰ could raise customer loyalty and would probably decrease credit risk in the medium term. It is important to stress that the institution has done surveys to measure the level of satisfaction of the clientele with respect to the sessions, which put the MDP on the correct path towards converting this service into a tool for client retention. Nevertheless, given that the credit officers are in charge of giving these sessions, the MDP must closely monitor the credit officers' time management with the aim that they comply with their loan management duties in a satisfactory manner.

Credit risk

The quality indicators for the portfolio have improved significantly (PAR > 30 decreased from 38.2% in Dec.03 to 1.5% in Dec.07) due to:

²⁰ The MDP is currently implementing "credit with education" in some of its village banks, and has been since mid 2006 (health module). In 2008 the institution has increased the number of banks that will receive the education sessions.

- The write-offs enforced between 2004 and 2006. The write-offs were a product not only of the fraud but also of the remaining portfolio balances in the areas where the MDP decided to close its branches and special offices
- The improvement in credit evaluation of the clients and in the control policies for preventing the risk of fraud.

Between Dec.06 and Dec.07, the PAR>30 decreased from 2.4% to 1.5% which is explained by the low level of the PAR>30 of the communal banks (0.9% in Dec.07) and the improvement in the quality of the fideicomiso portfolio, although its PAR>30 is still higher than the institutional rate (1.8% vs. 1.5% in Dec.07). The Productive Chains product is still the greatest risk (PAR>30 of 17.5% in Dec.07) due to the cyclical nature of agricultural loans, nevertheless it represents only 1.6% of the credit portfolio. On the other hand, the Parallel loans in spite of being analyzed more rigorously have a higher default index than the established objective of the MDP (PAR>30 of 3.6% vs. 3.0% in Dec.07). However, this product only represents 2.9% of the portfolio in Dec.07.

In terms of the diversification of credit risk by economic sectors and geographic regions, the loan portfolio has good diversification, although this scenario is not the result of a policy established by the management. In 2007, there were no significant changes to the level of risk of the branches. The most important changes originated from problems with noncompliance with the policies of the MDP and the low growth of the portfolio²¹. These problems led to the resignation of a branch manager, the closing of a branch²² and the transfer of a branch to another location²³. The implementation of these measures has successfully improved the situation in these agencies.

The MDP has established an adequate policy of write-offs which requires loans in arrears over 360 days to be written off. In Dec.07, of the 7.9 M PEN of penalized loans since the start of its operations it has recovered 11%. Even so, the MDP has established 1 UIT²⁴ as a minimum limit for beginning collection proceedings. At the end of 2007, the CC approved a new policy that aims to partially recuperate written-off loans for which no collection effort has been made, based on a cost-benefit analysis. This measure will allow the partial recuperation of small penalized loans (< 3,500 PEN) through the sale of these loans to legal

²¹ One branch manager was removed from office after the results of the internal auditing report became available.

²² The Tocache branch discretely closed due to poor portfolio growth and growing insecurity in the zone.

²³The Lima North branch moved from Ventanilla to Puente Piedra. Due to the move personnel were spending more than the allotted time (2 hours) for field visits.

²⁴ The *Unidad de Imposición Tributaria* (UIT) is a local reference index whose value is determined annually by the Peruvian government. The value of the UIT is PEN 3,500 in 2008.

consultants at a price which will oscillate between 1% and 4% of the actual value of the loan. The MDP will receive income, although minimal, for the loans which up until now were losses. However, there is a risk that the collectors will not use socially responsible practices in order to successfully recuperate these loans. The MDP should analyze this policy and focus on the risk of social-efficiency before its implementation.

Credit risk coverage

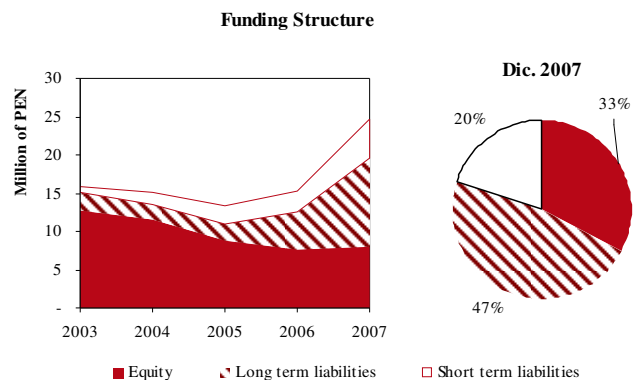
The present provisioning policy is adequate, shown by the growing sustainability of the credit risk coverage. Similarly, the incorporation of a generic provision of 1% is favorable considering the present low level of default and especially considering the ambitious plans for portfolio growth in the future which could be generated by slightly higher default levels. The present level of coverage of 150% of the PAR>30 in Dec.07, is higher than the industry benchmarks (113.2% for LAC in December 2006).

