

## Metemamen MFI Share Company, Ethiopia

Metemamen was established in February 2002 by the NGO Catholic Relief Services in order to take over the activities of its Women Savings and Credit program. It was licensed in April 2002 by the National Bank of Ethiopia to operate as a Share Company owned by members of the Ethiopian Catholic Church. Metemamen now offers village banking and solidarity group loans through 5 branches and 13 sub-branches located in towns of the Oromia and (recently) Southern Nations, Nationalities, and People's regions. Metemamen targets clients living in semi-urban and since mid-2006 rural areas with a focus on women and had as of Dec. 2007 an outstanding loan portfolio of 660 K USD for 10,811 borrowers.

### GIRAFE Rating

#### Rating

**D**

The GIRAFE methodology has been revised in January 2008. Changes do not affect the meaning of the grade. More info at [www.planetrating.com](http://www.planetrating.com)

#### Outlook

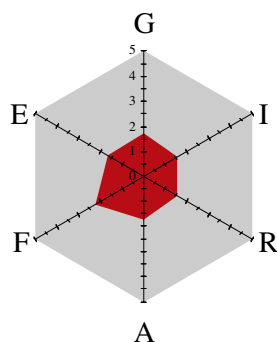
**Stable**

#### Date of the rating

**April 2008**

Valid until March 2008

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- Despite significant strides since inception in 2002, Metemamen has not broken even yet (ROA at (3.9%) as of December 2007). Profitability is undermined by the high operating expenses resulting from a weak cost control culture and the poor portfolio quality due to insufficient delinquency management and supervision of field staff.
- The BOD does not have the required technical skills yet to adequately supervise Metemamen. CRS has provided an additional layer of supervision that is however likely to be reduced by 2010 due to its disengagement plan from microfinance.
- Mostly funded by CRS since inception, Metemamen now urgently needs to adopt a more active funding strategy to ensure its future growth.
- The management team has the basic skills for an operational management but still needs to consolidate and to improve its planning capacity.
- The time-consuming manual MIS provides basic information but does not allow the efficient follow-up of Metemamen's operations and adequate liquidity management. Despite improvements, risk management remains unsatisfactory as Metemamen lacks strong internal controls and an internal audit department.

#### Outlook

The stable outlook reflects our opinion that despite further economies of scale, the strengthening of risk management and supervision staff, as well as the implementation of an automated loan tracking MIS will require significant investments that could potentially delay the institution's self-sufficiency.

#### Performance indicators

USD	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Assets	196,869	220,944	330,319	555,642	961,185
Growth	40.6%	12.6%	48.0%	75.1%	77.1%
Loan portfolio	54,216	103,480	169,317	412,180	659,970
Growth	169.6%	91.6%	62.0%	153.4%	63.9%
Outstanding deposits	-	-	-	16,067	143,423
Growth	-	-	-	-	813.7%
Active borrowers	1,501	3,286	4,610	7,002	10,811
Active savers	-	-	-	1,243	7,816
Staff	28	30	29	36	43
ROE	(35.6%)	(32.5%)	(22.4%)	(13.6%)	(4.7%)
ROA	(35.4%)	(32.2%)	(22.2%)	(13.2%)	(3.9%)
Liabilities / Equity	0.01x	0.01x	0.01x	0.03x	0.31x
Portfolio Yield	30.0%	21.1%	23.5%	24.3%	23.5%
Operating expense ratio	193.1%	82.4%	63.6%	46.2%	23.5%
PAR 31-365 *	0.9%	3.0%	3.9%	1.9%	3.6%
PAR > 365 *	0.1%	11.9%	9.9%	4.7%	3.3%
Write-off ratio	0.1%	0.2%	0.0%	0.0%	4.3%

\* From 2003 to 2006, the labels should thus be read PAR 31-120 and PAR>120 (cf. annexes for details).

## Microfinance sector

The Ethiopian microfinance sector is relatively young but has grown rapidly in recent years. Informal microfinance (including informal group-based credit associations) and NGO credit programs have existed for many years. In 1996 the Government introduced a legal framework intended to professionalize the industry and encourage sustainability through the Proclamation 40/1996. Although it had some limitations at inception, much progress has been made to improve it, such as the liberalization of interest rates on loans, the softening of loan caps (it was first capped at 5,000 ETB – 535 USD), the diversification of loan products, more complete reporting requirements and a penalty policy. In addition, the law specifically establishes a minimum capital requirement and endorses deposit mobilization, which is now a primary source of funds for the sector. In this context, MFIs have made impressive strides in their financial and operational performance with a focus on efficiency and sustainability. Nevertheless, the regulatory framework has still scope to improve especially in the quality of monitoring and supervision. Loan loss provisioning methods are not very conservative, accounting standards are not sufficiently monitored and inspections are infrequent.

As of December 2007, the 27 MFIs licensed by the NBE had a loan portfolio of 353 M USD, served approximately 1.8 million clients through more than 500 branches and sub-branches and accounted for 3% of the financial sector assets. However, the industry is heavily concentrated in three large MFIs affiliated to regional governments, which are among the largest ones in Africa. The remaining MFIs, with some exceptions, are linked to indigenous or international NGOs. Savings and Credit Cooperative Organizations (SACCOs) also play a large role in the provision of financial services. The approximately 700 SACCOs are usually urban employee-based cooperatives<sup>1</sup>.

Dec. 2007 M USD	Loan Portfolio	%	Number of borrowers	%	Savings Portfolio
DECSI	113.5	33.2%	425,172	23.9%	31.0
ACSI	108.8	31.9%	597,723	33.5%	60.5
OCSSCO	46.1	13.5%	263,971	14.8%	14.9
ADCSI	23.6	6.9%	79,421	4.5%	5.8
OMO	14.5	4.2%	120,277	6.8%	3.8
Wisdom	6.8	2.0%	48,185	2.7%	1.8
Eshet	3.7	1.1%	28,315	1.6%	0.5
PEACE	3.4	1.0%	19,471	1.1%	0.8
Wasasa	3.0	0.9%	30,749	1.7%	1.0
SFPI	2.9	0.9%	25,397	1.4%	1.3
Buusaa Gonofaa	2.3	0.7%	30,519	1.7%	0.5
Meklit	1.8	0.5%	12,728	0.7%	0.6
Gasha	1.5	0.5%	9,424	0.5%	0.5
AVFS	1.0	0.3%	9,267	0.5%	0.3
Harbu	0.6	0.2%	7,125	0.4%	0.3
<b>Metemamen</b>	<b>0.7</b>	<b>0.2%</b>	<b>10,841</b>	<b>0.6%</b>	<b>0.1</b>
11 other MFIs	7.2	2.1%	63,106	3.5%	2.2
<b>Total</b>	<b>341.4</b>	<b>100%</b>	<b>1,781,691</b>	<b>100%</b>	<b>125.9</b>

Source: AEMFI, data as of December 2007

<sup>1</sup> Short Study on Microfinance, Ethiopia. February 2003, Jennefer Sebstad.

Bilateral and multilateral donor agencies as well as international NGOs are active in the Ethiopian microfinance sector, offering funding and technical assistance. Donors include the World Bank, the EU, IFAD, ADB, UNDP and SIDA; and international NGOs include CARE, Catholic Relief Services, Save the Children, Terrafina and World Vision. In addition, the sector has been strongly supported by the Rural Financial Intermediation Program (RUFIP), financed by IFAD, ADB, Development Bank of Ethiopia and the Government of Ethiopia. The program includes a package of roughly 95 M USD broken down in various components of capacity building, grants, equity and credit funds for a period of 7 years. MFIs are currently applying for the last round of concessional loans. The industry benefits from a very dynamic national network organization, the Association of Ethiopian Microfinance Institutions (AEMFI), which serves as a channel for policy dialogue and a driver of industry transparency.

In general, MFIs serve both urban and rural areas. Although the outreach of the government-supported MFIs is broader, NGO MFIs and new WOCCU-supported rural SACCOs have made efforts to increase rural outreach. The range of products offered by regulated MFIs is limited, but some MFIs (mostly government-supported) have begun to offer products other than credit and savings, including remittance, pension and leasing products. Government-supported MFIs also offer agricultural input supply loans using government credit lines, which have been criticized by international donor and NGO partners as they distort the market.

