Pamoja Women Development Programme, Kenya

Pamoja Women Development Programme (PAWDEP) was established in 2003 and duly registered as an NGO in 2004 when it commenced operations. It operates mainly in the central region of Kenya where its head office is in Kiambu supported by branches in Limuru, Githunguri, Thika and Kerugoya. PAWDEP's main product is the group solidarity loan where a solidarity group has a maximum of 40 members. In December 2007, PAWDEP launched individual loans through funding from the Women Enterprise Fund of the Government of Kenya. As of December 2007, PAWDEP had registered an estimated 40,000 clients (saving and active borrowers) with an estimated outstanding loan balance of 5.0 M USD.

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

Outlook

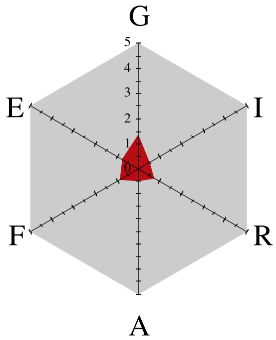
Uncertain

Date of the rating

July 2008

Valid until June 2009

Rating per evaluation area



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

Planet Rating Contact
Grégoire Nedelec
gnedelec@planetrating.com
+256 414 236 745

MFI Contact
Julius C. Muiruri
chege@pawdep.org
+254-20-2045049

REF: GN / 110908

Rating highlights

Note: The financial and portfolio data presented in this report is provided for indicative purposes only as the available institutional data did not meet Planet Rating's standards of reliability.

- PAWDEP financial statements show a positive ROA but financial data are not reliable and profitability is overstated as a result of under provisioning.
- PAWDEP's management capacity is hampered by the lack of key financial management skills and risk management function.
- The absence of portfolio quality and accounting indicators exposes PAWDEP to a high credit risk doubled by a high fraud risk due to inadequate procedures.
- In the short-term, PAWDEP is competitively positioned where the market views its main product as very affordable. In the long-term, PAWDEP is yet to build internal capacity (HR and financial) to sustain its competitiveness in the market.
- PAWDEP's most immediate challenge is to comply with the new microfinance law, which it must do by May 2009. This is a very tight deadline especially given the weaknesses in the MIS and limited execution capacity from management.

Outlook

The outlook on PAWDEP is uncertain for, although management has adopted a positive attitude towards making the necessary changes for transformation and strengthening of the institution, the deadline of May 2009 is tight in view of the numerous challenges and legal requirements.

Performance indicators

USD , unless otherwise stated	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Assets	322,033	1,747,049	3,518,105	5,420,131
Growth	-	408.3%	93.5%	40.9%
Loan portfolio	319,260	1,645,394	3,204,915	4,994,550
Growth	-	382.9%	87.1%	42.5%
Outstanding deposits	319,260	1,645,394	3,204,915	4,638,690
Growth	-	382.9%	87.1%	32.4%
Active borrowers	14,000	22,750	28,735	40,000
Active savers	14,000	22,750	28,735	40,000
Staff	25	34	52	56
ROE	200.0%	193.7%	99.9%	30.7%
ROA	0.9%	9.3%	7.7%	2.6%
Liabilities / Equity	215.74x	16.71x	10.43x	10.83x
Portfolio Yield	34.4%	25.4%	18.8%	14.3%
Operating expense ratio	30.5%	13.1%	8.5%	9.7%
PAR 31-365	n/a	n/a	n/a	n/a
PAR > 365	n/a	n/a	n/a	n/a
Write-off ratio	n/a	n/a	n/a	n/a

Microfinance sector

Many of the current market leaders in the microfinance industry were founded in the early eighties. Currently, the Kenyan microfinance industry contains two microfinance oriented banks (K-REP Bank and Equity Bank) that are regulated by the Central Bank of Kenya (CBK) under the Banking Act. Other regulated MFIs are cooperatives which are regulated by the Commissioner for Cooperative Development under the Co-operative Societies Act (2004) and are allowed to pursue member based financial intermediation. A new SACCO Societies Bill has been developed in 2007 but is still to be passed by parliament. Nevertheless MFIs which comprise Companies, NGOs and Trusts, are not regulated and are not allowed to pursue financial intermediation.

On December 30th 2006 a new Microfinance Act was enacted by parliament that will regulate deposit-taking financial institutions. The regulations under the act were gazetted by CBK in May 2008 and all institutions intending to become deposit-taking are required to fulfill the requirements of the Act within one-year from the May 2008. It is estimated that between three and five MFIs (KWFT, Faulu Kenya, Jamii Bora Trust, SMEP and KADET) will initially apply for a license. However, the law also leaves room for non-regulated, non-deposit taking financial institutions.