The loan portfolio is additionally guaranteed by the contingency fund for climate risk (1% charged to the client in the payment) and the agricultural collateral of the fideicomiso loans. Similarly, in the case of individual loans, the credit risk is covered by personal, real, and/or property guarantees in accordance with the amount of the loan. The MDP is also covered by the life insurance which covers the balance owed in case of default by the client.

- It should be noted that in spite of the internal account representing a type of guarantee for the MDP, this account is not monitored in the information system which would allow the MDP to know the internal account's size or what percentage of the total loan it represents.

Funding and liquidity

Financing and liquidity is rated "b"



Market risk

The Administration and Finance Office is in charge of the control of market risks. The strong growth of the financing sources has made management of the currency exchange risk and the interest rate risk more complex. The MDP has identified its high exposure to the currency exchange risk and has made reducing it in the short term a goal. However, the institutional capacity to successfully mitigate this is directly related to its negotiating power.

The present exposure to exchange rate risk is high, around 47% of its assets in December 2007, due to the discrepancy produced by having funding in USD²⁵ while the loans and income are generated in the local currency. However, the MDP has recently implemented a coverage policy which tries to reduce its exposure to 25% of the assets. In January, 2008, the MDP signed an agreement with an important local bank (Banco de Credito del Peru) with the aim of exchange rate coverage through financial derivatives. In addition to this measure, wherever possible, future financing will be negotiated in local currency as a way to reduce exchange rate risk as well as to avoid an increase in financing costs.

The MDP's vulnerability to the exchange rate fluctuations has generated gains for the MDP due to the significant devaluation of the USD with respect to the local currency. This devaluatory tendency is projected to continue in the short term.

In terms of the interest rate risk, presently there is no formal policy, however the exposure is low (less than 4% of the assets), and it is will soon be reduced completely. The MDP only has one loan with a variable interest rate that represents 2.0% of the debt structure. This exposure will be eliminated after the repayment of the loan in March, 2008.

Liquidity risk

Liquidity risk is controlled by the Administration and Finance Department and the Treasury Office which continually monitor the institution's levels of liquidity through weekly and monthly reports. Though the present liquidity policy establishes a minimum availability of 10% of total assets, the MDP is far from reaching this goal (3.1% in December, 2007²⁶) in spite of a notable increase in fundraising. Nevertheless, the goal of 10% is notably conservative. A revision of the present policy would be prudent considering that to date the MDP has not made any movements to conform to its current norm. The availability of sources of credit could give the MDP more flexibility to

²⁵44% funds obtained in 2007 are denominated in USD.

²⁶ Deposits and bank certificates given as loan guarantees are included in the calculation.

decrease the percentage, excluding restricted deposits²⁷, that it should maintain available (in a revised liquidity policy). On the other hand, the present level of liquidity would grant the MDP three months of operational expenditures in the case of a crisis, this being a desirable level.

Additionally, the medium term conditions of the obtained funding fit harmoniously with the short term nature of the loans, and there have not been gaps in the terms in periods less than one year.

Capitalization and funding strategy

The financing strategy of the MDP has strengthened due to improvements in its financial profile. In particular, there has been a notable improvement in the credibility of the institution in the eyes of local and foreign investors, which has not only allowed greater access to financing but also better loan conditions. However, it has not yet amassed the funding needed for the years 2009-2011 as indicated in its Strategic Plan.

The last donation of working capital was in 2002 which generated the search for debt investors. The improvement of the MDP's risk profile along with the active participation of the Executive Director in national and international events successfully stimulated the financial offerings, especially those coming from foreign investors. In December 2007, only 2.1% of the debt came from local sources. The negotiating power of the MDP has also increased which has allowed it to get better conditions for the debt: higher amounts (increase in the average loan amount from 350,000 PEN to 1,050,000 PEN), lower rates (from 10% in USD and 11% in PEN), longer terms (up to 41 months) and lower guarantees (only 20% is guaranteed by the portfolio and bank deposits). It is likely that the end of the term of the second Restitution Agreement with USAID (the result of not accepting the 2004 write-off as an eligible cost) will eliminate the latent risk of the reduction of the MDP's assets by next September and in the end, will improve the MDP's risk profile and increase their bargaining power even more. On the other hand, the implementation of a tracking mechanism for the financial clauses imposed by the fund providers is pending.

The capital adequacy ratio²⁸ (35.0%) is maintained above the desirable minimum given that the MDP is not a regulated institution. This allows it to continue with its plans for growth before an injection of capital is necessary.