Despite the rapid growth of the industry and the large scale of the dominant MFIs, there is still a huge gap between supply and demand. As such, there has been no sense of urgency to set up a credit bureau. Access to finance is still primarily through informal means. Current estimates indicate that microfinance providers meet around 15% of demand, and rural areas (84% of the population) remain particularly underserved. Other challenges include the ongoing negative reliance on and influence of the Government on the largest MFIs and the heavy concentration of the industry in these institutions. The remaining market is fragmented among smaller and weaker institutions. Additionally, the lack of the financial market liberalization<sup>2</sup> has limited the growth of private MFIs. The potential entrance of Ethiopia in the World Trade Organization (WTO) is expected to solve this problem. The regulation is expected to evolve as soon as a new proclamation could be enacted in July 2008. It could potentially include new requirements for MFIs, such as reaching financial self sufficiency within a limited number of years and paying income tax.

<sup>2</sup> Financial foreign investment into banks or MFIs is prohibited by proclamation No. 84/1994.

## Political & economic environment

For the fourth straight year Ethiopia achieved strong growth in 2007, up nearly 10 per cent. The agricultural sector, representing 47 per cent of GDP in 2006/07, continued to underpin the economic activity, a broader base of growth notwithstanding. And the economy should benefit from record harvests again in 2007/08, which will be good for the food industry and exports. In this context, the tighter monetary policy adopted in 2007 should help stem inflation that has been above 10 per cent since 2005, stoked by household consumption and the increasing cost of credit.

A narrow tax base continues to undermine public finances. With international aid only covering part of its financing needs, the government has turned increasingly to domestic borrowing. External accounts have also remained deep in deficit with growth in the value and volume of coffee and gold exports not sufficing to offset rising capital goods imports and the increasing cost of oil. International long-term loans and foreign direct investment have, however, been covering external financing needs. Ethiopia has thus been able to accumulate foreign exchange reserves albeit to an insufficient extent. Debt relief granted under the HIPC and MDRI programmes, respectively in 2004 and 2006, substantially reduced a debt burden that had become unsustainable in the medium-term.

Despite notable efforts to foster national reconciliation, the government's popularity has slackened since the sharp increase in basic foodstuff prices. It has moreover been contending with the insurrection of a jumble of armed groups, linked by ethnic and religious affinities, particularly in Ogaden, in the eastern part of the country. The still-unsettled border-demarcation issue with Eritrea could lead to renewed hostilities in a context of re-armament of the protagonists and of regional tensions. The Ethiopian army's involvement in Somalia exacerbates furthermore the risk of regionalizing the conflicts.

COFACE Country Rating: C - A very uncertain political and economic outlook and a business environment with many troublesome weaknesses can have a significant impact on corporate payment behaviour. Corporate default probability is high.

COFACE Business Climate Rating: D - The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The legal system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Intercompany transactions can thus be very difficult to manage in this highly risky environment.

USD millions	2005	2006	2007(e)	2008(f)
Economic growth (%)	10.5	9.6	9.4	8.5
Inflation (%)	6.8	12.3	14	12.6
Public sector balance (%GDP)	-9.4	-8.5	-10.3	-10
Exports	847	1,000	1,099	1,246
Imports	3,633	4,593	4,990	5,602
Trade balance	-2,786	-3,593	-3,891	-4,356
Current account balance (%GDP)	-13.4	-16.9	-13.1	-11.5
Foreign debt (%GDP)	52.9	44.9	13.1	14.9
Debt service (%G&S exports)	5.8	5.1	1.4	1.2
Foreign currency reserves (in months of imports)	3.5	2.5	2.2	2.4

Source: COFACE's Country Risk Rating Guidebook 2007. (e) estimates (f) forecasts.

Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

## Institutional presentation

### Legal form, supervision and audit

Metemamen MFI S.C. was established in February 2002 by the US-based NGO Catholic Relief Services (CRS) in order to take over the activities of its Women Savings and Credit (WSC) program running since 1984 and following a proclamation by the Ethiopian Government which banned NGOs from extending financial outreach services. Metemamen is registered as a Share Company under the terms of Proclamation 40/1996 with total subscribed and paid up capital of 400,000 ETB and 200,000 ETB respectively. The supervisory body of Metemamen is the National Bank of Ethiopia (NBE) through its Micro-Finance Supervision Department. The only NBE supervision visit of Metemamen was performed recently in April 2008; conclusions of the report have not been published yet.

Metemamen was audited by the local audit companies Alia Abdulahi & Co over the last two financial years and Degefa Lemessa & Co previously. The accounts were certified with unqualified opinions since inception.

### Ownership

Metemamen is owned by the Ethiopian Catholic Church Social and Development Commission (ECC-SADCO) holding 60% of the shares<sup>3</sup> and by eight other members of the ECC, all represented in the yearly General Assembly held yearly. The 5-member Board has been chaired since inception by Abba Tsegaye Keneni, former general secretary of the ECC. The other members are drawn from ECC-SADCO as well. In an effort to develop a more diversified

<sup>3</sup> Although 20% is the maximum stake that one shareholder can have in an MFI, the NBE has until now been flexible in the application of this rule.

BOD, Metemamen has been looking for new members with private sector and finance backgrounds. Being the historic founder of Metemamen, CRS is represented at the BOD by two non-voting members. An additional layer of CRS supervision is provided at a higher level with quarterly reports being sent to the CRS regional office in Nairobi.

## Donations

Metemamen is mainly funded by CRS donated equity used both to compensate for yearly net losses and to finance growth. Donations since 2002 amount to 9.5 M ETB (1 M USD) and originate from CRS (9.4 M ETB) and the Caritas network and were mostly used for loan capital. New grants were signed in Dec. 2007 with ICCO/Terrafina and SwissHand, respectively for 100,000 EUR and 22,000 USD. Their first portions were disbursed in 2008.

## Funding composition

Metemamen is funded at 76% by equity and 15% by compulsory savings. The remaining 9% is the first portion of the ICCO/Terrafina and SwissHand grant funds which were registered as accounts payable.

## Management team

The management team includes the General Manager (GM), the Operational Manager (OM), the Finance Manager (FM), the MIS coordinator (MC) and the HR & Administration Manager (HRAM). The GM, Abebe Kebede, was recruited by CRS and has led the institution since inception. He held several management positions for the Addis Ababa municipality, the Christian Relief and Development Association (CRDA) and CARE Ethiopia. His microfinance knowledge is drawn from on-the-job experience and is complemented by microfinance trainings (e.g. CGAP, AEMFI). He holds a Bachelor degree in Economics from the Addis Ababa University and is currently following an MBA through distance learning with Century University (USA).

## Organization

Metemamen's headquarters centralizes the management team, and its network is composed of 5 branches and 13 sub-branches. While branches are staffed by Loan Supervisors<sup>4</sup> (LS), a group of Loan Officers (LO) and one Financial and Administrative Officer (FAO), sub-branches are only staffed with LOs. LOs are responsible for conducting the marketing activities, evaluating the potential clients, giving the pre-credit sessions, presenting the loan for approval, following-up the clients and collecting the installments. LS are in charge with checking the veracity of the loan applications, disbursing the loan and overseeing the loan collection

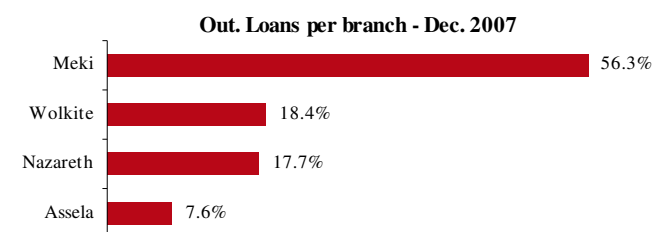
<sup>4</sup> Each LS can oversee up to 7 LOs.

process. FAOs are responsible for administrative activities and for performing the necessary checks on cash transactions handled by LOs and LS. Credit approval has two stages: the first one is held at branch level and involves the LO, LS and FAO while the second one is held at HQ and involves the GM, OM and MC who review all loans before disbursement.

Metemamen's MIS is a combination of both manual and Excel systems, the latter being mainly centralized at the headquarters. On a monthly basis, the LS and LO provide the MC and OM with manually processed portfolio data while the FAO provides the Finance Department with Excel processed accounting data. Using Excel sheets, the MC and FM compute the resulting portfolio and financial reports respectively, later disseminated to the management team. Specific reports for interested stakeholders (BOD, CRS, funders) and NBE are produced quarterly by the GM.

