

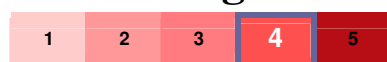
AgroInvest, Serbia and Montenegro

AgroInvest started as a microfinance program of World Vision International, disbursing its first loan in 1999 in Montenegro and in 2001 in Serbia. AgroInvest is now comprised of three entities, namely one Montenegrin holding (owned by Vision Fund International) which owns the Montenegrin and Serbian MFIs (LLCs), respectively headquartered in Podgorica and Niš. AgroInvest **vision** is to bring life in all its fullness to rural families. Its **mission** is to serve and empower rural families through high-quality financial services and social programs. As of May 2008, AgroInvest had a gross loan portfolio of 55.3 M EUR and served 36,021 active borrowers through 17 branches.

Social Performance Rating

Rating

Convincing



Detailed scales provided on the last page.

Date of the Rating

July 2008

Country Profile

Indicator	Montenegro	Serbia
Demography		
Urban population	N/A	52%
Life expectancy at birth	74	73
Health		
Access to safe water (% pop.)	93%	93%
Mortality rate (<5) per 1,000 births	10	8
Education		
Adult literacy rate	96%	96%
Primary school completion	88%	96%
Gender		
% of parliament seats held by women	9%	12%
Poverty lines		
National	7%	6.6%
Gini Index		
	29	30
HDI		
	0.763	0.786
Rank out of 177 countries	N/A	72

Note: More indicators in the next pages

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Rating highlights

- Social Performance Management has been institutionalized. The social mission is shared by main stakeholders. It is systematically taken into account in strategic decisions and well-integrated into the planning process.
- Social performance indicators have been defined in line with AI's objectives and are systematically tracked. However, the number and relevance of client-level indicators is still limited.
- Staff commitment to the social mission has been ensured thanks to the development of a strong organizational culture and adapted HR processes.
- AgroInvest serves a significant portion of its target clientele in Montenegro but still a very small portion in Serbia. It has developed a satisfactory geographic targeting tool consisting of opening branches in poor rural areas. AI however does not yet meet its objective of reaching women (59% as of Dec. 2007 vs. 65%).
- In Montenegro, AgroInvest loan offering is being diversified but is still mainly made of its loan product for rural business activities. Various studies on clients have been conducted but lack rigor. AI's retention rate is on an increasing trend and stood at 74.8% in Dec. 2007. In Serbia, the range of services is very limited, due to the difficult legal environment and the focus on branch expansion. Affected by a change in bank partnership, its retention rate decreased to 51% in April 2008.
- Providing efficient services is rooted in AI's social mission. In Montenegro, AI managed to significantly decrease the cost for the clients. In the more risky Serbian context where operational costs are bigger, the cost has been kept higher.
- Client protection is well guaranteed through transparent loan conditions, systems to ensure a fair treatment of clients, and an increasing use of systems to mitigate overindebtedness. However, clients do not benefit from credit life insurance.
- Fair treatment of staff is well ensured notably thanks to good capacity building, nearly fair representation of women and consideration of the employees' interest.

Social Performance Indicators

EUR	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Apr. 2008
Social Performance Indicators (see also annexes)					
% of women borrowers	68.6%	66.3%	64.4%	60.9%	59.5%
% of rural borrowers	100.0%	100.0%	100.0%	99.0%	97.7%
Retention rate	45.6%	62.4%	76.9%	71.1%	64.2%
PAR 31-365	0.2%	0.1%	0.3%	0.4%	0.5%
Portfolio Yield	28.0%	23.3%	21.0%	20.9%	N/A
% of revenues invested in social programs	0.03%	1.1%	1.1%	1.7%	1.2%
Institutional Performance Indicators					
Loan portfolio	11,357,780	15,516,786	31,298,465	50,933,819	55,197,828
Active borrowers	12,967	14,679	22,655	33,194	36,048
Staff	77	95	113	148	150

Refer to the GIRAFE rating for an analysis of the institutional performance indicators

Microfinance sectors

Montenegro

The microfinance sector in Montenegro was officially launched in 1998. A proper legal framework for microfinance operations was approved in December 2002 by the Central Bank and amended since then several times, notably in February 2008 in the new Law on Banks. MFIs are allowed to grant loans for specified purposes (consumption loans are not allowed), to invest in short-term securities, and to provide financial leasing and consulting services to micro-enterprises and individuals. Savings collection is an activity reserved to banks and credit unions. Opportunity Bank that transformed into a bank in 2002 now offers financial services ranging from microloans to SMEs to savings accounts, overdrafts, housing loans and leasing solutions. The maximum authorized loan size for non-banking MFIs has increased over time, now standing at 10,000 EUR for loans to individuals and at 20,000 EUR for loans to SMEs.

With 0.6 M inhabitants the Montenegro microfinance market is structurally limited and is significantly covered by the five MFIs and the bank providing microfinance services. The main microfinance service providers have been active in both urban areas (Opportunity Bank, Alter Modus) and rural areas (AgroInvest). Alter Modus was originally focused on refugees and internally displaced people but now offer its services to all financially excluded individuals. In urban and close rural areas, commercial banks (e.g. CKB, Société Générale, Montenegro Bank) are providing consumer loans that serve as a substitute for microfinance loans. MFIs have been granting loans mostly to agriculture activities (71%), services (10%), and households (9%)¹. The market penetration of microfinance services is already significant (roughly estimated over 35%²). To mitigate the risk of over-indebtedness, the Central Bank (CB) introduced a Credit Bureau in 2007, aiming at gathering clients' and guarantors' data from all banks and MFIs. MFIs started to submit monthly reports to the Credit Bureau since the fourth quarter of 2007 but have not been using it systematically, notably due to the fact that CB charges each consultation.

The regulatory framework for client protection has recently improved as the MFIs are now to comply with the New

¹ March 2008 Statistics from the Central Bank of Montenegro.

² In December 2007, AgroInvest and Opportunity Bank totaled 66,315 borrowers, yielding a 35% penetration rate if divided by the number of households in Montenegro (the 2003 census reported 191,045 households). Figures are to be used with caution given that each household may receive loans from several loan providers and the outdated figures.

Law on Banks. The law notably includes provisions on banking secrecy which clearly states which parties may access the client private information (e.g. the Central Bank, competent court, or authority for prevention of money laundering). The MFIs are also to clearly communicate their general lending conditions and effective interest rates. In this regard, the cost supported by the clients has gradually decreased thanks to the competitive pressure (cf. benchmarking). Besides, clients may refer to an independent party in case of serious disagreement of the MFI. As the law is relatively new, the Central Bank of Montenegro has not performed checks on the compliance of MFIs with these provisions yet.

Dec. 2007	Loan Portfolio (M EUR)	Share (%)
AgroInvest	35.7	67%
Alter Modus	12.4	23%
Mont. Invest. credit	2.6	5%
Ozmont	1.2	2%
Klikloan	1.1	2%
Total	52.9	100%

Source: AI (Planet Rating), Other MFIs (CB³)

Serbia

There is no legal framework to regulate non-bank microfinance activities in Serbia, which has significantly hampered their development despite the important existing demand. The banking law adopted in 2005 still does not recognize other financial institutions than banks, obliging non-bank MFIs to channel their microfinance operations through a registered bank. MFIs' operations have been disrupted by recent NBS recommendations or decisions. In July 2007, the NBS decision prescribing banks to provide cash loans over 24 months has reportedly affected MFIs up to 10% of their portfolio. A few months later, the partnership with Komercijalna Banka AD, tolerated until Dec. 07 by the NBS, was finally ended by KB based on the NBS recommendation. The delay necessary to shift to the new partnership with Privredna Banka Beograd AD (considered as less risky) has naturally affected the disbursement of MFIs. The ban on foreign borrowings has also significantly limited the MFIs' growth. In such a difficult environment, non-bank MFIs have not been growing very fast and therefore currently serving only a very small proportion of the large untapped Serbian market. The new bank partnership with Privredna Banka Beograd AD has resulted in higher financial and operating costs for MFIs that have been transferred to the clients. The effective interest rates (approximated by portfolio yields) of the three non-banking MFIs, standing around 29% in Dec. 2007, have increased over 30%.