A recent study on the access to financial services in Kenya[1] showed that 38.4% of the total population is still excluded from financial services and that the vast majority uses informal groups rather than any kind of formal financial institution. The table below shows the percentage of the Kenyan population for each source of financial services:

Source	Rural %	Urban %	Male %	Female %	Total %
Bank	10.7%	25.1%	18.7%	10.1%	14.2%
Postbank	4.4%	9.3%	6.6%	4.7%	5.6%
SACCO	13.9%	10.5%	17.3%	9.2%	13.1%
MFI	1.5%	2.4%	1.6%	1.8%	1.7%
Informal groups	53.4%	42.1%	46.3%	54.6%	50.6%
Excluded	37.4%	41.6%	37.5%	39.3%	38.4%

Notably only 1.7% of the population has used financial services from MFIs whereas 14.2% and 13.1% have used financial services from banks and cooperatives respectively. There are 3,767 licensed cooperatives which together are estimated to have 2.1 million clients, 1.48 billion USD in loan portfolio and 1.79 billion USD in deposits.[2] However, it should be noted that the larger cooperatives in Kenya are more focused on salary loans to low- to middle-income clients in urban areas. Besides the cooperatives, the main providers of microfinance services in Kenya are:

MFI	Active borrowers	GLP (M USD)	Savings accounts	Deposits (M USD)
Equity Bank	392,822	179	1,840,332	256
K-REP Bank	153,951	81	16,701	16
KWFT	164,540	60	n/a	n/a
Jamii Bora Trust†	100,000	5.9	170,000	4.0
Faulu Kenya	90,339	25	n/a	13†
SMEP	30,240	9.5	n/a	5.3
KADET*	16,575	3.7	n/a	2.2

Source: www.mixmarket.org 2007 data; * 2006 data; † estimate.

Currently the main donor support for the microfinance sector is from the Financial Sector Deepening project[3] which focuses on the main challenges to further stimulate the microfinance sector in Kenya: capacity building of MFIs, regulatory framework for cooperatives, rural finance, agricultural finance, SME finance and enhancing payments systems such as remittances and mobile phone banking.

Effects of the post-election violence

The post-election violence which erupted due to the contested elections held December 27th 2007 has affected the microfinance sector in Kenya. The impact on MFI's varies depending on their location and size. Larger MFIs operating nationwide have been able to cope relatively well. Smaller MFIs operating in a localized area that was hardest hit by the tribal clashes (Kisumu, Eldoret, Northern Rift Valley and the main Nairobi slums of Kibera and Mathare) have been hit much harder and some stand to lose up to 40% of their portfolio.

In general portfolio quality has deteriorated across the board as a result of the fact that regular operations were not possible in the first two weeks of January 2008; the situation in Kenya did not stabilize until February, which created a backlog in client repayments that is slowly being reversed. The turmoil also has caused a general slow down of client's business limiting their repayment capacity and the tribal clashes have weakened group cohesion of intertribal groups reducing the effectiveness of group guarantees employed by many MFIs.

Political & economic environment

Kenya posted strong growth for the fourth straight year in 2007. Good weather conditions benefited agriculture as well as the forestry and fishing sectors. On a more fundamental level, the base of economic growth broadened thanks to the development of tourism and the intensification of trade

[1] Results of a National Financial Access Survey, The Steadman Group Research Division, July 2007. www.fsdkenya.org/finaccess

[2] CBK Annual Report 2006. http://www.centralbank.go.ke/publications/annual/index.html

[3] A multi-donor project funded by DfID, SIDA and World Bank.

within the East Africa Community. Those trends should continue in 2008 provided the post-elections tensions prove to lessen.

The economy has, however, been giving signs of overheating due to bottlenecks in transport and energy infrastructure. Rising despite the central bank's restrictive monetary policy, inflation should remain above the five percent target.

The good economic conditions coupled with prudent fiscal policy have only contributed modestly to the consolidation of public finances with privatization proceeds and tax revenues less than expected while debt service and investment spending undermined the budget. The fiscal deficit should moreover grow larger in 2008 due to the spending increase. The strong growth has moreover resulted in a widening of the current account deficit attributable to rising capital goods imports and the increasing cost of oil. The country's external financing needs nonetheless remain largely covered by incoming foreign direct investment. The country has ample and growing foreign exchange reserves.

Despite the progress made in improving the business environment, which allowed Kenya to be included in 2007 among the ten most reform-minded countries in Africa, the anti-corrupt campaign is still inadequate. The escalation of ethnic tensions in the wake of the hotly disputed December 2007 elections constitutes a critical risk for the stability of the country and the region.