## Market penetration

Metemamen's headquarters are located in Addis Ababa and its branch and sub-branch network is mainly spread in a 250 km radius in the Oromia Regional State. It also recently entered the SNNPR region<sup>5</sup>. Its network is composed of 5 branches and 13 affiliated sub-branches. Two sub-branches are currently under observation and are only dedicated to recovery activities because of serious delinquency problems<sup>6</sup>. The institution mainly targets people (especially women) living in semi-urban and (since mid-2006) surrounding rural areas.



Note: the 5<sup>th</sup> branch opened in Arsi Negele in 2008.

## Products and services

Metemamen offers both solidarity group and village banking loans through five loan products.

- Hibret was the initial and sole loan product before 2006. Based on the village banking methodology, it is granted to groups of 10 to 50 clients mainly involved in petty trade. The maximum size for the first cycle is 1,000 ETB (107 USD) and the EIR is 31.5% or 51.3% when including the cost of savings.
- Also based on the village banking methodology, Eshet is granted to groups of 10 to 50 clients involved in agricultural activities. The maximum size for the first

<sup>5</sup> Southern Nations, Nationalities, and People's Region

<sup>6</sup> Metemamen has not decided yet whether the sub-branches will resume their lending activities.

cycle is 1,200 ETB (128 USD) and the EIR is 18% or 33% when including the cost of savings.

- Enideg is granted to solidarity groups of 3 to 5 clients involved mainly in petty trade. The maximum size for the first cycle is 1,000 ETB (107 USD) and the EIR is 38.7% or 58.8% when including the cost of savings.
- Siket is granted to solidarity groups of 3 to 5 clients involved in larger business activities. The maximum loan size for the first cycle is 2,000 ETB (214 USD) and the EIR is 41.1% or 61.3% when including the cost of savings.
- Qirs is granted to solidarity groups of 3 to 5 salaried employees for consumption. A letter from the employer that indicates their labor relation and salary is required as collateral. The term is one year and the flat monthly interest rate is 1.2% and the EIR is 30.8% or 47.8% when including the cost of savings.

All loans, except Qirs, require an 8% pre-loan savings for the first cycle and a 10% compulsory savings collected in equal monthly installments during the loan's life. Clients are required to pay service charges and registration fees for their first Enideg, Siket or Qirs loan. There is no minimum loan size and clients might get loans up to 5,000 ETB after several cycles. The flat monthly interest rate is 1.5% and term ranges from 3 to 10 months except for Qirs (12 months). Repayments can be made bi-weekly, monthly, or at the end of the loan term (for Eshet). The average effective interest rate (EIR) is of 32.5%.

## Networks

Metemamen is affiliated to the Catholic Relief Services (CRS) and Caritas networks. It is also a member of the Association of Ethiopian Microfinance Institutions (AEMFI) and the Microfinance African Institutions Network (MAIN).

## ■ Governance

Governance is rated “d”

### Decision making

Although being committed to Metemamen's social mission, the BOD has not been able to provide for an adequate technical supervision of the institution, which is mainly due to its lack of expertise in finance, banking or microfinance. Aware of that, Metemamen is exploring options to diversify its shareholder structure in the short-term with Ethiopian businessmen who have expressed their adherence to the institution's social mission. The BOD is aware of strategic issues such as fund raising but does not monitor the goals set in the business plan to reach profitability. Bringing new skills to the BOD could ease its communication with the GM and understanding of key-issues. The reporting to the BOD

and CRS representatives has nevertheless been improving with well-kept minutes of all quarterly BOD meetings (including follow-up of previously made decisions). However, the quality of quarterly and annual financial statements is affected by the provision of some important incorrect efficiency and profitability ratios, their related insufficient analysis and the lack of comparison with budget.

As the historic founder of the institution but not the owner<sup>7</sup>, CRS has remained involved in the technical supervision of the institution. In addition to CRS country representatives sitting at the BOD as non-voting members, the CRS regional representative in Nairobi supervises the institution through the review of quarterly reports and annual visits. CRS involvement has had a positive impact on the institution development, especially through the sharing of good practices. Metemamen is currently engaged in the review of the BOD manual, which is used by other CRS affiliates and highlights the BOD specific duties and expected areas of expertise. This is particularly crucial given CRS' 2010 disengagement plan from microfinance, meaning for Metemamen continued access to CRS network and capacity building opportunities, but much lighter supervision.

## Planning

Although the 2007-2011 Business Plan (BP) rightly identifies and prioritizes some projects needed to improve Metemamen's performance to reach profitability and is clearly articulated in strategic, operational and financial sections, most of the projects have not been carried out and main challenges have not been sufficiently addressed yet.

- The evaluation of the current performance is not strict enough, particularly regarding Metemamen's supervision of its operational staff (to ensure portfolio quality and strengthen internal controls), market position, and profitability & efficiency (no use of benchmarks and no cost control).
- Financial targets are not realistic which has affected the institution capacity to precisely identify when profitability could be reached. For 2007, both income and expenses were largely overstated (financial income by 33% and operating expenses by 49%), yet resulting in a net loss from operations only 17% above projections.
- Metemamen has an average execution capacity as most necessary projects have not been timely finalized or started (e.g. dissemination of updated manual to LOs, automated MIS, introduction of voluntary savings and individual loan products, training of the management team).

<sup>7</sup> The Ethiopian legislation forbids foreigner to take equity stakes in MFIs (cf. Microfinance Sector).

Metemamen is aware of these limitations and is currently reviewing its BP, starting with the finalization of the 2008 planning documents. The 2007 level of performance as well as the external auditor's recommendations to strengthen operational staff have been adequately taken into account to build operational forecasts. LOs and LS have been involved in the definition of their growth objectives, allowing for detailed targets. However, there still lacks a narrative 2008 Operational Plan compiling and linking operational projections with the HR action plan, the 2008 estimated funding gap and the 2008 Budget. Overall, additional training is needed to strengthen Metemamen planning capacity, notably to ensure a better use of Microfin. In 2007, there was no regular tracking of the budget included in the BP and efforts will have to be made in the monitoring of the 2008 budget as the institution has not put in place the related process yet.

Beyond reaching profitability (which the institution expects this year thanks to economies of scale, cf. section "E"), Metemamen ought to include specific objectives in its future updated BP to ensure that grant covenants (e.g. reaching 18,000 clients and 100% OSS in Dec. 2008, keeping PAR 30 below 7%) are timely respected and that challenges arising with the upcoming law are overcome (cf. Microfinance Sector).

## Management team

Metemamen's management team, affected by its turnover over the last years, has the basic skills for operational management. It is adapted to an institution of the size of Metemamen and was very recently strengthened by the arrival of the MIS coordinator. It remains nevertheless quite new and most managers have significant room to grow in their positions. The OM took his position last January after several promotions within Metemamen, and the FM began dealing with budgeting and cash flow projections only recently. Besides, the HRAM allocated a large part of his time to administrative and logistics issues before 2008. Strategic planning and fund raising remain within the GM scope of work.

The absence of middle management to back the OM in its supervision tasks and of Internal Audit to add an additional layer of control (cf. section "R") makes it difficult for the managers to adequately supervise the operations. The time-consuming manual information system further stretches their availability and limits the time to execute other projects needed to improve Metemamen's performance.

In this context and given that there is no succession plan, the key-person risk on the GM is particularly important even though this situation is difficult to avoid at this level of institutional development. The small size of the management

team nevertheless facilitates their communication and teamwork and allows collective decision-making on key issues. Management meetings, though well-formalized, are only held every couple of months.

## Human resource management

Personnel administration is adequately performed as, since its inception two years ago, the HRA department mainly focused on recruitment and administrative matters. Metemamen has taken a good step towards a more professional HR management with the recent update of the personnel manual which will reportedly be soon disseminated to staff in Amharic. On the other side, some HR management mechanisms to ensure a good level of staff qualification and motivation have not been properly or fully implemented yet.

- Recruitment procedures are well formalized and comprise all required steps.
- Evaluations are performed frequently enough (twice a year), but ought to be more specific by systematically identifying staff weaknesses and areas of improvement in a narrative form.
- For operational staff, trainings are insufficient as they mainly consist of the induction process (manual is not finalized yet), the HQ supervision visits and the training on new policies. Aware of that, the HRA department has included various refresher trainings in the 2008 training action plan. The latter should be more specific, detailing available training resources and highlighting priorities.
- New policies to enhance staff motivation and commitment have recently been initiated though unequally implemented. The promotion and salary increment system has been effective for 2007 whereas the incentive system was used only during the June-Sept. 2007 quarter.