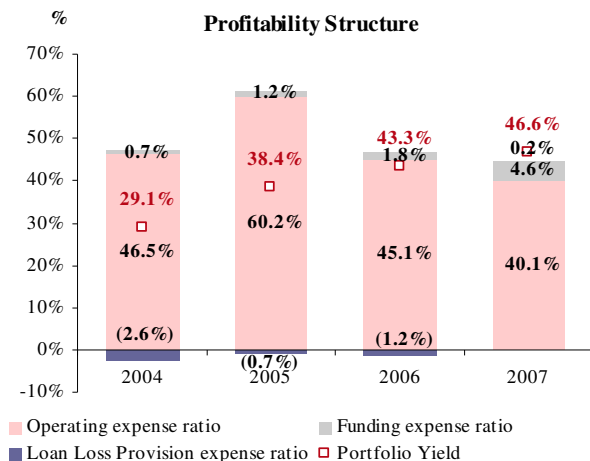
²⁷ Banking certificates that guarantee diverse loans: 20,000 USD for a loan from ETIMOS, 20,000 USD for the loan from Oikocredit and 15,000 USD loans from the Cooperative Fortalecer.

²⁸ The Capital Adequacy Ratio (CAR) is the ratio of capital to the level of risk (= capital/assets weighed by risk). It is used to make sure that a financial entity can absorb a determined amount of losses

The ambitious plans for institutional growth constitute a challenge in terms of the financing strategy. Available funds exist for the first 5 months of the year and negotiations are underway.

■ Efficiency and Profitability

Efficiency and Profitability is rated “c”



The MDP has continued to improve its profitability indicators and its financial solvency. In the last two years the results of consolidation have generated positive returns for the institution, which have permitted notable growth in its operations in 2007. The reduction of operating costs along with an increase in financial income sustained this improvement. In effect, the ROA increased from 0.7% in Dec.06 to 2.9% in Dec.07, which is still lower than the benchmark of communal banks in Latin America (5.1% for communal banks in Dec.06), but is slightly higher than the LAC benchmark (2.1% for all the MFIs in December, 2006). The ROE has improved even more due to the increase in institutional leverage (ROA of 2.9% s. ROE of 7.5%).

The products offered by the MDP are not significantly different from those offered by its competitors, which is a disadvantage given the high level of competition in the local market. Only the Productive Chains and Credit with Education products give an aggregate value to its credit products. However, the MDP still does not adequately control the risk of the Productive Chains product due to the cyclic nature of the product, in spite of having a Contingency Fund (FOCO) to minimize the risk of climate factors. The Credit with Education program is still in a stage of “massification”. After the pilot phase, the institution decided to implement the educational sessions in 100% of the village banks in 2008. Also, the greater emphasis which is given to loans under the individual credit methodology could positively impact the retention of clients whether because clients require higher amounts for the growth of their businesses or because they show reluctance to

continue sharing risks with communal banks or solidarity groups.

The conditions of the loans have become more flexible in the second semester of 2007 with longer terms and higher loan size limits, however none of these improved the competitiveness of the different products in any significant way. Nevertheless, there is a positive trend in portfolio yield that is mainly explained by this increased flexibility and a reduction in the PAR. The portfolio yield of 46.6% in Dec.07 is higher than the benchmark for LAC community banks (43.3% in Dec.06), however there is downward pressure given the competitive conditions of the present market. The difference between the portfolio yield (46.6%) and the theoretical rate (49.6%) is not significant and is explained by the changes in the conditions of the loans in the middle of the year and the incidence of default and penalties.

The operational costs ratio has been significantly reduced to 40.1% in Dec.07, however this is still much higher than the industry benchmark (31.6% in December, 2006 for LAC communal banks). The reduction of operational costs is explained by:

- An increase in the productivity of credit officers since 2004 (From 261 clients per credit officer to 311)
- The close of branches and special offices (in the departments of Ayacucho, San Martín, Huancavelica and Cajamarca).
- An 84% decrease in overhead for PRISMA services in the last 4 years.

The preference for the rural areas (47% of the portfolio in December 2007) has increased operational costs. However, credit officer productivity is still low and is an obstacle to improved efficiency.

The access to funding at market rates has generated an increase in the MDP’s funding expense ratio (from 0.7% in Dec.04 to 4.6% in Dec.07). An increase in this indicator is foreseen given the planned increase in external funding, however it should stabilize in the medium term with improvements in the MDP’s interest rate bargaining power. The increase in financing allowed the MDP to not only manage its principal activity more efficiently but also to manage cash more efficiently. The institution has obtained additional profitability through overnights and short-term deposits in periods of excess liquidity.

The provisioning costs have been negative due to the recuperation of the penalized portfolio. The amount recuperated represents 11% of the penalties paid during 2004.