Strengths

- Kenya's relatively diversified economy has benefited from the growth of the construction and telecommunications sectors.
- An emerging middle class has underpinned consumption and fostered greater diversification of production.
- The regional integration under way within the East Africa Community has enhanced Kenya's role in the region and its attractiveness to investors.
- The influx of foreign direct investment, since 2005 has underpinned an increase in medium-term potential.

Weaknesses

- Agriculture remains a crucial sector of the economy, generating 25 per cent of GDP and providing a livelihood for the majority – 85 per cent – of the population whose incomes are thus vulnerable to weather conditions.
- A shortage of infrastructure and its deteriorated condition have impeded growth with the road network and port facilities still inadequate and electricity production limited.
- An extensive mobilization of resources will be necessary to stem not only the poverty that afflicted 46 per cent of the population in 2006 but also unemployment and an AIDS pandemic in sharp decline but still affecting six per cent of the population.
- Persistent corruption and violence have damaged Kenya's image and have had a negative impact on international aid.

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 behavior.

(USD millions)	2005	2006	2007(e)	2008(f)
Economic growth (%)	5.8	6.1	6.4	6.5
Inflation (%)	10.3	14.5	6.9	7.2
Public sector balance (%GDP)	0.1	-2.1	-3.9	-5.1
Exports	3,455	3,502	3,760	4,152
Imports	5,602	6,768	7,602	8,210
Trade balance	-2,147	-3,266	-3,842	-4,058
Current account balance (%GDP)	-0.8	-2.4	-3.7	-5.1
Foreign debt (%GDP)	32.3	30.3	30.9	34.6
Debt service (%G&S exports)	4.4	5.7	5.9	5.1
Foreign currency reserves (in months of imports)	3.9	4.3	4.9	4.8

Source: COFACE's Country Risk Ratings Guidebook 2007. (e) is estimated and (f) forecasted. Disclosure Statement: Data is provided with authorization from COFACE - a shareholder of Planet Rating.

Institutional presentation

Legal form, supervision and audit

PAWDEP was founded in April 2003 and registered in September 2004 as a Non-Governmental Organization (NGO) operating under the Kenya Non Governmental Organizations Coordination Act of 1990. PAWDEP intends to transform into a deposit taking microfinance institution in order to comply with the recently (May 2008) gazetted Microfinance Institutions Act. At present, PAWDEP is not regulated by the CBK and is therefore not permitted to pursue financial intermediation.

PAWDEP has been audited by Kamuruci & Associates since its inception. The auditors have not qualified their opinion on the audited financial statements for the years under review. It should be noted that due to the absence of basic accounting procedures and documents, the audited financial statements are based on estimates only and do not present a true and fair representation of the financial position of the institution. The financial year of PAWDEP starts on January 1st and ends on December 31st.

Ownership

As an NGO, PAWDEP has no specific owners. It is governed by a Board of Directors (BOD) comprising 3 members including the current Chief Executive Officer (CEO). The current BOD has no definite term of office as neither rules of election nor duration of the mandates have been established

Donations

Since formation in 2003, PAWDEP has not received any donations.

Funding composition

As of December 2007 the funding structure is comprised of 8.5% equity, 6% debt and 85.5% deposits. PAWDEP contracted a 3-year governmental loan from the Women Enterprise Fund (WEF) for an amount of 50 M KES (736,000 USD) at 1% interest rate per annum. The first tranch of 20 M KES has been disbursed in December 2007; the second one was disbursed in April 2008. An additional loan of xxx KES (xxx USD) has been contracted with an international investor. It is pending disbursement.

Management team

The management team is headed by the CEO and comprises the General Manager, the Executive Coordinator[4] and the Finance Manager. In January 2008, the project administrator was appointed to the newly created position of HR Manager.

- Julius Chege Muiruri is the CEO and founder of PAWDEP. He has a diploma in Business Management from the Kenya Institute of Management (KIM). Prior to founding PAWDEP, Mr. Muiruri worked in the banking industry as marketing officer for Southern Credit Bank in Kenya between 2001 and 2003.

Organization

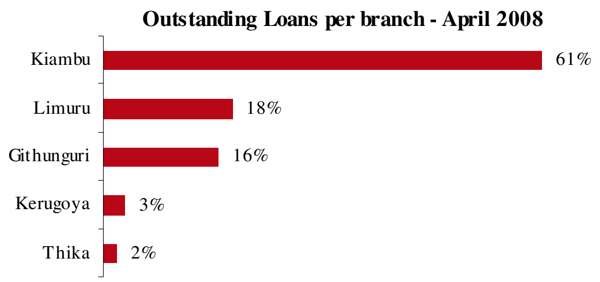
PAWDEP's Head Office (HO) centralizes all the key management functions while each branch is led by a Branch Manager supported by Loan Officers (LOs) and one administrative secretary.