Staff retention has improved over time as turnover successfully decreased from high levels (16% in 2003 and 20.3% in 2005) to a moderate 7.6% in 2007. Willing to remain a competitive employer in a context of increasing inflation, Metemamen readjusted its staff remuneration level and thus kept pace with the general increase seen in the industry (however at a lower rate than the estimated inflation<sup>8</sup>). Staff morale nevertheless ought to be enhanced by the development of the aforementioned HR management mechanisms and much closer supervision.

<sup>8</sup> For 2007, inflation reached 17.5% according to the National Bank of Ethiopia and 14% according to the COFACE.

## ■ Information

Information is rated “d”

The combined Excel and manual MIS does not allow for an efficient follow-up of Metemamen’s activities. The information quality has been affected by a time-consuming and rigid reporting process that does not ensure data reliability. The important time allocated by both the management team and the field staff to the manual data processing and checks has undermined Metemamen’s capacity to develop its information system. The institution has nonetheless been able to timely respond to quarterly reporting requests from the main stakeholders (BOD, CRS, and NBE).

Data security is not well guaranteed yet, although some basic systems have been initiated. Risks particularly arise as 1) back-ups are often done only on a monthly basis instead of weekly as planned, 2) hardware (UPS) to prevent data loss in case of power cut are not always running, 3) there is no double custody of information with off-site storage, 4) passwords are not implemented for all files/PCs/users or are not changed regularly (there is no policy), and 5) it is not possible to trace changes made to excel sheets. On the other side, original loan contracts and collaterals for Qirs are properly kept at HQ with sole access to the management team.

The MIS provides basic accounting and portfolio information for monitoring, though somewhat slowly (around 20 days after the end of the month) which is only available for the management team. Monthly information remains incomplete (income statement, ageing analysis of the portfolio) but is complemented by additional (though still suboptimal) reports on a quarterly basis, (e.g. balance sheet, portfolio by products, simple financial analysis). The lack of dissemination of the portfolio reports throughout the branches has affected field staff capacity to properly monitor their clients. Although the institution has recently improved in data collection with adequately detailed formats, the collected information has not been used to its maximum potential yet. Significant indicators and reports are not being produced as information needs have not been properly identified.

Metemamen is considering changing its MIS to a new automated one in the short-term and has in this regard recently hired an MIS coordinator. However, there is neither an operational nor a financial plan yet. An automated MIS could potentially streamline the information generation process and improve the timeliness of reports, provided that adequate investment for staff training, better equipment and security systems are done.

## ■ Risk Management

Risk Management is rated “d”

### Procedures and internal controls

Despite some recent improvements, current policies and procedures do not demonstrate a thorough understanding of risks faced by microfinance institutions, which has eventually resulted in a lax internal control system. Positive changes include a better segregation of tasks and limitations of powers for both the lending activity and cash management. Yet, staff compliance is uneven throughout the branches due to the insufficient supervision and lack of updated manuals, especially the credit manual. Increased supervision is urgently needed along with more training for personnel involved in this task. Formalization of new procedures is also required to complement the necessary (but not sufficient) training sessions provided to field staff. Besides, there still lacks an active process for identifying all the risks arising when using a manual information system and in this way, they have not been properly mitigated through adequate internal controls.

Basic mechanisms to ensure data reliability, such as reconciling the data collected from different sources and strengthening the checks performed on data accuracy, have been initiated but are not systematically implemented. This situation has resulted in a reporting process that does not guarantee data reliability as miscalculations are not easily spotted, and the new procedures (cross-checks), lacking formalization, are ill-implemented.

Cash security is still inadequate despite improvements. Risks are better mitigated by the new loan disbursement and collection procedures introducing a good segregation of tasks among LS, LO and FAO. However, cash security at the branch and during transit is suboptimal: 1) disbursements ought to be made more discretely; 2) access to safes requires the sole intervention of the cashier (though the cash kept is limited); and 3) there is no provision or insurance for cash transit.

### Internal audit

There is presently no actual Internal Audit (IA) department within the institution. The FM has performed some IA tasks in a very partial way given her important workload. Metemamen nevertheless plans to recruit an Internal Auditor (a job description has already been made) after the expected BOD approval. Therefore, there is currently no effective coverage of all risks that the institution is facing, particularly the ones arising when using a manual information system.

Internal audit activities, performed by the three-person Financial department team, are mainly focused on credit risk

and cash management (leaving aside other risks), are not performed frequently enough (planned field visits for 2008 are also insufficient) and are under the GM authority. Besides, there are no field visits' reports comprising, for example, a categorization of findings by risks, their prioritization, and a follow-up of previous recommendations.

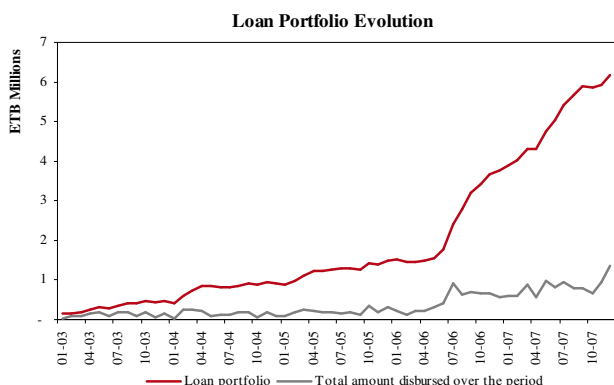
External audits, the CRS assessment, and the recent NBE inspection mitigate partially the lack of Internal Audit. Management letters provided by external auditors are a basic source for improving internal controls. Although their recommendations have been unevenly executed, the institution is considering implementing their latest ones (i.e. adding cashiers and branch managers). Metemamen has also been assessed by an external CRS consultant team (MAGI) whose recommendations have been taken into account.

## ■ Activities

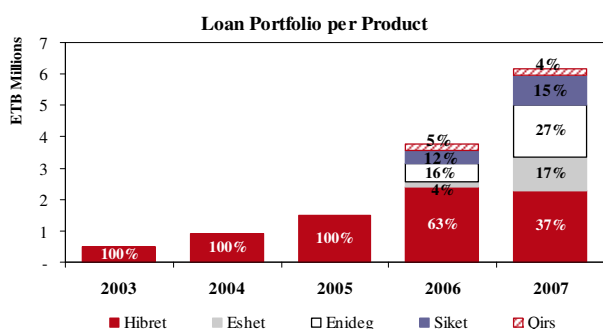
Activities: products and services is rated “d”

### Evolution and composition of the portfolio

The loan portfolio's annual growth rate has always been above 60% and reached its maximum in 2006 around 150%, due to the introduction of four new products.



Metemamen's loan portfolio composition quickly evolved from a single product offering to a more diversified and adapted one. As the initial Hibret loan granted through the village banking methodology was not successful, four new loan products were introduced following the market research conducted in 2006. As of March 2008, each one of the Hibret and Eshet product represented around 30% of the loan portfolio, closely followed by the Enideg loan (24%).



## Loan portfolio management

Metemamen's inadequate loan portfolio management has eventually resulted in poor portfolio quality and in deviations from its methodology.

- Metemamen is currently refining its credit methodology for all its products in order to both meet the clients' needs and improve the credit decision process. Significant progress has been made regarding client selection and evaluation which has ultimately led to well-informed credit decisions. However, the implementation of the new credit procedures is not satisfactory. Staff compliance across the branches is uneven, as supervision is not adequate and trainings have not been complemented by the dissemination of an updated credit manual (the latter will reportedly be updated in mid-08).
- Much progress needs to be done in terms of delinquency management since there is no formal follow-up policy for late clients and portfolio monitoring reports at branch level are not adequate. Some developments have nevertheless been made with the use of the repayments' monitoring reports (by client and by group), thought they are not produced in all branches yet.

LS and LOs' capacities to adequately perform their job is hampered by the lack of a regular training, updated manuals and, for the former, clear supervision procedures. Their performance ought to be improved by more frequent visits from the HQ managers. The new tools for performance evaluation and incentive scheme, still incipient, have already proved useful in the supervision of the branch staff.

## Credit risk

Despite a positive trend, Metemamen's portfolio quality (PAR 30 of 6.9% as of Dec.07) remains below African standards (6.2%<sup>9</sup>) and the average of Ethiopian MFIs (5% as of Dec.06). The former credit methodology, weak internal control system and supervision have been at the root of this poor performance. As of Dec. 2007, it is mainly explained by the bad portfolio quality of the Hibret (PAR 30 of 15.4%<sup>10</sup>) and Qirs (PAR 30 of 9.7%) loans. On the other side, the new products have shown a much better performance with PAR 30 below 2%. Rescheduling mechanisms are currently not allowed, but will reportedly be in case of natural disasters.