³ Central Bank of Montenegro's Chief Economist's annual report (2007).

The range of services offered by non-bank MFIs is limited to the provision of loans (with maturity not exceeding 24 months) and related financial training/consulting. A wider range of services is offered by the two microfinance banks (ProCredit Bank and Opportunity Bank) that target SMEs. Given the NBS conservative policy, it is unlikely that new banking licenses are granted. These two microfinance banks are targeting the higher end of the microfinance market as they have more requirements (e.g. business registration and financial statements for microcredits, active bank account for all loans) and ask for stronger collaterals (e.g. pledge on assets, salaried guarantors). The three non-bank MFIs are targeting economically excluded people who may not provide such collaterals, both in urban areas (MDF, in central and southern Serbia, and MicroFinS in northern Serbia) and rural areas (AgroInvest, in central and southern Serbia). MDF and MicroFinS, originally targeting refugees and internally-displaced people have broadened their target clientele.

The MFIs' clients benefit from the NBS decisions related to client protection as all microcredits are disbursed under a tripartite contract between the client, the MFI and the partner bank. Banks, and therefore MFIs, are required to maintain the banking secrecy and may disclose the client private information only to specific bodies (e.g. the NBS, competent court, or authority for prevention of money laundering). The general lending conditions are to be clearly communicated to the clients and may not be changed during the course of a loan. Moreover, all banks are to disclose the Effective Interest Rate to their clients according to the NBS specified way of presentation and calculation. Clients may complain to the Centre for Financial Services Consumer Protection established by the NBS. Finally, systems to monitor the over-indebtedness of clients are in place since 2006 with clients and guarantors data to be reported to the NBS Credit Bureau. The credit bureau information is exhaustive and is now systematically used by MFIs as required under the partnership with Privedna Banka Beograd.

Dec. 2007 M EUR	Loan Portfolio	%	Number of borrowers	%
AgroInvest	15.3	65%	14,967	69%
MicroFinS	5.6	24%	4,406	20%
MDF	2.6	11%	2,194	10%
Sub-total MFIs	23.5	100%	21,567	100%
ProCredit Bank	415.0	96%	101,999	96%
Opportunity Bank	18.4	4%	3,826	4%
Sub-total Banks	433.4	100%	105,825	100%

Source: AgroInvest (Planet Rating), other MFIs and banks (Mix Market).

Socio-economic Environment

Socio-Economic Indicators	Mng	MDG	Serbia	MDG	ECA
HDI	0.763		0.786		0.808
Rank out of 177 countries			72		-
Demography					
Total population (millions)	0.61		7.44		461
Urban population (% pop.)		55%	52%	55%	63%
Total fertility rate (birth per women)	1.6		1.4	1.4	1.5
Life expectancy at birth	74		73	74	69
Health & Nutrition					
Under 5 mortality rate (/ 1,000)	10	8	8.6	5	26
Underweight children < 5 (/ 1,000)	2%	2%	3%	1%	
Population undernourished *	9%		9%		6%
Access to safe water (% pop.)*	93%	100%	93%	100%	94%
Education					
Adult literacy rate (% of people ages 15 and above)*	96%		96%		99%
Primary school enrolment ratio	88%	99%	96%	100%	91%
Gender					
Women literacy rate *	94%		94%		
% of parliament seats held by women	9%	30%	12%	30%	15%
Poverty⁴ and inequality					
Pop. < extreme poverty line			0.3%		
Pop. < absolute poverty line	7%	5%	6.6%		
Pop. < relative poverty line	12%		14%		
GNI per capita (current US\$)	4,030		4,130		
Gini index	29		29.7		
Environment					
Forest area (% of land area)	39%	45%	26%	32%	38%
Economy					
Economic growth	7%		7.5%		
Foreign debt (% GDP)	25%		62%		
Internet users (%)			20%		19%
Inflation (%)	3%		10%		
Unemployment (%)	15%		17%	10%	
Agriculture (% GDP)			12%		
Industry (% GDP)			24%		
Service (% GDP)			64%		

Source: World Development Indicators database (2005), UNDP (2007-08) CIA (2007), PRSP (2007). Most data dates from 2005, 2006 or 2007. MDG: Millennium Development Goals for 2015. Note: *Data exclude Kosovo and Metohia and refer to Serbia and Montenegro prior to its separation into two independent states in June 2006.

⁴ In Serbia, several national poverty lines were calculated in the 2007 LSMS: 1) the absolute poverty line (consumption deemed necessary to achieve a minimum standard of living) equaled 5,234 and 8,883 RSD monthly per adult equivalent, in 2002 and 2007 respectively; 2) the extreme poverty line (i.e. the food only poverty line) equaled 2,764 and 4,138 RSD monthly per adult equivalent, in 2002 and 2007 respectively. The relative poverty line was calculated in 2006 as 60% of the median value of the total household consumption per consumer unit and amounted to 6,221 RSD. In Montenegro, poverty lines were calculated in 2003 by the Institute for Strategic Studies and Prognoses and were estimated since then.

■ Montenegro

The poverty rate for Montenegro is estimated at 12.2% and poverty is concentrated especially amongst Roma and internally-displaced persons. Approximately 30% of the population is economically vulnerable and sensitive to any change of its income or prices, and prone to the poverty trap. Sharp regional disparity is noticeable. With 45% of the poor living in the North of the country, the poverty rate is almost twice as high as the national average. The north is also the focus of much environmental exploitation – forest use, the conversion of agricultural land and illegal construction (which occurs across the country) – a situation similar to that of most OECD countries two decades ago. Measured by the decile ratio and Gini coefficient (Decile - 7.0, Gini – 0.29), Montenegro is among the most unequal of countries in the Western Balkans. Decisive efforts on reducing the gap between the rich and the poor are needed for the achievement of socially inclusive growth.

The social security system (Health and Social Welfare system) in Montenegro is in the process of intensive reforms. In that regard, significant endeavors are needed to conduct the reform in accordance with EU best practices. The overall local level social security component is still weak, apparently particularly affecting the most vulnerable (HIV/AIDS affected and the poorest).

Women in Montenegro are de jure equal, but the actual practice demonstrates that there are still areas in which women are underprivileged in comparison to the men, and are hence more exposed to poverty. The unequal distribution of power between women and men is reflected in the women's under-representation in power. Women hold 11% of the national parliament's seats and 11.37% of the municipal parliaments' seats. Women represent 45% of unemployed people, while 16% of enterprises in Montenegro have women as a founder or executive. However, there are notable positive changes regarding the overall position of women in Montenegro, resulting from the activities conducted to eliminate gender stereotypes.

The challenges related to the sustainable management of the natural environment in Montenegro are manifold. There are a) concerns that excessive and uncontrolled exploitation of natural resources, including uncontrolled construction, forest use and conversion of agricultural land is taking place; b) concerns for possible coastal zone deterioration due to uncontrolled construction and lack of adequate strategy in the field of wastewater treatment management; c) inopportune trends in water, sanitation and waste management; and d) air pollution levels that exceed permitted standards in certain municipalities. The pollution problem caused by obsolete equipment and poor pollution

control is further aggravated by the high demand for energy from households and industry. Also, Montenegro has trans-boundary water resources and global environmental responsibilities such as the protection of unique species of flora and fauna as well as cultural heritage designated by UNESCO as World Heritage Sites.

Source: Extracts from the UNDP Country Programme Action Plan for Montenegro (2008-2011) - www.undp.org.yu/montenegro. Note: Planet Rating complies with UNDP's rights and permissions for material reproduction.