For the group loans, the credit decision is fully decentralized. LOs are in charge of the credit decision but take consultative advice from a committee constituted of seven group members. The groups are essentially supposed to be self-financing, where PAWDEP's role is to oversee credit decisions as well as retain custody of the groups' funds in the institutions bank accounts. The groups pay a service fee to PAWDEP for undertaking this role. The pool of funds consists of repayments (principal and interest), savings, withdrawals and fines and this is used to finance loans to members during each monthly meeting. If there is a surplus in collections, the LO hands this money over to the administrative secretary for banking, which must be done daily. On the other hand, if the pool is insufficient to meet the entire credit needs of the group, then the bank accounts of the affected members are credited by PAWDEP the following day. Loan Contracts and application forms are kept in the branches and reviewed by branch managers (BM). In the case of Individual loans, credit decisions are handled by HO through the Finance Manager, General Manager or the CEO.

Until December 2007 PAWDEP employed an entirely manual loan tracking system which is used to provide basic details on the movement of the groups' funds during each monthly meeting. In December 2007, PAWDEP purchased Loan Performer (LPF) version 7 developed by Crystal Clear Software Ltd, based in Uganda. PAWDEP is currently collecting data from the client files in order to track all loans using LPF. At the moment only individual loans are tracked using LPF and LPF is expected to become fully operational by the end of 2008. PAWDEP does not use yet the integrated accounting function offered by LPF and PAWDEP currently has no formalized system for accounting although some information is captured manually using paper data and Excel.

Market penetration

PAWDEP is headquartered in Kiambu and operates through a network of 5 branches. The branches provide coverage in 4 provinces: Central, Nairobi, Eastern and Rift Valley. The western region is on a pilot phase represented by some groups from Nyanza province.



Products and services

PAWDEP offers 4 loan products, with the lead product being the solidarity group loan. Each group is made of a maximum of 40 people. Loans are provided only to women with farming or income generating activities.

[4] The role of the executive coordinator is to oversee networking of the branch offices and coordinate the institution's activities with the local governing administration where branches operate. The general manager also oversees branch operations but with a greater focus on growth, profitability and efficiency. As a note: the executive coordinator is married to the CEO.

All loans attract a 2% loan insurance fee on the loan value as well as a loan application fee that varies based on the size of the loan. In addition, each group has to pay 3,000 KES (xxx USD) as service fees during each group meeting. Group meeting attendance is mandatory and a 50 KES fine is charged in case of absence. Below is a summarized profile of the loan products of PAWDEP:

- Solidarity Group Loans (Nuru): This is the pioneer product of PAWDEP and loan terms are between 15 and 50 months with amounts varying between 5,000 KES (77 USD) and 200,000 KES (3,000 USD). The effective interest rate is 18%.
- Advance Loan (Ngumbato): These are complementary loans given to members of solidarity groups and target school fees, emergencies and spending on household assets. They have one month duration with a 10% interest rate, and amounts vary between 100 KES (1.5 USD) and 50,000 KES (769USD).
- Individual Loans (Endeleza Akinamama and Jaza): These products were introduced in 2007 thanks to a loan provided by the Women Enterprise Fund (WEF). The Endeleza Akinamama, targets clients graduating from Solidarity Group Loans but also new clients. Loan amounts vary from 100,000 to 500,000 KES (1,500 to 7,600 USD). Loan terms vary between 20 months and 60 months. The Jaza loan is similar to the Endeleza Akinamama but varies in terms of the amount, where the range is 600,000 to 5 M KES (9,200 to 76,700 USD). The effective interest rate for both loans is 22%.

For group loans, 40% of the loan amount has to be secured by deposits and collateral is also required in some cases. Individual loans are backed by savings (30% of the loan amount) and collateral as well. Each group member has to bring a minimum of 200 KES savings during the monthly meetings. Savings bear no interest rate; rather, a bonus is calculated based on the accumulative interest earnings of each group. Prior to the introduction of individual loans in December 2007, PAWDEP only received service fees and loan application fees as its main sources of income. It is therefore difficult to calculate the Effective Interest Rate for the period under review as interest earnings effectively started in 2008.

Networks

PAWDEP is a member of the Association of Microfinance Institutions of Kenya (AMFI) as well as member of the Council of practitioners of the Microcredit Summit Campaign.

Governance

Governance and Decision making is rated **"d"**

Decision making

Set up as an NGO, PAWDEP does not have an appropriate legal set-up for its operations as NGOs are not allowed to mobilize savings under Kenyan law. Under the newly enacted Microfinance law, PAWDEP has until May 2009 to conform with the provisions that allow institutions to mobilize savings. However, this is dependent on whether PAWDEP successfully carries out the transformation into a regulated company limited by shares regulated under the new Microfinance Act. Without any transformation committee or a precise action plan to guide this process, PAWDEP is not adequately prepared. Under the new Microfinance law, PAWDEP has to complete the transformation process by May 2009 in order not to be disbanded.