The write-off ratio stood at 4.3% as of Dec. 2007. Metemamen's yearly write-off policy has not been clearly defined and does not comply with international standards: very few loans were written off during the previous years (none in 2005 and 2006) and the portfolio at risk over one

<sup>9</sup> African Small non FSS peer group, median, MBB 2006.

<sup>10</sup> Almost 60% of the Hibret PAR is over one year and Hibret loans represent 65.6% of the PAR 30.

year (representing 3.3% as of Dec.07<sup>11</sup>) has not been written off. Recovery activities are not satisfactory as only 2% of the written-off amount was recovered as of March 08. It is noted that the collection procedure is hampered by the limited efficiency of the courts<sup>12</sup>.

There is no formal policy to mitigate and monitor the concentration risk on the clients' sectors of activity. As the follow-up reports do not include a portfolio breakdown by activities, the concentration risk can only be monitored by product, branch and sub branch. The successful introduction of the Eshet loan (30% of the portfolio in Mar. 08) has slightly diversified the loan portfolio from petty trade to agriculture, a riskier sector.

### Credit risk coverage

Metemamen's credit risk coverage has loosened up over the years as the credit risk coverage steadily decreased to 62.1% of PAR 30 as of Dec. 2007 from 92.6% as of Dec. 2004. This is below international best practices of 90%-100%. The provisioning policy complies with the NBE rules but remains inadequate as Metemamen's PAR is concentrated between 120 and 180 days and as such covered at 25% only<sup>13</sup>. The collection of compulsory savings somewhat mitigates this insufficient provisioning. Despite the frequency of climate and natural disasters (such as drought or floods), there are no provision or insurance for this purpose.

Most of the guarantees are group collaterals which effectiveness has not been satisfactory. On the other side, the product Qirs is adequately covered (systematically since the end of 2007) by a letter of the client's employer that entitles Metemamen to collect the amount due directly from the payroll in case of non payment.

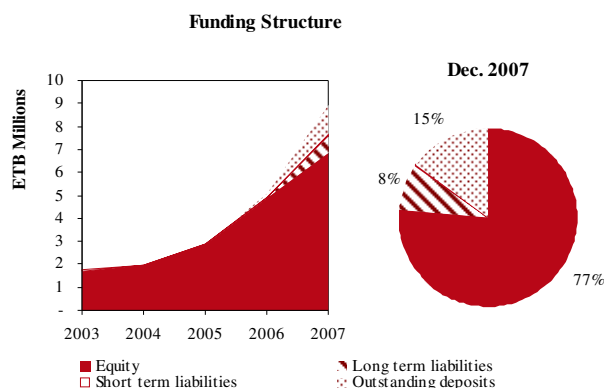
### ■ Funding and liquidity

Funding and liquidity is rated "d"

#### Capitalization and funding strategy

Diversifying its funding sources is one of the main challenges of the institution given the CRS 2010 microfinance disengagement plan from microfinance (meaning no more funding from 2010 for Metemamen). The institution has historically been relying on CRS to fund its growth and has not been particularly active at inception to

benefit from the RUFIP loans. As of Dec. 2007, Metemamen had no recourse to debt (its Capital Adequacy stood at 107.3%). Metemamen ought to develop a more active funding strategy and enhance its negotiation skills (some profitable MFIs already started to deal with local commercial banks and international funders). In addition, funding needs for the following years (from 2009) still need to be updated as those included in the BP relied on overstated financial projections.



Some initiatives have nevertheless been taken in order to secure new funds as new grants were obtained from ICCO/Terrafina and SwissHand in Dec. 2007. However, this only represents 19% (1.2 METB – 128 K USD) of the funding needs identified for 2008 (6.4 METB – 685 K USD). Metemamen still has to secure other sources (up to 2.6 METB – 278 K USD) to complement the expected 1.8 METB (193 K USD) of compulsory savings and 0.7 METB (75 K USD) of CRS donated equity. This will notably depend on the institution capacity to timely develop a voluntary savings product, and to be selected for the last round of RUFIP funding. In this regard, Metemamen needs to, among other criteria, reach Operational Self Sufficiency and decrease its PAR 30 below 5% before the end of the year, in addition to clearly communicating its funding needs. Obtaining RUFIP funding is expected to be very challenging given that other better-positioned MFIs will apply as well. In such a context, Metemamen has also been trying to obtain grants from European Catholic NGOs, but still unsuccessfully.

### Liquidity risk

Metemamen liquidity management has so far been very basic as the Finance department mainly focused on the production of reliable accounting information and, to a lesser extent, on internal controls. The absence of cash flow projections in addition to an inefficient distribution and use of resources (due to unsuitable contracts with local banks<sup>14</sup>)

<sup>11</sup> From 2003 to 2006, the PAR 360 over one year was not available. It is included in the PAR 120 (cf. performance indicators).

<sup>12</sup> In the Oromia Regional State, local courts are closed from June to September. The court process might last from 6 to 12 months.

<sup>13</sup> The NBE requires MFIs to adopt the following provisioning policy: PAR 91-180 covered at 25%, PAR 181-365 at 50% and PAR 365 at 100%.

<sup>14</sup> Reimbursements collected during the month are blocked on so-called "cash accounts" at the branch level and cannot be used for disbursements before being transferred to Metemamen main cash account at the end of the month.

have resulted in inadequate liquidity levels, causing liquidity shortages during the month (LAR most often decreases below 1%) and excess at the end of the month (LAR was in average over 10% at the end of each month in 2007, allowing Metemamen to comply with NBE rules). Liquidity risk remains thus limited as operating expenses are very comfortably covered by liquidities at the end of the month (ratio of 17.3 in Dec. 2007). Cash flow projections will reportedly be introduced based on the detailed 2008 disbursement plan. This step forward in Metemamen liquidity management is necessary as the institution is contemplating to introduce a voluntary savings product. Even though the simple funding structure (mainly made of donated equity and compulsory savings) has so far naturally reduced the risk of not being able to renew or replace maturing liabilities, Metemamen ought to develop specific tools to monitor its maturity structure.

### Market risk

Metemamen is practically not exposed to market risks because its current funding structure remains quite simple. There is no foreign exchange risk as all assets and liabilities are in ETB. Regarding the interest rate risk, it is inexistent as Metemamen has not contracted any loan yet.

### ■ Efficiency and Profitability

Efficiency and Profitability is rated “d”

#### Profitability analysis

Despite significant strides since inception in 2002, Metemamen has not broken even yet. ROA stood at (3.9%) in 2007 from (13.2%) the previous year. As one of the youngest MFI in Ethiopia, Metemamen had in Dec. 2006 the lowest adjusted ROA level – (20%) – while its peers yielded an average of (8%)<sup>15</sup> and the median for African peers stood at (9.7%)<sup>16</sup>. This negative level of profitability is notably due to a historically high operating expense ratio (in 2006, the highest among Ethiopian peers according to AEMFI) constantly exceeding a moderate portfolio yield (23.5%) affected by a high (though improving) portfolio at risk.

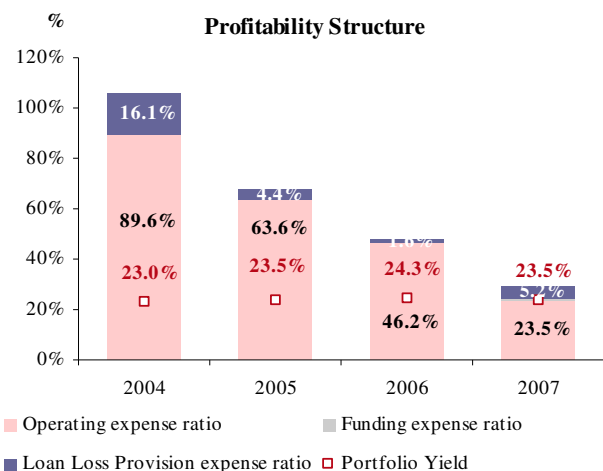
Metemamen’s portfolio yield was 23.5% as of Dec. 2007, nine points lower than its estimated effective interest rate of 32.5% (one of the highest of the market). This important gap is notably explained by a historically high PAR 30 still at 6.9% as of Dec. 2007.

<sup>15</sup> Ratios calculated by AEMFI based on self-reported data from MFIs. Metemamen is classified within the small peer group. [Ethiopian Microfinance Institutions Performance Analysis report](#); Tsegaye Anebo, AEMFI, March 2008.