■ Serbia

A considerable and continuous economic growth since 2000, along with a real salary increase, and also the growth of pensions and other social transfers, as well as other citizens' incomes, especially the growth of foreign remittances, led to substantial poverty decline in Serbia in the 2002-2007 period. However, the stagnation in the number of the employed and a high unemployment rate have certainly down-sized the influence that the economic growth may have had on the poverty reduction otherwise.

According to the 2007 LSMS data, the number of the poor was split in half, decreasing to 6.6% in 2007 from 14% in 2002. Thus, the key objective the Government had set in its Poverty Reduction Strategy to have the poverty in Serbia halved by 2010 was reached as early as 2007. Extreme poverty was close to zero, given that only a negligible fraction of the population (i.e. Roma) had consumption below the food poverty line. However, it should be noted that the image of poverty is slightly worse than described, bearing in mind that the data do not fully cover refugees (poverty rate of 7.4%), IDPs persons (14.5%) and Roma people (49.2%⁵). The inequality of consumption, measured by the Gini coefficient, estimated at 29.7 in 2007, is somewhat higher than the average of selected Eastern European countries undergoing transition. The Gini coefficient value for such countries ranges between 26.2 in Bosnia and Herzegovina to 31 in Romania.

Poverty in Serbia is predominantly a rural phenomenon, as in many counties in transition. Serbia is a country with deep, lasting and growing regional disparities in economic development. The process of transition to a market economy has intensified the existing economic discrepancies among regions due to the closing down of a number of large public companies, intensified restructuring and privatization in Belgrade where the most viable opportunities for economic development thrive is still in a much better position than the rest of the country, central

⁵ Roma from Roma settlements, who are potentially most severely affected groups, have not been covered by this survey.

Serbia (without Belgrade) is the poorest region, while Vojvodina is positioned between these two extremes. The main cause of rural poverty is the high dependency of the rural economy on agriculture and insufficient diversification of the economic structure. Agricultural performance in Serbia shows extensive production, a strong dependency on natural factors and weather conditions along with low soil and labor force productivity.

The most affected categories of the population remain the population from rural areas of South East Serbia, the uneducated and the unemployed, elderly people, households with two and more small children (aged 0-6) as well as children up to 14 years old. Although households where the woman was head were more poverty-stricken in 2002, five years later such a difference in poverty is lost.

Unemployment is one of the most serious problems of the Serbian economy. Although there was a reduction in the unemployment rate in 2007 (13.9%⁶) compared to 2006 (21.6%), the figure is still high, especially for long-term unemployment. The issue of high unemployment carried over from the pre-transition period escalated even more over the past five-year period as a result of the ownership transformation and company restructuring processes. Work on improving the business environment, attracting direct foreign investments, providing support to the development of SMEs are measures that could contribute to the reduction of unemployment and higher employment. Labor market indicators show that women are in a far more difficult position than men. The unemployment rate for women is 16.5% against 11.8% for men.

Some of the most significant indicators of the level of development, not only of the health care system but the country and population as a whole, are the infant and children under five mortality rates. Both indicators have a constant positive trend going on for years. The infant mortality rate was 10.6 in 2000, 10.1 in 2002, and 7.4 in 2006 while the mortality rate for children under five also dropped from 11.7 in 2002 to 8.6 in 2006. However, Serbia is still among the European countries with a high infant and children under five mortality rates (the average for the developed European countries was 4.3 and 5.1 in 2005 respectively) [...] Many problems remain to be solved, those that require long-term strategy of health care policy such as larger investments in health promotion and preventive medicine.

Even though the population has decreased and the educational structure has improved during the past ten years, the right to quality education is still not available to all children. Gaps between children from different social

and economic backgrounds are widened during education, instead of narrowed. This is a reflection of the inability of existing educational system to perform its compensatory role. Target groups who need greatest attention in terms of education are young people from poor families, families with lower educational levels, from rural areas, and Roma.

Source: Extracts from the 2007 Living Standards Measurement Study - <http://www.prsp.sr.gov.yu>. Note: Planet Rating complies with PRSP's rights and permissions for material reproduction.

Institutional Presentation

Social Mission

AgroInvest's Core Ideology (the vision, mission and values) was defined at inception and refined in 2006 by the Senior Management Team in formalized statements: AgroInvest **vision** is to bring life in all its fullness to rural families. The institution notably believes that the family is the most important unit in a society. It aims at improving the living conditions of children, in addition to creating wealth and building effective and functional relationships in rural areas, identified as the most underdeveloped sector of the economy. Its **mission** is to serve and empower rural families through high-quality financial services and social programs, i.e. through personal contact with and commitment to every client, efficient, timely and easily accessible services, in addition to simple and effective solutions. The five organizational **values**, defined in accordance with the vision, are: teamwork, trust, integrity, commitment, and respect.

Characteristics of Outreach

No nationally or internationally benchmarked data is available on the poverty or financial exclusion severity in AgroInvest's clientele. The institution has the objective of reaching out to active poor in rural areas but has not yet given itself the means to precisely track the poverty or exclusion status of its clients.

A combination of general statistical data about the particular nature of poverty in Serbia and Montenegro and general characteristics of AgroInvest's clientele can be used to make very rough assumptions about its poverty status, but clearly cannot be used to compare AgroInvest's depth of outreach with another institution⁷. The following information is thus only provided to draw a rough picture of the institution's clientele:

- As of May 2008, 97.5% of AgroInvest's clientele is located in rural areas (100% in Serbia and 95.7% in

⁶ Labor Force Survey 2007.

⁷ To measure its depth of outreach, AgroInvest uses the average loan size reported to GNI. Refer to the Social Performance Monitoring section.

Montenegro) where the incidence of poverty is higher. Poverty in Serbia is predominantly a rural phenomenon, as in many counties in transition. Poverty was much more present in rural areas than it was in urban areas in 2007 (9.8% versus 4.3%). In central Serbia, where AIS branches are located, 10.7% of the rural population lives below the absolute poverty line. In Montenegro, poverty is also more concentrated in rural areas, especially the north where the absolute poverty rate reaches 19.3% (vs. 12.2% at the country level).

- In April 2008, 83% of AgroInvest's loan portfolio was invested in agriculture activities. In Serbia, the 2006 Household Budget Survey identified households whose main source of income derives from agriculture activities as more exposed to poverty.
- In April 2008, women clients represented 57% and 62% of AgroInvest clientele in Montenegro and Serbia respectively. In both countries, women are identified as more vulnerable groups: In 2007, 16.5% of the Serbian women were unemployed vs. 11.8% of the Serbian men (respectively 35% and 20.6% in Montenegro in 2006⁸).
- AgroInvest aims at improving the life conditions of children who have been identified as one of the most vulnerable group in the Serbian and Montenegrin society.

Products and Services

AgroInvest offers four loan products in Montenegro and one in Serbia to clients living in rural areas.

- The Loan for business activities (LBA) has been offered in Montenegro since inception in 1999 and represented 95% of the amounts disbursed by AIM in 2007. It ranges from 250 EUR to 10,000 EUR (max. of 3,000 EUR for new clients) with terms of 3 to 72 months (max. of 9 months for new clients) and a grace period up to 9 months (6 for new clients). The nominal interest rate ranges from 9.6% to 14.4% flat annually, which (with the 2% application fee) yields an EIR ranging from 19.7% to 28%.
- The LBA has been offered as AIS sole loan product since inception in 2001. It ranges from 250 EUR to 5,000 EUR (max. of 2,000 EUR for a new client) with terms of 3 to 24 months and a grace period up to 6 months. Under the partnership with Komercijalna Banka, the nominal interest rate ranges from 15.6% to 18% (flat) annually, which (with the 3% to 2.6% application fee) yields an EIR ranging from 31.2% to 35.8%. Under the partnership with Privedna Banka Beograd, the application fee is of 1.6% while the nominal interest rate ranges from 33.6% to 34.8% per year and is charged on a declining basis. The EIR ranges then from 35.9% to 37.1%.