Perspectives

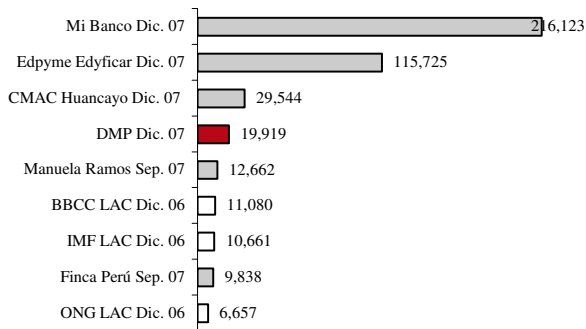
After internal restructuring, the MDP has entered a period of growth. The improvement of its financial results has generated a stronger institutional image and risk profile in the eyes of national and international investors.

Today the MDP is trying to convert itself into a regulated institution. The goal is ambitious and entails a large investment to revamp its processes and systems in order to comply with the requirements of the regulator. This investment has to be covered by profits in 2008. In this sense, and given the intention of continuing to operate in the rural areas of Peru, the improvement of the efficiency of the operational structure is fundamental to maintaining the positive returns of the institution. A greater exploitation of the present capacity in order to achieve the projected growth will facilitate the reduction of operational costs. Furthermore, the downward pressure on interest rates given the intense competition of the market will also force the MDP to be more efficient and to continue reducing operational costs and increase the productivity of its personnel.

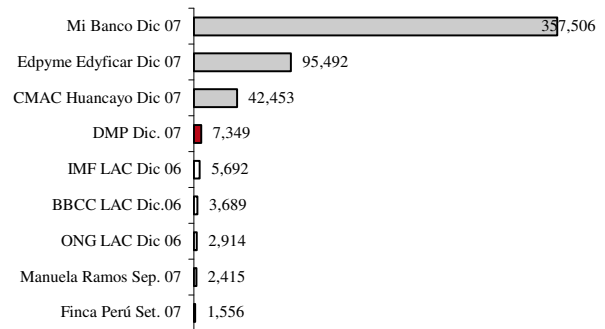
The opinions expressed in this report are valid for the duration of one year at most. Past this limit or if there is a large event in the life of the MFI or its immediate environment during this period, Planet Rating does not guarantee the validity of its opinions and recommends a new rating. Planet Rating can not be considered responsible for the consequences of an investment and/or financing decision made based on this report.

Benchmarking

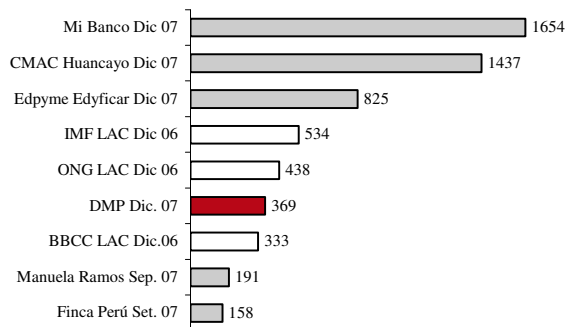
Active borrowers



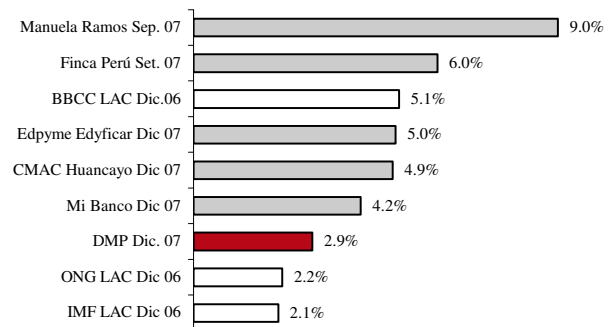
Portfolio (in K USD)



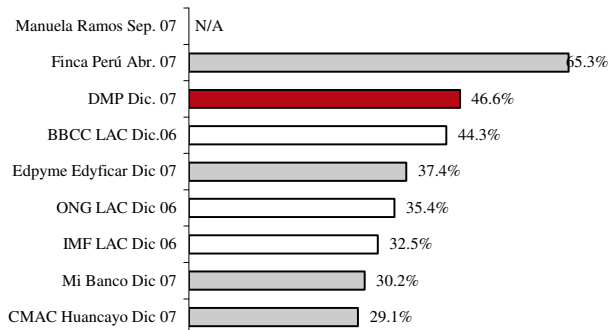
Average portfolio per client (in USD)