There is an inadequate balance in the decision-making process at PAWDEP. On the one hand as the functions of CEO and Chair of the BOD are not separated and on the other hand as the two members of the BOD besides the CEO are insufficiently involved in the governance of PAWDEP.. Further more, there are no specialized committees on the BOD to monitor specific areas of the institution's performance. As a result, decisions are not guaranteed to be taken in the best interest of the institution. The decision to mobilize deposits[5], for instance, has exposed PAWDEP to the risk of intervention by CBK.

Although the BOD meets frequently enough (quarterly on average), it does not have sufficient information to make informed decisions as the management reports are very limited (refer to Information section). However, there is a generally smooth communication flow at PAWDEP thanks to complete and transparent minutes, resulting in effective follow-up of decisions. Given PAWDEP's growth in the last 3 years and the question of transformation, the BOD is at a point where it needs to be highly strengthened in microfinance expertise in order to help the institution meet its objectives.

Planning

The strategic and operational planning mechanisms of PAWDEP are limited in content and scope and do not allow for an optimal allocation of the institutions resources. PAWDEP's 5 year Business Plan (BP) 2008-2012 focuses on the growth of its loan portfolio. PAWDEP plans to

[5] CBK is obliged to intervene under the law especially because it could consider that PAWDEP mobilizes voluntary deposits. Currently, however, it is not possible to distinguish between Voluntary and Demand deposits at PAWDEP.

increase the number of clients to 100,000 by 2012 through expanding its activities to other provinces of Kenya and to maximize its operations in the provinces where it currently operates.

These are ambitious goals which could be reached if the growth would continue on the current trajectory and the institutional processes are sufficiently strengthened. However, these objectives are not supported by accurate financial projections, which tend to revolve round the plans presented to funding partners. Furthermore, anticipation of changes related to the projections is limited with no evidence of stress testing on the projections. The financial projections for PAWDEP as an institution are therefore highly limited. Explanations regarding the financing of geographical growth, specific recruitments and general resource planning are very limited. Further more, there is no action plan or budget to implement, prioritize and monitor the short and long-term aspects of the planning framework.

Although, the SBP mentions transformation as a key future requirement, the BP neither establishes precise plans nor detailed financial needs to fulfil the legal requirements of transformation. Instead, PAWDEP has identified new funding sources mainly to fuel the portfolio growth with little in terms of planning to finance the transformation. PAWDEP has not evaluated the risk that could materialize due to inadequate preparation for transformation and this could jeopardize the future of the institution.

Management team

PAWDEP benefits from a devoted Management Team. However, the strategic interests of PAWDEP are not guaranteed due to insufficient execution capacity within the management ranks. Furthermore, some management tasks are not appropriately divided where the job-descriptions entail unclear overlaps in responsibility (e.g. between the General Manager and Executive Coordinator). Even if the management team has sufficient leadership to motivate operational and administrative staff, the level of microfinance skills needs to be strengthened for them to be able to fully manage the operations of PAWDEP. In particular, portfolio growth is achieved thanks to a strong management of the operations, however, the absence of a risk management function compromises portfolio quality. PAWDEP would also require strengthening in financial and accounting skills in order to build basic financial management capacity.

There is a smooth internal communication between top and middle management determined by regular and well-organized meetings, which allow middle management to execute correctly and timely top management decisions. Branch managers (BM) offer sufficient leadership in terms of their support to the core management team, however, a stronger understanding of microfinance is needed to enhance their control function to the institution.

Human resource management

The HR management at PAWDEP lacks formal procedures to ensure its good quality. Nevertheless the strong commitment of all PAWDEP staff within the mission and the newly appointed HR manager should progressively address some of the major gaps in this department. There is no HR policy in place neither to guide nor to monitor the recruitment, the remuneration, and the staff development needs. This especially applies to the LOs whose performance is difficult to evaluate and benchmark as there is no indicator and related incentive scheme[6]. There is no formal means in place to monitor staff morale which contributes to reinforce the fraud risk. The turnover has, however, generally been kept at a reasonable level and basic HR practices are in place: employees have regular contracts and there is a corporate code of conduct. Newly hired staff benefit from systematic in-house elementary trainings and annual motivation seminar outside Nairobi.

▪ Information

Information is rated **“e”**

The set up of the systems to manage accounting and portfolio data at PAWDEP are not sufficient to guarantee that the institution generates accurate and reliable information.