- The Fast Loan (FL) has been offered since 2005 and represented 3% of amounts disbursed by AIM in 2007. Designed to address short-term cash flow needs, the FL is disbursed in one day for amounts ranging from 100 EUR to 500 EUR and terms of 3 to 9 months. The nominal interest rate is of 18% annually and the application fee of 2.5% for existing clients (3% for new clients), yielding an EIR ranging from 37.8% to 45.8%.
- AIM also offers loans intended to develop the market channels used by its rural clients. The Market Development Loan for urban small businesses (MDL1) ranges from 3,000 EUR to 8,000 EUR for terms of 3 to 48 months and a maximum grace period of 9 months. The nominal interest rate ranges from 10% to 14.4% annually (depending on the client grade), which (with the 2% application fee) yields an EIR ranging from 24% to 28%. The Market Development loan is also offered to registered business (MDL2) under slightly different conditions: the maximum loan size is 4,000 EUR and the assets of the company are used as collaterals. The EIR is of 28%. Both MDL still represent a small – though increasing – portion of the value of loans disbursed (from 2% in 2007 to 7% in April 2008).

The average Effective Interest Rate (EIR) ranges from 23.2% to 30.3% depending on the client's grade. Loans are to be repaid on a monthly basis. Collaterals are mainly made of administrative bans on salaries of the clients and/or of its guarantor(s). They can be complemented by promissory notes for bigger loans.

AI Social Programs are comprised of:

- The Happy Child projects that are local projects chosen by AI clients and financed by AI, its clients and external donors. These projects aim at improving the health, educational and living conditions of children of the community. As of March 2008, 28,050 children benefited from 386 projects for a total cost of 542 K EUR, financed at 52% by AI, 47% by the clients and 2% by external sources.
- The financing of catechism books for children in cooperation with World Vision Bosnia and Herzegovina and the Serbian Orthodox Church. AI has invested 50 K EUR in this activity since its inception.

Market Penetration

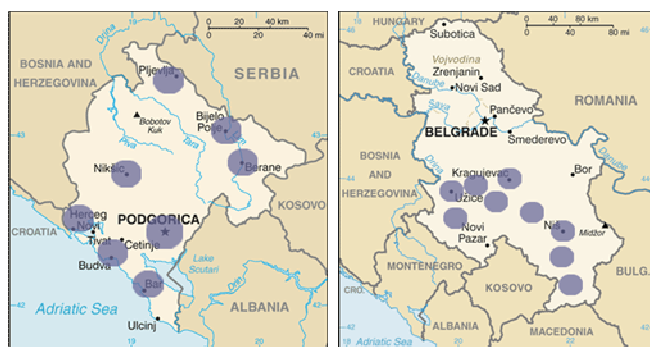
Mostly targeting rural areas, AgroInvest reaches a 25% rural penetration rate⁹ (34% in Montenegro and a 17% in Serbia) in the areas where it operates. When reported to the total number of rural households in each country, AI penetration rate is 19% in Montenegro and 1.3% in Serbia.

⁸ UNDP Country Programme Republic of Montenegro (2007-2011)

⁹ Rural penetration rate = Active rural clients / Number of rural households. Updated information is available only for rural areas.

Branch	Active Penetration borrowers	Active Penetration rate (rural)	% rural	Rural households
Podgorica	4,984	39%	98%	12,665
Berane	3,917	57%	96%	6,555
Bijelo Polje	4,033	44%	97%	8,857
Niksic	3,573	36%	94%	9,440
Piļevlja	1,806	49%	98%	3,641
Herceg Novi	632	11%	92%	5,176
Budva	822	18%	87%	3,900
Bar	1,187	15%	70%	5,730
<i>Average MNG</i>	<i>20,954</i>	<i>34%</i>	<i>95%</i>	<i>55,964</i>
Non served areas	-	-	-	47,943
Total MNG	20,954	19%	95%	103,907
Prijepolje	479	8%	100%	5,780
Kruševac	442	5%	100%	9,133
Kragujevac	496	6%	100%	8,731
Vranje	1,563	15%	100%	10,274
Čačak	2,023	18%	100%	10,959
Niš	2,414	20%	100%	12,180
Užice	2,201	29%	100%	7,591
Leskovac	3,071	27%	100%	11,336
Kraljevo	2,496	23%	100%	10,974
<i>Average SER</i>	<i>15,185</i>	<i>17%</i>	<i>100%</i>	<i>86,958</i>
Non served areas	-	-	-	1,118,171
Total SER	15,185	1%	100%	1,205,129
<i>Total served areas</i>	<i>36,139</i>	<i>25%</i>	<i>97%</i>	<i>142,922</i>
Total	36,139	3%	97%	1,309,036

Source: Statistical offices of the Republic of Montenegro and Serbia (2003 and 2002 Census respectively). Note: the number of rural households by municipalities was updated by AgroInvest after on-site research.



Organization

AI¹⁰ defines its organizational structure as articulated into four levels: the Corporate Office (CO), the Regional Offices (RO), the branch offices and the management bodies.

- The CO supports the ROs through the head office, finance, IT, HR and Communication offices. The CO staff is spread around the organization in order to be close to the operational activities.
- The Serbian and Montenegrin ROs are headquartered in Niš for AgroInvest Serbia (AIS) and in Podgorica for AgroInvest Montenegro (AIM).
- All credit decisions and loan tracking data entry are decentralized to the branches. The Village Associations play an integral role in the service delivery. Clients form the VA (that usually groups around 150 households) and nominate respected members of the village to serve as

community representatives, known as the Village Council and headed by a Village Councilor (VC). The VC facilitates the work of the LO, particularly in remote and less populated areas.

In Serbia, AI works with partner banks that are legal parties to the contract. AIS has been working with Komercijalna Banka AD (KB) since 2005 but stopped disbursing loans under this partnership in March 2008 following the Dec. 2007 NBS advice to KB to stop disbursing loans under the commission-based model (considered as too risky). A new partnership was formed with Privredna Banka Beograd under the deposit-based model (cf. Microfinance Sector). As required under that model, an additional 5.3% deposit is made simultaneously to the NBS.

Social Performance Rating

▪ Institutionalization of the Mission

Social Mission and Strategy

AgroInvest vision, mission and values have been precisely defined in-line with the social challenges identified in the areas of intervention. AI's focus on rural families and multi-dimensional approach to poverty was adopted at inception of both entities, notably based on an analysis of the nature of poverty i.e. particularly rural and affecting children. Formal studies, such as the Poverty Reduction Strategy Plan for Serbia, were subsequently used to update AI understanding of poverty. In 2006, the senior management team further refined AI vision, mission and values and formalized each of them in policies disseminated to staff.

AgroInvest social mission is well-shared by its main stakeholders. The Board of Directors' policies and objectives are driven by the social vision and articulated in impact, cost and target group policies, that are relevant to the social mission but not all useable for now (notably the economic impact objectives). The current fragile composition of the BOD¹¹ has so far not resulted in a mission drift thanks to the senior management team's strong commitment to the social mission. Moreover, the BOD development matrix identifies the key skills needed to strengthen AI's BOD, notably in terms of community development. AI inherited from World Vision its commitment to Christian values and will also seek to include a church representative into the BOD. Social performance management (SPM) has been institutionalized, allowing for the systematic consideration

¹⁰ More details on AI organization are provided in the GIRAFE rating.

¹¹ Refer to the GIRAFE rating for details.

of the social mission in AgroInvest decision-making process. Originally (in January 2006), a social performance team gathering staff from various departments was assigned to initiate AI's SPM. It was then dissolved as social performance responsibilities were assigned at various level of the institution, indicators were defined and targets were set. SPM is led by the HR manager who, with the communication officer and the ED, attended dedicated conferences and workshops¹² and presented AI's social performance good practices to investors (Microned). In 2006, AgroInvest had an MFC-sponsored Social Audit that allowed the institution to identify areas for improvement. Actions have been taken since then and various gaps (e.g. the integration of social performance indicators into the MIS) have been addressed.