<sup>16</sup> African Small non FSS peer group, MBB 2006.

In spite of the refinement of its product offering in 2006, Metemamen enjoys an average revenue quality since its competitors offer more flexible products, often at cheaper rates, particularly the bigger MFIs (e.g. PEACE, Wisdom) and the subsidized ones (OCSCCO). Aware of this situation, Metemamen will reportedly increase its loan sizes and terms in June 2008. However, its capacity to adapt its pricing is very limited as the institution is not profitable yet. More pressure on interest rates is however not expected given the high level of inflation in the country. In addition, its advantage of disbursing loans quickly has been affected by frequent liquidity shortages. As the Ethiopian market remains largely underserved, less competitive MFIs like Metemamen have somewhat been preserved.

The operating expense ratio has significantly improved in 2007 (decreasing to 23.5% from 46.2% in Dec. 06) but rather results from natural economies of scale and the increase in the average loan size (to 61 USD in Dec. 2007 from 38 USD in Dec. 2003), than from an active and adequate cost control culture (expenses have so far not been monitored with a budget). Besides, the improving trend of the efficiency ratios (e.g. staff productivity increased to 264 borrowers per employee in Dec. 2007) that contributed to the decrease of the operating expense ratio partly results from a current under-investment in the supervision staff.



Despite an improving trend, Metemamen needs to further improve its resource optimization as in Dec. 2007 only 66% of its assets were invested in the loan portfolio (from 40% in Dec. 2004), which is due to an inefficient pooling of resources (cf. Liquidity risk).

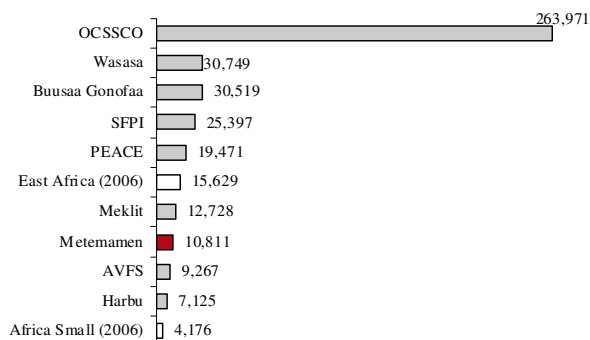
The profitability outlook of Metemamen is stable. Further economies of scale are expected but will be hindered by the availability of funding. Moreover, investments needed to improve the current MIS and to strengthen risk management as well as staff supervision could potentially delay the time when Metemamen breaks even.

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

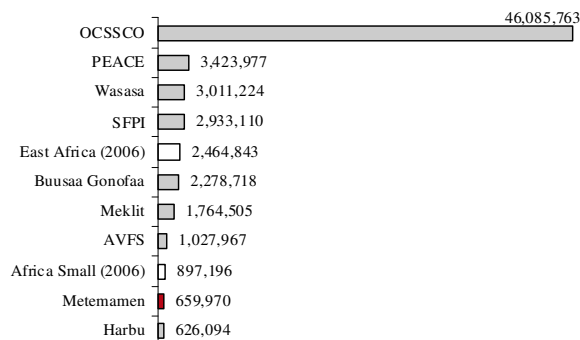
## Benchmarking

Data in USD, unless otherwise stated

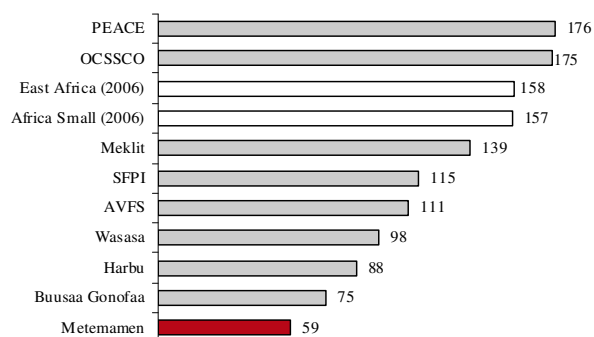
Active borrowers (2007)



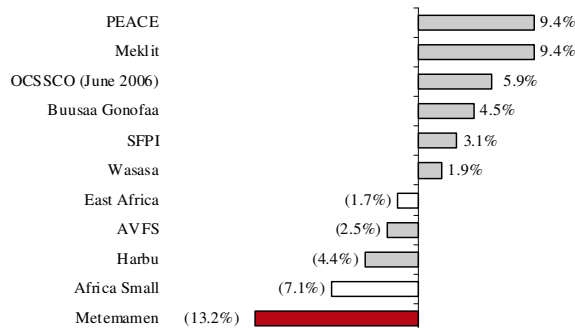
Loan portfolio (2007)



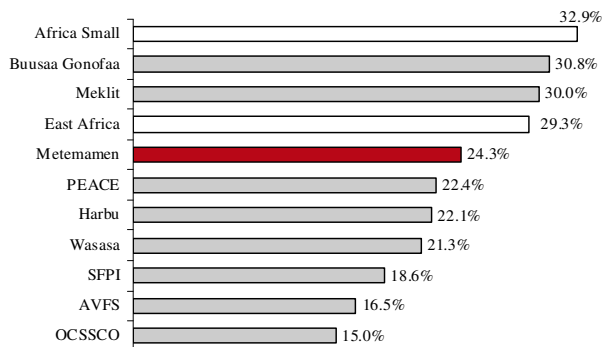
Average outstanding loan per client (2007)



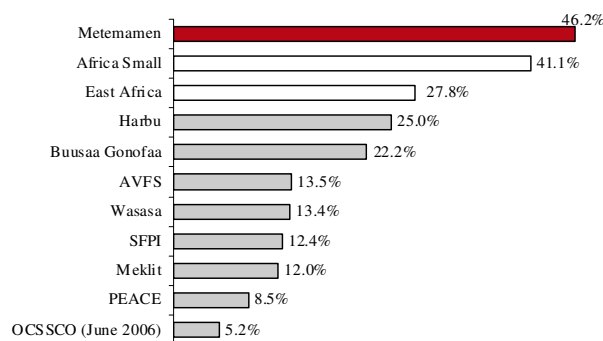
ROA (2006)



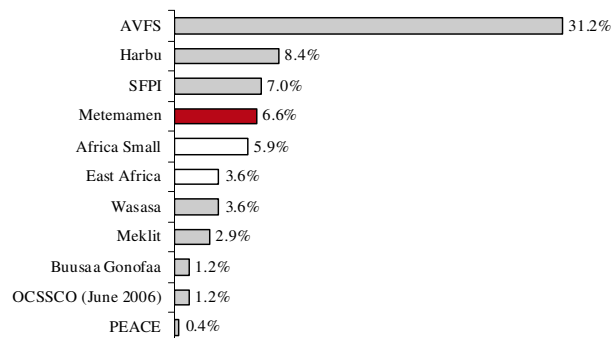
Portfolio Yield (2006)



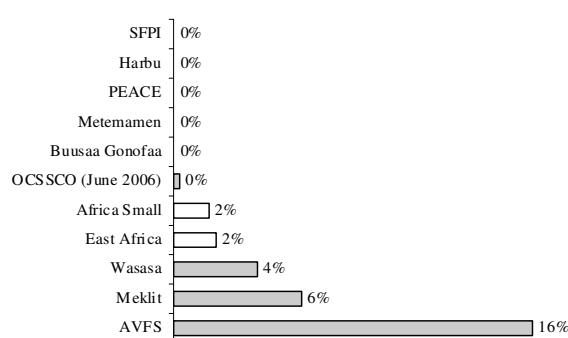
Operating expense ratio (2006)



PAR 30 (2006)



Write-off ratio (2006)



Source: 2007 data: Metemamen, Wasasa (Planet Rating), other MFIs (AEMFI). AEMFI's detailed 2007 data is not yet available.

2006 data: AVFS, Buusaa Gonofaa, Harbu, Metemamen, PEACE, SFPI, Wasasa (Planet Rating), OCSSCO and Meklit (AEMFI & the Mix Market)

African benchmarks: MBB 2006 benchmarks, Median.