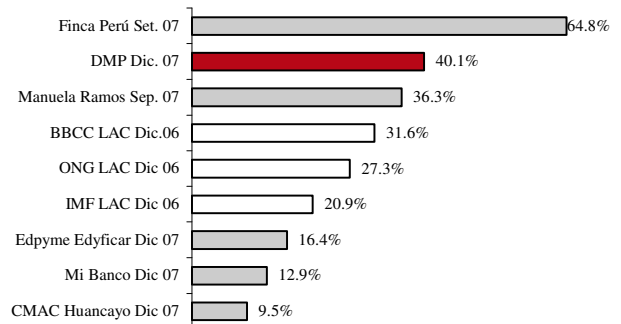
ROA



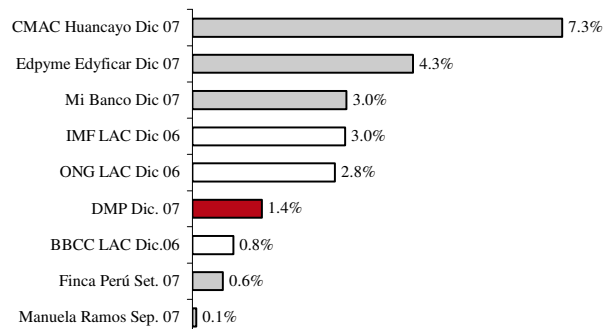
Portfolio Yield



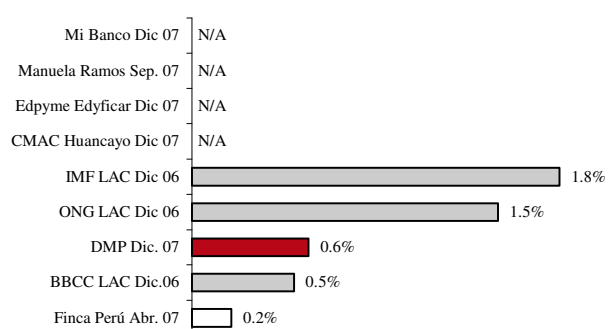
Operating expense ratio



PAR 31-360



Write-off ratio



Sources:

COPEME, Microfinance Report Sept 07; SBS, statistical data; DMP, Finca Peru

Notes:

For CMAC Huancayo, Edpyme Edyficar and Mi Banco, data was taken for Portfolio, clients and Average Portfolio of loans with monthly payments
For CMAC Huancayo and Edpyme Edyficar, portfolio data was taken for the risk level of loans with monthly payments

■ Performance indicators

Data in K USD, unless indicated to the contrary

	Dic. 2003	Dic. 2004	Dic. 2005	Dic. 2006	Dic. 2007
Loan portfolio evolution					
Loan portfolio	6,086,037	4,239,388	4,051,786	4,521,800	7,349,230
Loan portfolio (PEN)	21,865,305	13,911,551	13,897,627	14,449,412	21,974,199
Evolution	8.7%	(36.4%)	(0.1%)	4.0%	52.1%
Average outstanding loan	5,675,539	5,459.05	4,023.42	4,196.70	5,762.62
Active borrowers	30,277	14,857	15,222	15,625	19,919
Evolution	2.7%	(50.9%)	2.5%	2.6%	27.5%
Average outstanding loan per client	201	285	266	289	369
% of GDP per capita	8.9%	10.5%	9.5%	8.4%	9.4%
Average amount disbursed per loan	292	357	306	366	428
% of GDP per capita	13.0%	13.2%	10.9%	10.6%	10.9%
Portfolio quality					
Rescheduled loans	0.3%	0.0%	0.0%	0.0%	0.0%
PAR 31 - 360 days	5.2%	5.4%	4.7%	2.2%	1.4%
PAR > 360 days	33.0%	2.6%	3.9%	0.2%	0.1%
Write-off ratio	0.0%	37.6%	1.5%	6.5%	0.6%
Credit risk coverage					
Risk Coverage Ratio (PAR > 30)	101.2%	111.3%	110.2%	114.8%	150.0%
PAR > 30 days net of provisions / Equity	(0.8%)	(1.1%)	(1.4%)	(0.7%)	(2.0%)
Staff					
Total number of staff	131	113	118	115	132
% Credit officers	48.1%	50.4%	48.3%	50.4%	48.5%
Turnover	62.0%	42.6%	13.0%	41.2%	30.8%
Profitability analysis					
ROE	N/A	(26.7%)	(29.6%)	1.3%	7.5%
Liabilities / Equity	0.25x	0.3x	0.5x	1.0x	2.1x
Capital adequacy ratio	89.2%	82.3%	66.2%	50.2%	35.0%
ROA	N/A	(20.9%)	(21.1%)	0.7%	2.9%
Profitability structure					
Portfolio Yield	29.2%	29.1%	38.4%	43.3%	46.6%
Operating expense ratio	46.9%	46.5%	60.2%	45.1%	40.1%
Cost per borrower	88	171	159	121	116
Staff productivity	231	131	129	136	151
Loan officer productivity	481	261	267	269	311
Average outstanding loan per client (USD)	201	285	266	289	369
Funding expense ratio	0.9%	0.7%	1.2%	1.8%	4.6%
Cost of liabilities	0.0%	0.0%	0.9%	2.7%	6.2%
Loan Loss Provision expense ratio	2.5%	(2.6%)	(0.7%)	(1.2%)	0.2%
PAR 31 - 360 days	5.2%	5.4%	4.7%	2.2%	1.4%
Write-off ratio	0.0%	37.6%	1.5%	6.5%	0.6%
Resource optimization					
Outstanding Loan Portfolio / Assets	85.4%	84.0%	94.1%	91.6%	87.2%
Revenue from investment as a % of financial revenues	0.6%	1.0%	0.1%	0.0%	0.1%
Liquidity					
Available Funds / Assets	10.4%	7.2%	0.9%	0.8%	3.1%
Exchange rate 1 USD= xx PEN	3.6	3.3	3.4	3.2	3.0