The social mission is quite well integrated into the planning process. Since 2006, AI's planning is guided by social performance objectives defined in line with the social mission. Each department of AI's Corporate Office has social performance and/or social responsibility objectives that have been met for most of them: the finance office raised fund for social programs (though not at the expected level yet), the HR office conducted staff satisfaction surveys yielding satisfactory results close to objectives, and the IT office developed MIS supporting social performance reporting. Indicators are integrated in the Business Plan progress report and monitored monthly at each SMT meeting. However, the financial and social performance indicators have not been actively tracked in 2008 as the BP objectives are currently being reviewed.

AgroInvest has adequately assigned to its corporate office the responsibility to ensure that regional entities do not drift from their social mission. Moreover, according to AI policies, Internal Audit is also to monitor the deviations and conflicts of AI with its social mission, though it has not started to yet. The mission drift risk could indeed arise in the medium term if AI was to invite new shareholders or if the Montenegrin MFI was to transform into a bank.

Social Performance Monitoring

Social Performance indicators have been defined in line with the BP objectives. They are tracked monthly at the branch, regional and corporate levels. However, client-level indicators usable for decision-making are still not sufficiently developed.

- The outreach (market penetration, women), retention and job creation indicators have been well-defined and

¹² AgroInvest is member of the MFC and SPTF dedicated working groups. AI received the 2007 MFC innovation award recognizing its innovative village association model, the integration of microfinance and non microfinance programs and the effort towards SPM.

consistently tracked. They are discussed at the operational and strategic management teams meetings.

- The “economic impact indicators” (increases in the household's equity and income), piloted since September 2007, are still too new to be used for decision-making. Originally rightly used for the assessment of the client's repayment capacity, such indicators are useful to monitor the general evolution of the clients' wealth but are not solid enough to monitor impact: 1) the levels of income¹³ and equity¹⁴ are not estimated accurately enough for that purpose¹⁵, and 2) impact may result from other factors than AI's services.
- The loan size relative to GNI¹⁶, used to monitor AI's depth of outreach is not adequate to precisely monitor AI's depth of outreach.
- The “social impact indicators” (number of children that benefited from the social programs and value spent by child) only give an idea of the efforts made by AgroInvest. Interestingly, a satisfaction and awareness survey on happy child projects of the Pljevlja branch was conducted in 2007 and yielded positive results. However, this has not been systematized as a monitoring tool yet.
- No other indicators have been computed based on the other client-level information collected during loan application (e.g. socio-professional group, marital status) and entered in the MIS.

Some quantitative clients' studies and focus groups have been conducted but not as specific social performance monitoring tools. No specific indicator is being extracted from these studies and the way that these studies were conducted has not ensured the full reliability of their results.

Internal controls in place during data collection and processing are satisfactory. The outreach indicators are included in the standard reporting processes and thus benefit from the existing risk management system. As for the so-called impact indicators, their data is reviewed during the credit committee and through the MIS embedded checks for economic ones and by at least three employees of the branch for social ones. The scope of Internal Audit

¹³ In poverty assessments, consumption is usually preferred to income to measure the poverty level of households. Incomes might be understated, all sources of income might not be revealed (e.g. remittances from abroad, illegal activities) or identified (household own agricultural food production).

¹⁴ AI calculates the clients' equity by subtracting its debt to its assets.

¹⁵ The credit bureaus are not systematically used despite the likely growing prevalence of over-indebtedness.

¹⁶ AgroInvest is aware of the limitations of this indicator but has been using it since it is recognized by the MBB as a proxy for depth of outreach and used by World Vision affiliates. Refer to the annexes for the set of Social Performance indicators to be used by the MiX market by 2009.

was not extended to social performance yet, although it is necessary to further ensure the indicators' reliability.

Staff Mobilization

Staff commitment to the social mission has been ensured thanks to the development of a strong organizational culture rooted in AgroInvest's vision, mission and values and reinforced through trainings, workshops, evaluations and incentives. This has been facilitated as the HR manager is leading the SPM process within AI.

- The candidates' alignment with AI ideology is checked during the recruiting process and presented during the induction training. AI staff is required to share AI values.
- In 2006, all staff participated in the MFC consultant SPM training provided during the annual general meeting. However, some of the social performance objectives are still not fully shared by all staff as they have been difficult to achieve (e.g. depth of outreach and outreach to women). On the other side, there is a good buy-in in social programs as branch staff receives a positive feedback from their clients. Senior managers' buy-in is stronger as most of them were involved in the Social Audit process and/or participated to additional SPM trainings.
- The annual Employee Performance review (EPR) includes social performance indicators, adapted to each position. Branch staff is evaluated on outreach and portfolio indicators (e.g. caseload, retention rate, outreach to women, depth of outreach) while the Strategic Management Team (SMT) is evaluated on AI's Social Return on Equity (SROE¹⁷). In order to further promote fund raising for non-microfinance programs, AI intends to evaluate Branch Managers on SROE as well.
- AI has put in place a team incentive system at the branch, regional and corporate level and an individual one for LOs, balancing financial and social performance objectives. As qualifying criteria have been difficult to meet, the incentive system has, with the EPR, been refined by setting different levels of performance and the optimal LO caseload at 500 clients. Being qualified for the bonus remains difficult due to the inadequate depth of outreach indicator (the HR manager is working on adapting it) and the limited buy-in of LO in reaching significantly more women than men.

Internal communication has also contributed to staff mobilization, notably thanks to internal newsletters, brochures and posters disseminated and displayed in the branches. AI plans to systematize the use of posters and

¹⁷ As defined by AgroInvest, SROE= (social program expenses + village association contribution + external funds raised for social programs) / average equity for the period.

enhance social performance communication through the intranet.

Targeting and Service Offering

Breadth of Outreach

AgroInvest serves a significant portion of its target clientele in Montenegro but still a very small portion in Serbia. As of May 2007, AgroInvest reached 20,954 active clients in Montenegro, representing a 19% market penetration of the rural areas of the country. If only considering the rural areas where it operates, AIM market penetration reaches 34%. This contrasts with the situation in Serbia where AgroInvest serves 15,185 clients (100% rural), representing a 1.3% market penetration of the rural areas of Serbia, and 17% of those where AIS operates.

In both countries, AI is the only MFI of significant size providing microfinance services to rural households (competitors are mostly providing loans in urban areas). The institution has opened branches all across Montenegro but has only covered a small part of Serbia despite the country much bigger potential. This is notably due to the lack of appropriate legal framework that has hampered the growth of non-bank MFIs.

Client Targeting

AgroInvest defined its target clientele (mostly active rural poor) along with its social mission, based on the assessment that poverty in Serbia and Montenegro is more important in the rural areas. In May 2007, 97.7% of AgroInvest clients were rural.

AgroInvest has developed a satisfactory geographic targeting tool in order to reach active poor people. Consisting of opening branches in the poorest areas and villages, it ought to be slightly more formalized.

- In each country, AI chose to open its first branches in areas with higher rates of poverty such as central and north Montenegro and central and south Serbia. Branches might be opened in wealthier areas (e.g. the Montenegrin coast) once the first branches reach a significant penetration rate.
- The team (made up of the Market Research Officer and branch staff) in charge with the market development plan preceding the opening of a new branch ranks the potential village of one area to each others according to their estimated level of demand and poverty. Though useful, the use of this tool still presents some deficiencies: the ranking is formalized but not the underlying criteria (i.e. the on-site interviews and statistic review). Yet, this is necessary to ensure the quality and accountability of the LO's poverty ranking.

- Through its Market Development Loans, AgroInvest also targets urban clients who are significantly involved in agriculture¹⁸ and thus contribute to the development of the rural markets.