## ■ Performance indicators

Data in USD, unless otherwise stated

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
<b>Loan Portfolio</b>					
<b>Loan portfolio evolution</b>					
Loan portfolio	54,216	103,480	169,317	412,180	659,970
Loan portfolio (ETB)	478,297	916,322	1,484,399	3,762,011	6,165,634
Evolution	169.6%	91.6%	62.0%	153.4%	63.9%
Average outstanding loan portfolio	35,916	89,001	138,729	249,437	535,746
Active borrowers	1,501	3,286	4,610	7,002	10,811
Evolution	N/A	118.9%	40.3%	51.9%	54.4%
Average outstanding loan per client	36	31	37	59	61
% of GDP per capita	32.0%	24.2%	23.9%	34.9%	30.0%
Average amount disbursed per loan	66	71	72	108	151
% of GDP per capita	58.2%	54.3%	46.8%	63.9%	74.0%
<b>Portfolio quality</b>					
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365 <sup>1</sup>	0.9%	3.0%	3.9%	1.9%	3.6%
PAR > 365 <sup>1</sup>	0.1%	11.9%	9.9%	4.7%	3.3%
Write-off ratio	0.1%	0.2%	0.0%	0.0%	4.3%
<b>Credit risk coverage</b>					
Risk coverage ratio (PAR 30)	201.4%	92.6%	87.7%	87.7%	62.1%
PAR 31 net of loan loss provision / Equity	(0.3%)	0.5%	0.9%	0.6%	2.4%
<b>Savings</b>					
Outstanding deposits	-	-	-	16,067	143,423
Outstanding deposits (ETB)	-	-	-	146,642	1,339,898
Evolution	-	-	-	-	813.7%
Mandatory savings (%)	N/A	N/A	N/A	100.0%	100.0%
Voluntary savings (%)	N/A	N/A	N/A	0.0%	0.0%
Active savers	-	-	-	1,243	7,816
Evolution	-	-	-	-	528.8%
Average outstanding deposit per saver	-	-	-	13	18
Total number of staff	28	30	29	36	43
% Credit officers	42.9%	46.7%	51.7%	58.3%	55.8%
Turnover	16.0%	13.8%	20.3%	15.4%	7.6%
<b>Profitability analysis</b>					
ROE	(35.6%)	(32.5%)	(22.4%)	(13.6%)	(4.7%)
Liabilities / Equity	0.01x	0.01x	0.0x	0.0x	0.3x
Capital adequacy ratio	151.2%	143.4%	139.3%	117.7%	107.3%
ROA	(35.4%)	(32.2%)	(22.2%)	(13.2%)	(3.9%)
<b>Profitability structure</b>					
Portfolio Yield	30.0%	21.1%	23.5%	24.3%	23.5%
Operating expense ratio	193.1%	82.4%	63.6%	46.2%	23.5%
Cost per borrower	46	22	19	16	12
Staff productivity	54	110	159	195	251
Loan officer productivity	125	235	307	333	450
Average outstanding loan per client (USD)	36	31	37	59	61
Funding expense ratio	0.0%	0.0%	0.0%	0.0%	0.6%
Cost of savings	N/A	N/A	N/A	2.9%	4.0%
Cost of liabilities	N/A	N/A	N/A	N/A	N/A
Loan Loss Provision expense ratio	3.2%	14.9%	4.4%	1.6%	5.2%
PAR 31-365	0.9%	3.0%	3.9%	1.9%	3.6%
Write-off ratio	0.1%	0.2%	0.0%	0.0%	4.3%
<b>Resource optimization</b>					
Outstanding Loan Portfolio / Assets	26.9%	40.4%	45.1%	69.9%	65.7%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	1.0%	0.7%
<b>Liquidity</b>					
Cash to demand deposits	N/A	N/A	N/A	N/A	N/A
Liquidity / Total assets (LAR)	12.5%	13.9%	10.3%	11.9%	18.9%
Exchange rate 1 USD= xx ETB	8.8	8.9	8.8	9.1	9.3

**Note:** 1. from 2003 to 2006, PAR 120 could not be split into more detailed ageing categories. The labels should thus be read PAR 31-120 and PAR>120 for these years.

**GIRAFE Rating – Metemamen, Ethiopia – April, 2008**

Metemamen Income Statement	ETB					USD					Evolution		
	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007	2005/2004	2006/2005	2007/2006
<b>Financial Revenue (a)</b>	<b>96,178</b>	<b>171,422</b>	<b>288,669</b>	<b>563,235</b>	<b>1,196,497</b>	<b>10,902</b>	<b>19,359</b>	<b>32,927</b>	<b>61,710</b>	<b>128,073</b>	<b>68.4%</b>	<b>95.1%</b>	<b>112.4%</b>
Financial Revenue from Loan Portfolio	95,072	166,530	285,552	552,811	1,177,837	10,777	18,806	32,571	60,568	126,076	71.5%	93.6%	113.1%
Interest on Loan Portfolio	95,072	166,530	285,552	495,452	1,016,824	10,777	18,806	32,571	54,284	108,841	71.5%	73.5%	105.2%
Fees and Commissions on Loan Port	-	-	-	57,359	161,013	-	-	-	6,284	17,235	-	-	180.7%
Penalty Revenue on Loan Port	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments	-	-	-	5,568	8,493	-	-	-	610	909	-	-	52.5%
Other Operating Revenue	1,106	4,892	3,117	4,856	10,167	125	552	356	532	1,088	(36.3%)	55.8%	109.4%
<b>Financial Expense (b)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,076</b>	<b>30,764</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>118</b>	<b>3,293</b>	<b>-</b>	<b>-</b>	<b>2,759.1%</b>
Interest paid on borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest paid on deposits	-	-	-	1,076	30,764	-	-	-	118	3,293	-	-	2,759.1%
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Financial income [c=a-b]</b>	<b>96,178</b>	<b>171,422</b>	<b>288,669</b>	<b>562,159</b>	<b>1,165,733</b>	<b>10,902</b>	<b>19,359</b>	<b>32,927</b>	<b>61,592</b>	<b>124,780</b>	<b>68.4%</b>	<b>94.7%</b>	<b>107.4%</b>
<b>Net Loan Loss provision expense (d)</b>	<b>10,125</b>	<b>117,058</b>	<b>53,661</b>	<b>37,481</b>	<b>262,639</b>	<b>1,148</b>	<b>13,219</b>	<b>6,121</b>	<b>4,107</b>	<b>28,113</b>	<b>(1)</b>	<b>(30.2%)</b>	<b>600.7%</b>
Loan loss provision expense and write-off	10,125	117,058	53,661	37,481	262,639	1,148	13,219	6,121	4,107	28,113	(54.2%)	(30.2%)	600.7%
Recovery from Loans written off	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating expense (e)</b>	<b>611,825</b>	<b>649,725</b>	<b>773,849</b>	<b>1,052,054</b>	<b>1,177,374</b>	<b>69,352</b>	<b>73,373</b>	<b>88,268</b>	<b>115,267</b>	<b>126,026</b>	<b>0</b>	<b>36.0%</b>	<b>11.9%</b>
Personnel Expense (includes fringe)	290,435	316,492	371,175	538,758	668,612	32,922	35,741	42,338	59,028	71,568	17.3%	45.1%	24.1%
Administrative Expense (non-staff operating expenses)	321,390	333,233	402,674	513,296	508,762	36,431	37,632	45,931	56,239	54,458	20.8%	27.5%	(0.9%)
Depreciation and amortization	131,910	148,986	156,360	209,161	143,315	14,952	16,825	17,835	22,916	15,340	4.9%	33.8%	(31.5%)
Consulting fees	6,900	19,734	18,024	12,031	14,925	782	2,229	2,056	1,318	1,598	(8.7%)	(33.3%)	24.1%
Office rent	53,350	55,813	79,114	87,708	99,615	6,047	6,303	9,024	9,610	10,663	41.7%	10.9%	13.6%
Repair and maintenance	44,481	23,486	9,247	32,160	21,036	5,042	2,652	1,055	3,524	2,252	(60.6%)	247.8%	(34.6%)
Stationery and supplies	17,173	9,047	18,572	37,742	69,779	1,947	1,022	2,118	4,135	7,469	105.3%	103.2%	84.9%
Transportation	17,111	15,533	22,115	47,105	39,259	1,940	1,754	2,523	5,161	4,202	42.4%	113.0%	(16.7%)
Utilities	12,693	18,049	21,764	34,399	34,316	1,439	2,038	2,482	3,769	3,673	20.6%	58.1%	(0.2%)
Other staff expenses	8,944	7,394	15,113	14,556	30,135	1,014	835	1,724	1,595	3,226	104.4%	(3.7%)	107.0%
Training, workshop and networking	8,710	3,109	21,500	19,673	10,469	987	351	2,452	2,155	1,121	591.5%	(8.5%)	(46.8%)
Others	20,118	32,082	40,865	18,761	45,913	2,280	3,623	4,661	2,056	4,915	27.4%	(54.1%)	144.7%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>	<b>-</b>	<b>(595,361)</b>	<b>(538,841)</b>	<b>(527,376)</b>	<b>(274,280)</b>	<b>(59,598)</b>	<b>(67,234)</b>	<b>(61,462)</b>	<b>(57,781)</b>	<b>(29,359)</b>	<b>(9.5%)</b>	<b>(2.1%)</b>	<b>(48.0%)</b>
Income Taxes (g)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>	<b>(525,772)</b>	<b>(595,361)</b>	<b>(538,841)</b>	<b>(527,376)</b>	<b>(274,280)</b>	<b>(59,598)</b>	<b>(67,234)</b>	<b>(61,462)</b>	<b>(57,781)</b>	<b>(29,359)</b>	<b>(9.5%)</b>	<b>(2.1%)</b>	<b>(48.0%)</b>
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income Before Donations [k=h+i-j]</b>	<b>(525,772)</b>	<b>(595,361)</b>	<b>(538,841)</b>	<b>(527,376)</b>	<b>(274,280)</b>	<b>(59,598)</b>	<b>(67,234)</b>	<b>(61,462)</b>	<b>(57,781)</b>	<b>(29,359)</b>	<b>(9.5%)</b>	<b>(2.1%)</b>	<b>(48.0%)</b>
Donations (l)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income (after Taxes and Donations) [m=k+l]</b>	<b>(525,772)</b>	<b>(595,361)</b>	<b>(538,841)</b>	<b>(527,376)</b>	<b>(274,280)</b>	<b>(59,598)</b>	<b>(67,234)</b>	<b>(61,462)</b>	<b>(57,781)</b>	<b>(29,359)</b>	<b>(9.5%)</b>	<b>(2.1%)</b>	<b>(48.0%)</b>