PRISMA	USD										Evolution		
Balance sheet	Dic. 2003	Dic. 2004	Dic. 2005	Dic. 2006	Dic. 2007	Dic. 2003	Dic. 2004	Dic. 2005	Dic. 2006	Dic. 2007	2005/2004	2006/2005	2007/2006
ASSETS	15,925,486	15,135,049	13,377,196	15,329,925	24,632,699	4,432,735	4,612,235	3,900,057	4,797,348	8,238,361	(11.6%)	14.6%	60.7%
Short Term Assets	15,827,704	15,025,586	13,290,702	15,122,129	24,319,883	4,405,518	4,578,877	3,874,840	4,732,320	8,133,740	(11.5%)	13.8%	60.8%
Cash and Due from Banks	1,657,701	1,086,340	122,860	118,247	755,939	461,408	331,050	35,819	37,004	252,822	(88.7%)	(3.8%)	539.3%
Short Term Investments	-	-	-	12,910	1,038,600	-	-	-	4,040	347,358	-	-	7,944.9%
Short Term Net Loan Portfolio	13,600,884	12,710,465	12,583,426	14,044,998	21,488,297	3,785,700	3,873,370	3,668,637	4,395,243	7,186,721	(1.0%)	11.6%	53.0%
Short Term Gross Loan Portfolio	21,865,305	13,911,551	13,897,627	14,449,412	21,972,938	6,086,037	4,239,388	4,051,786	4,521,800	7,348,809	(0.1%)	4.0%	52.1%
(Loan Loss Reserve)	8,264,421	1,201,086	1,314,201	404,414	484,641	2,300,337	366,017	383,149	126,557	162,087	9.4%	(69.2%)	19.8%
Interest Receivable	-	301,531	291,372	261,786	400,553	-	91,888	84,948	81,923	133,964	(3.4%)	(10.2%)	53.0%
On loan portfolio	-	301,531	291,372	261,786	400,553	-	91,888	84,948	81,923	133,964	(3.4%)	(10.2%)	53.0%
On investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	569,118	927,250	293,044	684,188	636,493	158,410	282,569	85,436	214,110	212,874	(68.4%)	133.5%	(7.0%)
Long term assets	97,782	109,463	86,494	207,796	312,817	27,217	33,358	25,217	65,028	104,621	(21.0%)	140.2%	50.5%
Long Term Net Investments	-	-	10,287	131,539	203,468	-	-	2,999	41,164	68,049	-	1,178.7%	54.7%
Long Term Gross Loan Portfolio	-	-	-	-	1,261	-	-	-	422	-	-	-	-
Net Fixed Assets	97,782	70,133	45,305	53,783	94,042	27,217	21,372	13,208	16,831	31,452	(35.4%)	18.7%	74.9%
Other Long Term Assets	-	39,330	30,902	22,474	14,046	-	11,985	9,009	7,033	4,698	(21.4%)	(27.3%)	(37.5%)
LIABILITIES AND EQUITY	15,925,486	15,135,049	13,377,196	15,329,925	24,632,699	4,432,735	4,612,235	3,900,057	4,797,348	8,238,361	(11.6%)	14.6%	60.7%
Liabilities	3,197,182	3,574,033	4,599,235	7,704,339	16,565,793	889,911	1,089,146	1,340,885	2,410,996	5,540,399	28.7%	67.5%	115.0%
Short term liabilities	815,728	1,526,779	2,349,831	2,752,223	4,954,523	227,051	465,269	685,082	861,281	1,657,031	53.9%	17.1%	80.0%
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	-	-	730,798	1,197,524	3,735,001	-	-	213,061	374,753	1,249,164	-	63.9%	211.9%
Interest payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities	815,728	1,526,779	1,619,033	1,554,699	1,219,522	227,051	465,269	472,021	486,528	407,867	6.0%	(4.0%)	(21.6%)
Long term liabilities	2,381,454	2,047,254	2,249,404	4,952,116	11,611,270	662,859	623,877	655,803	1,549,716	3,883,368	9.9%	120.2%	134.5%
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	2,381,454	2,047,254	2,249,404	4,952,116	11,611,270	662,859	623,877	655,803	1,549,716	3,883,368	9.9%	120.2%	134.5%
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	12,728,304	11,561,016	8,777,961	7,625,586	8,066,906	3,542,824	3,523,089	2,559,172	2,386,351	2,697,962	(24.1%)	(13.1%)	5.8%
Tier 1 Capital	12,728,304	11,561,016	8,777,961	7,625,586	8,066,906	3,542,824	3,523,089	2,559,172	2,386,351	2,697,962	(24.1%)	(13.1%)	5.8%
Paid-In Capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated equity	16,776,713	13,398,934	9,713,973	7,322,013	7,227,468	4,669,667	4,083,174	2,832,062	2,291,351	2,417,213	(27.5%)	(24.6%)	(1.3%)
Retained earnings without donations and reserves	(4,048,409)	(1,837,918)	(936,012)	303,573	839,438	(1,126,843)	(560,085)	(272,890)	95,000	280,748	(49.1%)	(132.4%)	176.5%
Tier 2 Capital	-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-	-	-