The average loan size has been used by AI to monitor its depth of outreach and tracked monthly at all the levels of the institution. However, in addition to being inadequate (cf. social performance monitoring), this indicator has been difficult to use: in Montenegro, where AI clientele includes a majority of retained clients, the natural loan size increase at each cycle has made it more and more difficult to keep a loan size below 70% of the GNI¹⁹.

The use of a majority of soft collaterals (i.e. administrative bans on salaries of the clients and/or of his/her guarantor) contributes to reaching clients that have no access to loans from banks requiring stronger collaterals (e.g. pledge on assets).

AgroInvest women clients' ratio was 59% in May 2008, decreasing from 66% in 2005 and therefore below its objectives of 65%. Previously only included in the team bonus calculation, this objective might soon be included in the LOs' one to foster a stronger targeting to women. Fulfilling this objective is more problematic in Montenegro (56%) than in Serbia (62%) (cf. Institutional Presentation).

Service Design and Client Satisfaction

AgroInvest's loan offering is different between Serbia and Montenegro. Given the very different regulatory environments and each entity particular performance, different strategies were adopted to meet the clients' needs.

In Montenegro, AgroInvest started the diversification of its loan offering in 2007. AI has successfully made its main – LBA – loan product's characteristics more flexible notably thanks to continued advocacy by the Central Bank. However, AI does not offer yet a full range of products adapted to the clients' needs. New loan products (the fast loan and market development loans) were designed based on client feedback collected during the various client satisfaction surveys and focus groups led by the market research officer. However, the client satisfaction surveys were not conducted rigorously enough²⁰ and did not specifically assess the clients' demand for the new loan

¹⁸ For example, clients are to earn 50% of their revenue from the sale of agriculture-related products.

¹⁹ As of April 2008, AI average loan size was 1,978 EUR in Montenegro and 953 EUR in Serbia, representing 64.8% and 30.4% of the GNI per capita (World Bank, 2006) respectively. World Vision requires its affiliates to keep a ratio below 85%.

²⁰ Shortcomings were identified in the representativeness of samples, the objectivity of the interviews and the control mechanisms.

products, the MDLs having not been successful so far. The information collected through these quantitative and qualitative surveys has nevertheless proved useful to timely adapt the characteristics of the main loan product

In Serbia, the market research officer main focus has been branch expansion rather than product diversification. The loan for business activities is the sole loan product offered and is less flexible than in Montenegro. The National Bank of Serbia decision to forbid cash loans over 24 months (in July 2007) has limited both the terms and amounts offered by AgroInvest. However it is worth noticing the efforts done by AgroInvest (and the other Serbian non-banking MFIs) to offer microfinance services through bank partnerships that would not be available otherwise. In order to prepare the new partnership with Privedna Banka Beograd, AgroInvest conducted a 400 clients study to ensure that its services will remain adapted to the clients' needs. The survey was reasonably well-conducted and its satisfactory results²¹ prompt AI to start the new partnership with Privedna Banka Beograd.

AgroInvest monitors the satisfaction of its clientele through retention rates²² compiled monthly, quarterly and yearly by branch and entity. In Dec. 2007, it was 71.1% ranging from 74.8% in Montenegro to 65% in Serbia, where disbursements were affected by the NBS decision to forbid cash loans over 24 months. More recently, AIS disbursements were further affected due to the change in bank partnership²³, decreasing its retention rate to 50.7% as of April 2008. Forms to identify reasons for client exit have already been prepared but still need to be actively used.

AgroInvest is contemplating expanding its product offering and has conducted for that purpose a savings and insurance survey on 791 clients spread in AIM branches. Despite its large scale, the full reliability of the study might have been somewhat affected by the fact that loan officers interviewed and sampled their own clients. Based on the survey's positive results, AI will probably develop insurance products in partnership with an insurance company and has asked ING to assess its capacity to transform into a bank and therefore offer savings services.

Cost of the Services

Providing efficient services to its clientele through its Village Association methodology is rooted in AgroInvest's social mission. Accordingly, BOD policy states that

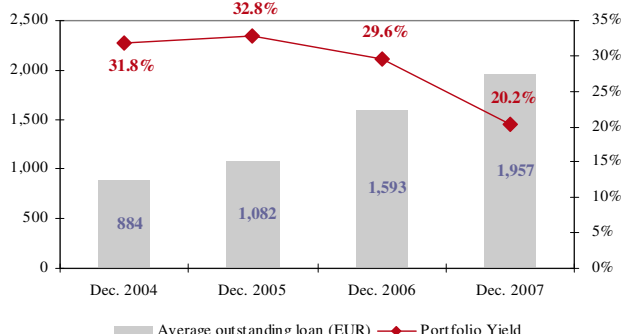
²¹ 75% clients are ready to repay their loan directly to the bank rather than through the VC as they are going to the city for other purposes.

²² Retention rate = repeat borrowers / repaid borrowers. Clients are considered repeated if they have already taken a loan with AgroInvest.

²³ The partnership with Komercijalna Banka ended in February 2008 while the one with Privedna Banka Beograd started in May 2008.

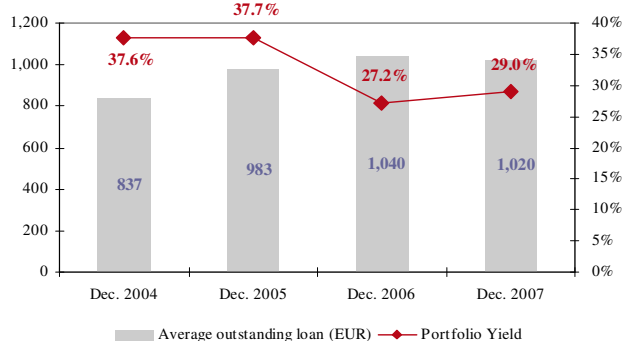
microfinance services are to be delivered at a reasonable cost to clients. However, AgroInvest pricing differs from Montenegro to Serbia due to external factors and strategic choices.

AIM - Portfolio yield evolution



In Montenegro, AgroInvest has significantly decreased the cost of its services, with an effective interest rate ranging from 19.7% to 28% for its main product. Thanks to interest rates declining with the loan cycles, AgroInvest average EIR (approximated by its portfolio yield) was of 20.2% as of Dec. 2007. This is very competitive when compared with Opportunity Bank pricing (PY=23.1%) that provides loans of higher amounts (2,371 EUR) in urban areas. The important net income (ROA=5.6%) is reinvested in AI. Transaction costs supported by the clients are low as all transactions are handled in the village in the VA methodology.

AIS - Portfolio yield evolution



In Serbia, AgroInvest decreased its interest rates in 2006 but have increased them back in 2008 as operating and financial costs have increased under the partnership with Privredna Banka Beograd (PBB). Increasing from 2007, the EIR now ranges from 35.9% to 37.1%, making AIS even more expensive than its competitors (cf. 2007 benchmarking on portfolio yields). It should be noted however that AIS is the institution offering the smaller loan amounts (average loan size of 1,020 EUR) and the only one operating in rural areas. Yet, operating costs are low (13.6%), allowing AIS to reach a very high level of profitability in 2007 (ROA=10.9%). Such high margins have been used to finance AIS branch expansion. Transactions costs have also increased under PBB partnership as 1) each client has to repay its loan to the

bank and 2) the disbursement process is longer due to PBB centralized decision-making (this should be settled soon when PBB will decentralize its approval process for microcredits).

Social Responsibility

Client Protection

Loan conditions are transparently communicated to clients as 1) contracts are written in Serbian and explained to clients by Loan Officers and Village Councilors during the disbursement, 2) the loan schedule adequately specifies the principal and interests to be paid at each installment, and 3) the APR is stated on both documents as required by the Central Bank of Montenegro and the National Bank of Serbia. Clients are aware that part of AgroInvest revenue is reinvested in social programs. For an optimal transparency, AI ought to clearly state in the contract what percentage of the revenues is invested in the different social programs²⁴.