Metemamen Balance sheet	Notes	ETB					USD					Evolution		
		Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	Dec.2003	Dec.2004	Dec.2005	Dec.2006	Dec.2007	2005/2004	2006/2005	2007/2006
<b>ASSETS</b>		<b>1,736,781</b>	<b>1,956,479</b>	<b>2,895,905</b>	<b>5,071,402</b>	<b>8,979,678</b>	<b>196,869</b>	<b>220,944</b>	<b>330,319</b>	<b>555,642</b>	<b>961,185</b>	<b>48.0%</b>	<b>75.1%</b>	<b>77.1%</b>
<b>Short Term Assets</b>		<b>1,111,793</b>	<b>1,452,457</b>	<b>2,210,742</b>	<b>4,534,966</b>	<b>8,533,183</b>	<b>126,025</b>	<b>164,025</b>	<b>252,166</b>	<b>496,868</b>	<b>913,392</b>	<b>52.2%</b>	<b>105.1%</b>	<b>88.2%</b>
Cash and Due from Banks		217,573	271,502	299,134	603,675	1,701,451	24,663	30,661	34,120	66,141	182,123	10.2%	101.8%	181.8%
Short Term Investments		376,771	330,204	538,550	302,390	880,746	42,708	37,290	61,429	33,131	94,275	63.1%	(43.9%)	191.3%
Short Term Net Loan Portfolio		468,040	790,260	1,304,675	3,544,806	5,901,147	53,054	89,243	148,817	388,383	631,659	65.1%	171.7%	66.5%
Short Term Gross Loan Portfolio		478,297	916,322	1,484,399	3,762,011	6,165,634	54,216	103,480	169,317	412,180	659,970	62.0%	153.4%	63.9%
(Loan Loss Reserve)		10,257	126,062	179,724	217,205	264,487	1,163	14,236	20,500	23,798	28,311	42.6%	20.9%	21.8%
Interest Receivable		1,392	912	1,137	-	-	158	103	130	-	-	24.7%	(100.0%)	-
On loan portfolio		1,392	912	1,137	-	-	158	103	130	-	-	24.7%	(100.0%)	-
On investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets		48,017	59,579	67,246	84,095	49,839	5,443	6,728	7,670	9,214	5,335	12.9%	25.1%	(40.7%)
<b>Long term assets</b>		<b>624,988</b>	<b>504,022</b>	<b>685,163</b>	<b>536,436</b>	<b>446,495</b>	<b>70,844</b>	<b>56,919</b>	<b>78,153</b>	<b>58,774</b>	<b>47,793</b>	<b>35.9%</b>	<b>(21.7%)</b>	<b>(16.8%)</b>
Long Term Net Investments		-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Gross Loan Portfolio		-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets		333,926	300,279	568,738	507,330	446,495	37,852	33,910	64,873	55,585	47,793	89.4%	(10.8%)	(12.0%)
Other Long Term Assets	1	291,062	203,743	116,425	29,106	-	32,993	23,009	13,280	3,189	-	(42.9%)	(75.0%)	(100.0%)
<b>LIABILITIES AND EQUITY</b>		<b>1,736,781</b>	<b>1,956,479</b>	<b>2,895,905</b>	<b>5,071,402</b>	<b>8,979,678</b>	<b>196,869</b>	<b>220,944</b>	<b>330,319</b>	<b>555,642</b>	<b>961,185</b>	<b>48.0%</b>	<b>75.1%</b>	<b>77.1%</b>
<b>Liabilities</b>		<b>9,972</b>	<b>14,276</b>	<b>27,816</b>	<b>169,614</b>	<b>2,116,757</b>	<b>1,130</b>	<b>1,612</b>	<b>3,173</b>	<b>18,584</b>	<b>226,578</b>	<b>94.8%</b>	<b>509.8%</b>	<b>1,148.0%</b>
Short term liabilities		9,972	14,276	27,816	169,614	1,378,725	1,130	1,612	3,173	18,584	147,579	94.8%	509.8%	712.9%
Demand Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits		-	-	-	146,642	1,339,898	-	-	-	16,067	143,423	-	-	813.7%
Short Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings		-	-	-	-	-	-	-	-	-	-	-	-	-
Interest payable		-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other ST Liabilities		9,972	14,276	27,816	22,972	38,827	1,130	1,612	3,173	2,517	4,156	94.8%	(17.4%)	69.0%
Long term liabilities		-	-	-	-	738,032	-	-	-	-	78,999	-	-	-
Long Term Time Deposits		-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings		-	-	-	-	-	-	-	-	-	-	-	-	-
Other LT Liabilities	2	-	-	-	-	738,032	-	-	-	-	78,999	-	-	-
<b>Equity</b>		<b>1,726,809</b>	<b>1,942,203</b>	<b>2,868,089</b>	<b>4,901,788</b>	<b>6,862,921</b>	<b>195,739</b>	<b>219,332</b>	<b>327,146</b>	<b>537,059</b>	<b>734,607</b>	<b>47.7%</b>	<b>70.9%</b>	<b>40.0%</b>
<b>Tier 1 Capital</b>		<b>1,726,809</b>	<b>1,942,203</b>	<b>2,868,089</b>	<b>4,901,788</b>	<b>6,862,921</b>	<b>195,739</b>	<b>219,332</b>	<b>327,146</b>	<b>537,059</b>	<b>734,607</b>	<b>47.7%</b>	<b>70.9%</b>	<b>40.0%</b>
Paid-In Capital		200,000	200,000	200,000	200,000	200,000	22,671	22,586	22,813	21,913	21,408	0.0%	0.0%	0.0%
Donated equity		2,471,075	3,281,830	4,746,557	7,307,632	9,549,671	280,104	370,615	541,412	800,652	1,022,197	44.6%	54.0%	30.7%
Retained earnings without donations and reserves		(944,266)	(1,539,627)	(2,078,468)	(2,605,844)	(2,886,750)	(107,035)	(173,869)	(237,079)	(285,506)	(308,998)	35.0%	25.4%	10.8%
<b>Tier 2 Capital</b>		-	-	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt		-	-	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts		-	-	-	-	-	-	-	-	-	-	-	-	-

## Notes:

1. Establishments' costs amortized over a period of five years starting from 2002.
2. First portions of grants received from ICCO/Terrafina and Swissland which were not capitalized yet.

## ■ 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 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.	
B++ B+ B	Current institutional, operational and financial performances are satisfactory when compared to industry standards. 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.	INVESTMENT GRADE
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++ C+ C 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	SPECULATIVE INVESTMENT
D	<b>High risk:</b> 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	<b>Immediate risk of default:</b> Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	TECHNICAL ASSISTANCE REQUIRED