PAWDEP’s MIS is not able to produce accurate information as there is no consolidation of portfolio data at an institutional level. Further more, the tools used to collect client data are very susceptible to errors. Errors occur when filling in the group monthly performance sheet that is used to update client files. The errors mainly arise as a result of the tedious nature of manually updating several categories of information for 40 clients per group and there are insufficient checks to correct errors that occur through the use of this manual system of loan tracking. As a result, PAWDEP is not able to determine several aspects of information related to the loan portfolio including portfolio size and number of active borrowers. The loan tracking system is further undermined by the use of numbers to identify group members (as opposed to names). The lack of diligent monitoring of client exits and replacements severely undermines this identification system.

[6] PAWDEP has a rotation policy under which LOs meet different groups in every subsequent meeting. They therefore have no attributed portfolio where the idea is to reduce the chances of fraud through familiarity with group members.

Data integrity has also been compromised in accounting terms, where basic principles and practices of accounting are not followed. There is no established accounting system and record keeping does not involve the use of ledgers making it impossible to extract a trial balance. Accounting is limited to the storage of original transaction records (e.g. receipts and invoices), which are sometimes reproduced and compiled in Excel as very simple reports. There is, therefore, little assurance that the financial statements are a true and fair representation of the financial position of the institution.

The acquisition of LPF in December 2007 was done in part to address the above mentioned weaknesses in data collection. To date, LPF has only been applied to the individual loan portfolio where data accuracy is better assured. The newly appointed MIS Manager, who joined in November 2007, possesses sufficient skills to drive the institutions strategic interests in IT, but his limited knowledge in microfinance as well as his current commitment to data migration to LPF will delay his effectiveness staffing the short-term. It should be noted that Infolite Africa, a company that provides systems support to LPF, has been engaged by PAWDEP to aid the migration process. In terms of data security, digital data is generally safe as determined by licensed anti-virus software and regular internal and external back ups. The security of paper data varies from branch to branch, where some have secure storage cabinets and others do not. The actual filing of paper data is, however, disorganized and contributes to the overall difficulty in managing the data.

The quality and frequency of portfolio and financial reports is another major limitation for PAWDEP. Loan related reports do not include delinquency indicators and neither do they monitor performance of branches, products or LOs The financial reports, on the other hand, only include the monthly analysis of actual expenditure versus budgeted expenditure.

▪ Risk Management

Risk Management is rated **"e"**

Procedures and internal controls

Recent efforts to document key policies and procedures at PAWDEP are commendable but not sufficient to overcome the significant gaps in the control mechanisms of the institution. Recently documented manuals include the operations manual and the finance manual, which were developed in 2008. Despite these developments, some of the content in the manuals provides very general information, rather than specific procedures that are applicable to the institution. Control measures to manage operational and credit risk include dual approval of loans (individual loans), dual approval of expenses and maintenance of double records for loans (client and institution). The level of compliance to control measures is, however, inadequate as evidenced in the passing of expenses without final approval and the dual functions of approval and disbursement of individual loans being handled by the same person. The handling of cash by LOs during group meetings also entails some glaring risks whereby the LOs both record and disburse savings of clients who wish to exit the groups. Because dormant clients are not closely monitored at an institutional level[7], LOs are in a position to exploit this loophole, which is not fortified as PAWDEP does not carry out regular bank reconciliation.

Security of cash (in transit and in branch offices) is generally high with safes available in most branches, backed by an insurance policy. Overall, however, PAWDEP is exposed to considerable credit and fraud risk emanating from unreliable data and a system of weak controls and poor compliance to policies.

Internal audit

PAWDEP does not have an internal audit function although the external auditor is sometimes hired to check the implementation of the internal controls. In this sense, the external auditors have provided significant support to the risk management function although this support is usually provided in a retrospective rather than proactive manner. The investigations carried out in 2008 did indeed unearth significant occurrences of fraud. In spite of this, however, the external auditors have not presented a management letter supporting the audited accounts to PAWDEP and passed the annual financial statements in spite of improper accounting practices and systems at PAWDEP.

▪ Activities

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

Financial services evolution and composition[8]

PAWDEP's portfolio exhibits a high growth rate during the initial years (87% in FY06) but experiences a gradual slowdown with an annual growth rate of less than 40% in 2006 This trend might be partly attributable to the lack of funding to support the demand for growth. Individual loans were introduced at the end of 2007 and are expected to fuel

[7] During group meetings, clients are identified in terms of numbers rather than names. The LOs have no photographs at the group meetings to verify client identities The exit rate of members in a group is not well monitored and LOs rotate their responsibilities between different groups, rather than having fixed portfolios. This makes it difficult to monitor the growth and size of a particular group.

[8] The analysis of the evolution of the portfolio is based on estimates as the data provided for analysis is not fully reliable.

future growth. An analysis of the evolution of the deposits is not possible as the available data is not sufficiently reliable.