Some systems are in place to ensure that clients will receive an equal and respectful treatment but could be further developed. Client respect is one of the five values promoted within AI and referred to in the code of conduct. Clients may complain by calling the branch or voicing their concerns through the Village Councilor who knows both the LO and the BM. More security could be brought to the system if clients interviewed during the satisfaction surveys were by another LO than the one in charge of the client (during focus groups, clients are interviewed by other members of the branch team).

AI has put some satisfactory systems in place to limit the over-indebtedness of its clientele. Loans are granted to clients provided that their debt to equity ratio does not exceed 0.5. Branch staff uses the credit bureau information in case of doubt on the debt level of the applicant. In Serbia, the use of the credit bureau will reportedly be systematic under the partnership with Privredna Banka Beograd. In Montenegro, it is not yet the case despite the growing prevalence of over-indebtedness. MFIs limit the number of their connections to the credit bureau notably because they are charged for each connection.

Systems in place do not mitigate all the other risks inherent to the use of credit services:

- AgroInvest does not offer a credit life insurance discharging the client's family or guarantor from the full burden of the debt in case of the client's death as only the interests are cancelled. The insurance survey

²⁴ 1.5% is to be reinvested in Happy Child projects and 1% in the financing of catechism books for the Serbian Orthodox Church.

conducted in 2007 revealed that 22% and 55% of the interviewees had a life and health insurance respectively.

- Although AI clients do not bear significant cash transit risks, Village Councilors collecting the VA's repayments are not insured for the cash kept at their domicile.

Human Resources Policy

The high importance given to the HR department and its professional administration have significantly contributed to the fair treatment of staff. HR procedures (e.g. recruitment, training, evaluation, salary increases) are well formalized, ensuring that all staff is treated the same way. Staff development is highly valued and is guided by a formal policy stating that each employee is to benefit from an adequate mix of trainings, workshops, mentoring and coaching. Actually, 2.5% of revenues are spent on capacity development, allowing for the skills' development of all employees. However, management staff received significantly more formal training than branch staff (in average 18 days for top-management, 15 days for branch management and 2 days for branch staff). AgroInvest also promotes the development of the employability of its staff by sponsoring their self-education expenses²⁵.

Staff remuneration is satisfactory. It is competitive when compared to that of its Bosnian peers but remains, at least for loan officers, lower than that of Opportunity Bank Montenegro who has been offering a much more attractive bonus. Complying with its HR policies stating that general salary increases should take into account both the industry standards and cost of living, AI has increased salaries in average by 7% in 2007²⁶. In addition, staff receives various allowances (e.g. for travels on the field, moving, and family events).

Women are nearly equally represented as they are accounting for 46% of staff, 40% of senior management and 25% of branch managers. Women have been naturally less promoted to branch managers' positions since 82% of loan officers are men, while women represent 81% of administrative staff.

AgroInvest has put efficient systems in place to ensure that its decisions take into account staff's interests. The "HR leadership team" was set up to debate about staff arising concerns. Its meetings will reportedly be systematized to allow a continuous feedback independent from hierarchy.

²⁵ AI fully finances distance learning with the Chartered Institute for bankers (Scotland), and 50% of professional English lessons and computer skills classes.

²⁶ In Serbia, 2007 inflation was estimated at 5.4% by the NBS and at 10% by the COFACE. In Montenegro, it was estimated at 3.5% (COFACE).

Besides, staff may voice their concerns through focus groups (organized for branch managers so far) and during the "ask the directors" and "how to improve my job" sessions of the annual general meetings. The HR department conducts at each of these general gatherings a Gallup survey on employees' satisfaction and engagement. 2007 results have been pretty good, reaching a score of 3.8/5, below the objective of 4/5 but better than the previous year (3.6/5).

Social Responsibility towards the Community

In accordance with its vision to "bring life in all its fullness to rural families", AgroInvest has developed social programs that aim at generating impact beyond the provision of financial services.

The Happy Child projects are adequately managed by the institution. The good formalization of procedures contributes to ensure that local projects are chosen to meet the clients' needs:

- The Village Association chooses the project to be financed through the Village Council it has elected. Two levels of approval are then required: at the branch level (the BM, one LO, and one administrative employee sign the approval form) and at the Corporate Office level (the Finance Manager reviews all projects).
- Data on the number of children benefiting from the project and the amount of money allocated to the project are reported monthly through an internally developed application and reconciled with the accounting data which allows for the regular follow-up of the projects by the Social Program Officer. However, the system lacks security as private passwords for each user are not in place and there are no related Internal Audit checks.
- The joint participation of the community, AI and external sources to finance the local projects contributes to the sufficient involvement of the main stakeholders.
- As AI objective to invest at least 1.5% of its revenues in HC projects has not always been reached in the past, the institution will include the SROE indicator in the BMs' EPR²⁷ and incentive system.

AgroInvest also finances the printing of catechism books for the religious education of children. As this activity is excited by WV Bosnia and Herzegovina in cooperation with the Serbian Orthodox church, it is conducted separately from the microfinance program.

AgroInvest has put some mechanisms in place to mitigate the risks of corruption that may arise when using non-staff in the credit processes. As required by the legislation, the VC's remuneration and relationship with AI have been formalized into a contract. Checks on the VC's work are

²⁷ SROE=Social Return on Equity. Refer to Staff Mobilization for details.

performed by branch staff and Internal Audit. VCs not fitting to the job have been replaced²⁸.

AgroInvest has put systems in place to ensure child protection. All staff has signed AI’s child protection policy (inherited from World Vision) stating the adequate behaviour to adopt when working with children. The institution also performs a background check with the police before hiring new staff.

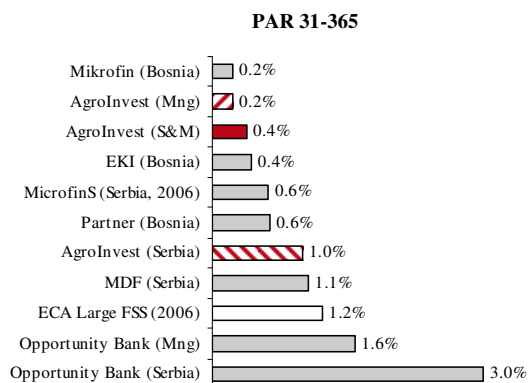
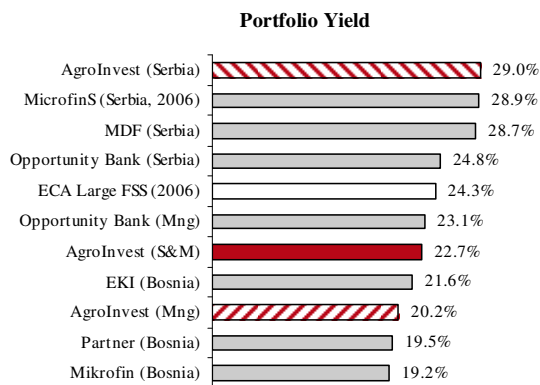
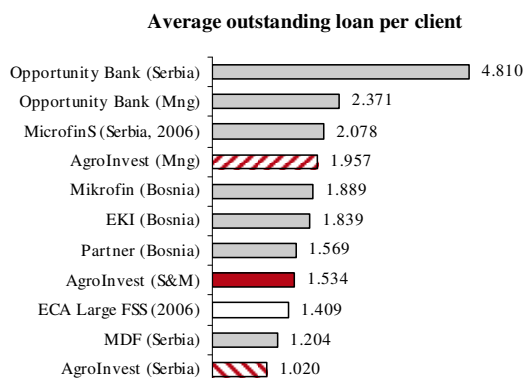
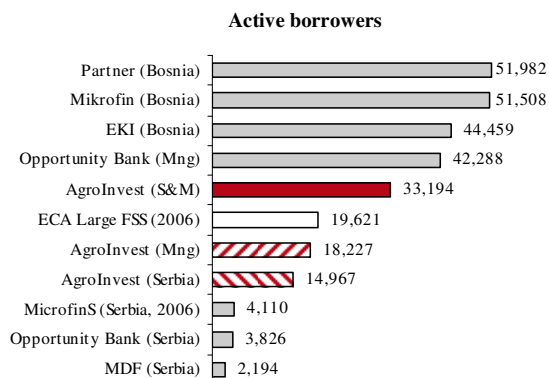
AgroInvest has not formalized in its own policy the list of activities that it won’t finance. It has nevertheless to comply with a KfW loan agreement stating a list of prohibited activities.