PRISMA Income Statement	USD										Evolution		
	Dic. 2003	Dic. 2004	Dic. 2005	Dic. 2006	Dic. 2007	Dic. 2003	Dic. 2004	Dic. 2005	Dic. 2006	Dic. 2007	2005/2004	2006/2005	2007/2006
Financial Revenue (a)	5,983,098	5,376,567	5,353,482	6,228,586	8,318,091	1,665,349	1,638,448	1,560,782	1,949,174	2,781,970	(0.4%)	16.3%	33.5%
Financial Revenue from Loan Portfolio	5,947,356	5,211,019	5,306,152	5,811,311	8,036,232	1,655,400	1,587,999	1,546,983	1,818,592	2,687,703	1.8%	9.5%	38.3%
Interest on Loan Portfolio	5,947,356	5,211,019	5,195,891	5,647,408	7,700,075	1,655,400	1,587,999	1,514,837	1,767,300	2,575,276	(0.3%)	8.7%	36.3%
Fees and Commissions on Loan Portfolio	-	-	110,261	163,903	336,157	-	-	32,146	51,292	112,427	-	48.7%	105.1%
Penalty Revenue on Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments	35,742	53,452	4,696	3,078	9,596	9,948	16,289	1,369	963	3,209	(91.2%)	(34.5%)	211.7%
Other Operating Revenue	-	112,096	42,634	414,197	272,263	-	34,160	12,430	129,619	91,058	(62.0%)	871.5%	(34.3%)
Financial Expense (b)	480,840	763,734	158,900	236,888	784,251	133,838	232,739	46,327	74,132	262,291	(79.2%)	49.1%	231.1%
Interest paid on borrowings	-	-	23,484	121,204	668,206	-	-	6,847	37,930	223,480	-	416.1%	451.3%
Interest paid on deposits	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	291,782	631,364	-	-	-	81,215	192,401	-	-	-	(100.0%)	-	-
Other Financial Expenses	189,058	132,370	135,416	115,684	116,045	52,623	40,338	39,480	36,202	38,811	2.3%	(14.6%)	0.3%
Financial income [c=a-b]	5,502,258	4,612,833	5,194,582	5,991,698	7,533,840	1,531,511	1,405,709	1,514,455	1,875,042	2,519,679	12.6%	15.3%	25.7%
Net Loan Loss provision expense (d)	519,391	(474,370)	(97,637)	(165,539)	27,088	144,569	(144,559)	(28,466)	(51,804)	9,059	(79.4%)	69.5%	(116.4%)
Loan loss provision expense and write-off	519,391	(329,473)	322,073	(42,268)	178,625	144,569	(100,403)	93,899	(13,227)	59,741	(197.8%)	(113.1%)	(522.6%)
Recovery from Loans written off	-	144,897	419,710	123,271	151,537	-	44,156	122,364	38,576	50,681	189.7%	(70.6%)	22.9%
Operating expense (e)	9,567,140	8,334,796	8,305,546	6,052,175	6,917,335	2,662,939	2,539,935	2,421,442	1,893,968	2,313,490	(0.4%)	(27.1%)	14.3%
Costs del personal	5,150,927	4,239,466	4,462,593	3,508,589	4,196,733	1,433,720	1,291,929	1,301,048	1,097,978	1,403,590	5.3%	(21.4%)	19.6%
Administrative Expense (non-staff operating expenses)	4,416,213	4,095,330	3,842,953	2,543,586	2,720,602	1,229,219	1,248,005	1,120,394	795,990	3,939	(6.2%)	(33.8%)	(99.5%)
Depreciation and amortization	30,320	33,735	33,255	20,134	25,234	8,439	10,280	9,695	6,301	8,440	(1.4%)	(39.5%)	25.3%
Services provided by third parties	2,727,364	2,679,704	2,324,599	1,971,097	2,327,094	759,140	816,609	677,726	616,835	778,292	(13.3%)	(15.2%)	18.1%
Overhead Costs	923,199	729,952	887,804	270,004	115,200	256,965	222,445	258,835	84,495	38,528	21.6%	(69.6%)	(57.3%)
Taxes	-	-	-	-	126,979	-	-	-	-	42,468	-	-	-
Other provisions	587,062	485,301	520,660	282,351	114,316	163,404	147,890	151,796	88,359	38,233	7.3%	(45.8%)	(59.5%)
Exceptional expenses	148,268	166,638	76,635	-	11,779	41,269	50,781	22,343	-	-	(54.0%)	(100.0%)	-
Net Operating Income Before Taxes and Donations [f=c-d-e]	(4,584,274)	(3,247,593)	(3,013,327)	105,062	589,418	(1,275,997)	(989,667)	(878,521)	32,878	197,130	(7.2%)	(103.5%)	461.0%
Income Taxes (g)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]	(4,584,274)	(3,247,593)	(3,013,327)	105,062	589,418	(1,275,997)	(989,667)	(878,521)	32,878	197,130	(7.2%)	(103.5%)	461.0%
Non Operating Revenue (i)	-	-	849,966	148,281	(43,364)	-	-	247,804	46,403	98,122	-	(82.6%)	97.9%
Non Operating Expense (including related taxes) (j)	338,545	-	-	12,426	-	94,231	-	-	3,889	-	-	-	(100.0%)
Net Income Before Donations [k=h+i-j]	(4,922,819)	(3,247,593)	(2,163,361)	240,916	546,054	(1,370,228)	(989,667)	(630,717)	75,392	182,627	(33.4%)	(111.1%)	126.7%
Donations (l)	874,410	1,409,675	1,227,349	225,790	293,384	243,385	429,583	357,828	70,659	-	(12.9%)	(81.6%)	29.9%
Net Income (after Taxes and Donations) [m=k+l]	(4,048,409)	(1,837,918)	(936,012)	466,706	839,438	(1,126,843)	(560,085)	(272,890)	146,051	280,748	(49.1%)	(149.9%)	79.9%