Financial services management

Although the credit methodology of PAWDEP's main product is well designed, it is limited by flaws in implementation and weak delinquency management. PAWDEP's solidarity group credit methodology is properly designed using group guarantees even if the client appraisal remains limited. Furthermore, checking for cross-indebtedness is not consistently implemented as required in the methodology. The overall ability to collect, analyze and monitor portfolio data is, however, a major handicap to the management of financial services (refer to Information section). The LOs are adequately supervised but lack key microfinance knowledge.

The individual loan credit methodology, on the other hand, was developed without sufficient preparation and lacks proper credit appraisal mechanisms. The present appraisal form does not offer a strong evaluation of the repayment capacity of the client as it excludes household expenses and PAWDEP does not have a clear view of the repayment history of the newly graduated clients. In addition, there is no policy on the proportion of clients' net cash flows that can be used for loan repayment. The credit appraisal process for individual loans also lacks clear policies on how to graduate clients from group loans whereby significant increases in the size of loans given to clients graduating from groups to individual loans were observed. Such loans, in many cases, were approved irrespective of the amount of the previous loan and in several cases the margin between the previous group loan and the subsequent individual loan was very wide (e.g. 10 times higher).

No clear policies and procedures are in place for delinquency management and follow-up does not ensure good portfolio quality. Much of the delinquency management is left to the groups, with little involvement by the LO. This could be a good process given that the groups are supposed to be self-financing; however, as there is no monitoring of portfolio quality at an institutional level, management underestimates the real situation of portfolio quality. Furthermore, LOs have not been trained to understand the usefulness of PAR or other delinquency indicators and they are not sufficiently rigorous to systematically track late repayments. Tracking delinquency rates is generally difficult for two main reasons: First the LOs do not have ascribed portfolios, which limits specific follow up of clients; secondly, three different forms have to be consulted to check if payments have been done on time.

In terms of clients' deposits, procedures do not ensure a secure service for the clients as there are insufficient checks on the client's identity. Furthermore, the tracking of savings data is not reliable which does not ensure that clients receive the correct amounts of savings back.

Credit risk

It is not possible to reliably establish the credit risk of PAWDEP as the institution does not monitor its portfolio quality and the discrepancies relating to data collection render information on portfolio quality unreliable. Given the weak risk management and the flaws in the credit methodology credit risk is expected to be high. PAWDEP does not have any write-off policy; however, the absence of delinquency indicators means it would not be possible to apply a write-off policy. Similarly, rescheduled loans are not monitored and rescheduling is only done informally through a verbal agreement. This situation leads to a lack of visibility on the extent of rescheduling.

PAWDEP does not have specific rules for connected lending and loans to related parties. Loan approval for such loans is done by the CEO with no objective written methodology. These Loans attract no interest charges and there is no ceiling on the exposure to the portfolio. The total amount of loans to staff, management and BOD stands at 239K KES (3,600 USD). There is no portfolio quality evaluation on these loans.

Concentration risk is not monitored and no specific policies are in place. However, it is expected to be low as PAWDEP clients operate in various sectors and the geographic spread has been increasing with the development of the activities.

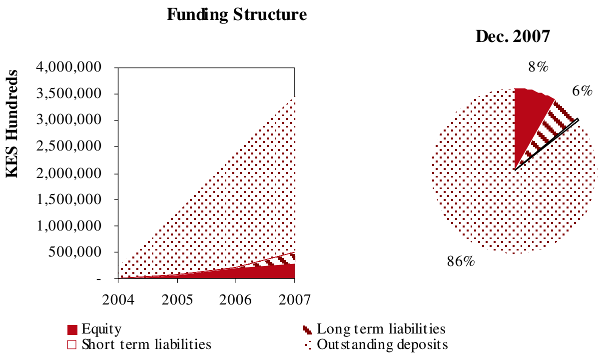
Credit risk coverage

Given the expected level of delinquency, the present loan loss provision level is inadequate to cover potential losses on loan defaults by clients. A general 1.5% loan loss provision is adopted every year in the financial statements.[9] Newly set financial procedures have provided for specific provisions following CBK requirements in order to cover the PAR. But as there is no PAR data, these procedures are not applied.

[9] In spite of the annual 1.5% loan loss provision policy, the financial statements provided to PR showed no movement or reconciliation of the loan loss provisions from year to year.

Funding and liquidity

Funding and liquidity is rated **“e”**



Funding Strategy and capitalization

PAWDEP is undercapitalized with a capital adequacy ratio (CAR) of 9% as at December 2007. PAWDEP does not possess any equity beyond the retained earnings, which, in any case, would be seriously eroded or even nullified by an adequate provisioning policy. The capital adequacy ratio is below the accepted level for an institution like PAWDEP which is expected to have a CAR of at least 20%. In addition, given the expected high credit risk and the current under-provisioning, PAWDEP is expected to be technically insolvent.