Client privacy is unequally ensured depending on the branch. It is satisfactory in branches with adequate premises where clients are only allowed to enter in the receptionist office. This is not the case in most of the branches as most clients are not expected to come there since the LO is to travel to the clients’ village for most transactions. However, clients do occasionally visit the branch, especially those living close.

Social Responsibility towards the Environment

AgroInvest is aware of the environmental risks related to the activities it finances but has not put in place strong policies to mitigate them. Clients are simply asked whether their business may harm the environment but no additional checks are performed. For example, although AI clients who cut and resell wood for heating are expected to have a proper certificate from the local authorities, this is not checked by LOs. Besides, AgroInvest has not adopted any eco-efficiency policy.

Benchmarking



Source: AgroInvest (Planet Rating); EKI, Partner, Mikrofin (AEMFI); other MFIs (the Mix Market); ECA benchmarks (MBB 2006, Medians).

²⁸ Since inception, one case of fraud has been discovered in Krajlevo and resulted in a change in the VC and net loss for AI of 1,300 EUR.

■ Performance Indicators

Social Performance Indicators	Dec. 2006	Dec. 2007	Apr. 2008
Outreach			
Gross loan portfolio (EUR)	31,298,465	50,933,819	55,197,828
Active borrowers	22,655	33,194	36,048
% of women active borrowers	64.4%	60.9%	59.5%
% of rural active borrowers	100.0%	99.0%	97.7%
% of socially marginalized or excluded groups	n.a.	n.a.	n.a.
Service Offering			
PAR 31-365	0.3%	0.4%	0.5%
PAR > 365	0.0%	0.0%	0.0%
Write-off ratio	0.1%	0.2%	0.1%
Proportion of socially-based collateral (e)	n.a.	n.a.	> 90%
% women receiving loans with group guarantee	n.a.	n.a.	n.a.
Proportion of asset-based collateral	n.a.	n.a.	n.a.
Proportion of salary-based collateral	n.a.	n.a.	n.a.
Share of consumer lending	0%	0%	0%
% of clients who have graduated from group loans	n.a.	n.a.	n.a.
Retention rate (CGAP formula) ²⁹	76.9%	71.1%	64.2%
Retention rate (Chuck Waterfield formula)	n.a.	n.a.	n.a.
Average amount disbursed per loan (EUR)	1,766	1,858	2,010
% of GDP per capita	55.3%	52.9%	51.4%
Portfolio Yield (nominal) *	28.9%	22.7%	n.a.
APR	n.a.	n.a.	n.a.
Client Protection			
% cross-over clients (with a loan of another MFI)	n.a.	n.a.	n.a.
% clients borrowing money from informal money lenders	n.a.	n.a.	n.a.
% of branch offices in unserved areas (no other MFI or bank branches)	n.a.	n.a.	n.a.
% of clients in these unserved areas	n.a.	n.a.	n.a.
Human Resources Policy			
Staff	113	148	150
% of women among LOs	15%	18%	18%
% of women among management	40%	40%	40%
% of women among branch management	15%	25%	25%
% of women among administrative staff	85%	83%	81%
% of women among professional staff	45%	46%	46%
% of women in the Board of Directors	0%	0%	0%
% of employees who received at least two days of training	100%	100%	100%
Number of training days per staff	n.a.	5	n.a.
Min / Max LOs salary ratio	n.a.	n.a.	n.a.
Min / Max professional staff salary ratio	n.a.	n.a.	n.a.
Yearly salary increase reported to inflation	n.a.	n.a.	n.a.
Life & health insurance expense / personal expense	n.a.	n.a.	n.a.
Traffic accidents per LO	n.a.	n.a.	n.a.
Instances of assault per loan officer	n.a.	n.a.	n.a.
Working hours ratio	n.a.	n.a.	n.a.
Vacation days ratio	n.a.	n.a.	n.a.
Turnover	6.7%	6.1%	1.3%
Client Composition (new and active)			
% Below the national poverty line	n.a.	n.a.	n.a.
% Bottom 50% below the national poverty line	n.a.	n.a.	n.a.
% Earning less than 1 USD a day per household member	n.a.	n.a.	n.a.
% Earning less than 2 USD a day per household member	n.a.	n.a.	n.a.
% Poor or low income	n.a.	n.a.	n.a.

²⁹ Data to calculate other retention rates (cf. formulas) is not available.

Social Performance Indicators (cont'd)	Dec. 2006	Dec. 2007	Apr. 2008
Change in Active Clients (3 years or 5 years old)			
% clients who had a change in their social status	n.a.	n.a.	n.a.
% old clients above the poverty line	n.a.	n.a.	n.a.
% old clients who crossed the poverty line	n.a.	n.a.	n.a.
% old clients still under the poverty line	n.a.	n.a.	n.a.
School Enrollment			
% School enrollment of clients children	n.a.	n.a.	n.a.
% girls / boys attending regularly primary school	n.a.	n.a.	n.a.
% girls / boys attending regularly secondary school	n.a.	n.a.	n.a.
Job Creation and Consolidation			
Full-time jobs sustained / active clients *	93.0%	88.3%	75.7%
Full-time jobs created / active clients *	14.0%	13.2%	11.4%
# of full-time hired workers in enterprises supported during the year	n.a.	n.a.	n.a.
# of full-time self-employed workers in enterprises supported during the year	n.a.	n.a.	n.a.
# of part-time hired workers in enterprises supported during the year	n.a.	n.a.	n.a.
# of part-time self-employed workers in enterprises supported during the year	n.a.	n.a.	n.a.
Non-financial Services			
% of financial revenues invested in social programs	1.1%	1.7%	1.2%
% of clients who received non-financial services	n.a.	n.a.	n.a.

Note: At the time of the rating, some indicators were being tested by the Social Performance Taskforce (SPTF) and the MixMarket for social performance reporting. The answers to the qualitative indicators being tested by the MiX are stated in the rating.

* Indicators were annualized for April 2008; (e) estimate.

■ Formulas

Portfolio yield: $\text{Portfolio revenue} / \text{Average gross outstanding portfolio}$

Cost of savings ratio: $\text{Interest and fees paid on deposits} / \text{Average deposits}$

Cost of borrowings ratio: $\text{Interest and fees paid on borrowings} / \text{Average borrowings}$

Retention rate (basic formula): $\text{end borrowers} / (\text{beg. borrowers} + \text{new borrowers})$

Retention rate (CGAP formula): $\text{repeat loans} / \text{repaid loans}$

Retention rate (enhanced formula): $(\text{end borrowers} - \text{borrowers with the same loan during the period}) / (\text{beginning borrowers} + \text{new borrowers} - \text{borrowers with the same loan during the period})$

Penetration rate: $\text{active clients} / \text{number of households}$

■ Rating scale

Rating	Definition
5+ 5	Advanced: Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact.
4+ 4	Convincing: Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact.
3+ 3	In progress: Clear intent to reach social goals; social performance management systems being implemented.
2+ 2	Incipient: Clear intent to reach social goals; low capacity to manage social performance.
1+ 1	Intangible: Intention to reach social goals is non-tangible; low level of management of social performance.