■ Formulas

Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{Equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{Average gross outstanding portfolio}$
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 ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowings}$
Loan loss provision expense ratio:	$\text{Net loan loss provision expense} / \text{Average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{Average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{Total assets (end of period)}$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{Average gross outstanding portfolio}$
Liquid Asset Ratio (LAR):	$\text{Cash and due from banks} / \text{Total assets}$
Quick ratio (one month):	$\text{Assets maturing within one month} / \text{Liabilities maturing within one month}$
Current ratio:	$\text{Assets maturing within one year} / \text{Liabilities maturing within one year}$

■ Rating scale

Rating	Rating summary	
A++	Current institutional, operational and financial performances are optimal. There is no downside risk in the short-term. Medium and long-term plans are well-designed, execution capacity is excellent and goals are very likely to be achieved. Short and medium term risks are minimal and/or well-managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should only minimally affect the institution's financial condition given its high resilience.	INVESTMENT GRADE
A+	Current institutional, operational and financial performances are excellent when compared to industry standards.	
A	Medium and long-term plans are well-designed, execution capacity is very good, and goals are very likely to be achieved. Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
A-	Short and medium term risks are minimal and/or well managed. Long-term risks are adequately monitored and anticipated. Changes in the economic, political or social environment should have a limited impact on the institution's financial condition given its ability to quickly adjust its strategies and/or take corrective actions.	
B++	Current institutional, operational and financial performances are satisfactory when compared to industry standards.	
B+	Medium and/or long-term plans are adequately designed, execution capacity is good and goals are likely to be achieved. Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	
B	Short and medium term risks are low and/or well managed. Areas for improvements have been identified and are being addressed. Changes in the economic, political or social environment might have an impact on the institution's financial condition that should however remain moderate.	SPECLATIVE INVESTMENT
B-	Current institutional, operational and financial performances are close to industry standards. Short and medium term risks are moderate but are not fully addressed. Most areas for improvements have been identified, but medium and long term plans miss one or several critical elements, execution capacity is uneven and some goals are unlikely to be achieved. The institution is vulnerable to major changes in the economic, political or social environment.	
C++	Current institutional, operational and financial performances are below comparable industry standards. Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C+	Short and medium term risks are moderate-high but are not fully addressed. Most areas for improvements have been identified, but medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	TECHNICAL ASSISTANCE REQUIRED
C	Medium and long-term plans miss one or several critical elements, execution capacity is weak and many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
C-	Many goals are unlikely to be achieved. Most management processes and systems are in place but need to be refined or updated. The institution is vulnerable to major changes in the economic, political or social environment	
D	High risk: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	
E	Immediate risk of default: Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	