On the basis of the legal requirements and maturity mismatches, PAWDEP does not have an adequate funding strategy as the only source of funding until December 2007 was deposits. Nevertheless, the institution is moving away from savings as a source of funding to more long-term debt in order to increase and secure its funds. The sourcing for funds has recently improved and sufficient negotiation skills are present within PAWDEP to secure funding contracts. As a result, PAWDEP has developed relationships with both local and international funding partners over the last year. However, these relationships have to be confirmed through reliable performances. In the same vein, PAWDEP has to strengthen the monitoring of implementation of funding contracts with its development partners in terms of reporting and ensuring contractual obligations are adhered to.

The funding strategy of PAWDEP is further limited by the fact that there is no adequate projection of the required funding for the coming years. Although the total volume of funding is estimated, there is no analysis on the break-down of funding sources, i.e. deposits, debt and equity and their respective costs. The search for equity investments is only in the initial stages and at present PAWDEP has only discussed with one of its potential future funding partners to provide equity.

Liquidity risk

The Treasury and Asset & Liability Management function at PAWDEP is not formalized where basic tools and skills for ALM management are lacking. Maturity risk is expected to be present even if the gap between the short-term sources of funding (savings) and the average loan term (about 20 months) is mitigated by the compulsory nature of part of the deposits.

PAWDEP faces high liquidity risk. Internal mechanisms to monitor liquidity are very limited where PAWDEP does not carry out liquidity forecasts. Although the institution has historically experienced strains on disbursements, there are still no liquidity management tools in place and it does not follow any prudential guidelines to keep a minimum percentage of the deposits in cash. The lack of reliable data notwithstanding, the current ratio is estimated to be less than 100%. It is also not possible to differentiate the long term portion of deposits from the short term one, nor to determine which portion of the deposit is compulsory or demand. The deposit withdrawal coverage is very low at 8.6% (December 2007) versus the minimum required 15% (CBK) creating a risk of liquidity shortages. Additionally, PAWDEP is legally not allowed to intermediate savings, which could lead to fast withdrawals related to lack of public confidence in the institution. Consequently, a rapid decrease in the collection of savings (PAWDEP’s main source of funding) would lead to a lack of funds to carry out the disbursements, which directly impacts on PAWDEP’s ability to meet its day-to-day obligations.

Market risk

PAWDEP is not exposed to FX risk as all assets and liabilities are denominated in KES. PAWDEP, however, could slightly be exposed to interest rate risk if the loan contract from its potential fund provider is effected. This loan is subject to a semi-annual revision based on the 182 T-Bill rate while lending to clients is on a fixed interest rate. Even if the open position would represent 230% of Tier 1 capital (as at December 2007) a 1% T-Bill variation would just have a 0,1% effect on the ROA.

▪ Efficiency and Profitability

Efficiency and Profitability is rated **"e"**

Important Notice

This section represents only a general overview of the profitability situation at PAWDEP instead of a detailed financial analysis that Planet Rating would normally have done. The available financial data did not meet Planet Rating's standards to yield a reliable financial analysis. All data (figures and ratios) is provided for indicative purposes and does not reflect our validation of the same.

Profitability analysis

PAWDEP has nominally been profitable since inception with ROA exhibiting a declining trend from 9.3% in FY05 to 2.6% in FY07. These figures, however, do not give a fair representation of PAWDEP's profitability given the expected under provisioning and unreliable data on the size of its assets. As a result of the lack of reliable data, it is not possible to estimate adjusted ROA figures; however, they are likely to be significantly lower than what is presented.

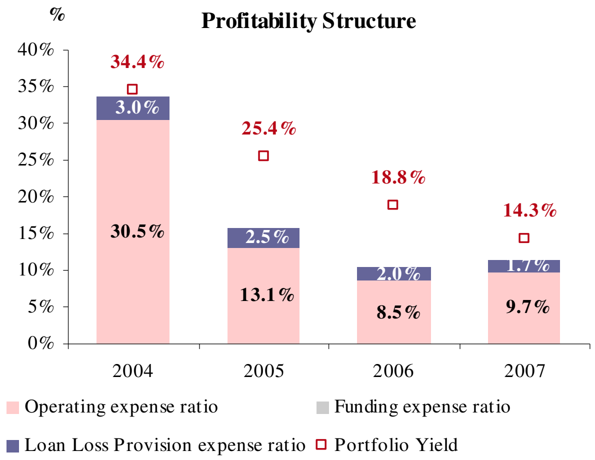
The data available on the portfolio yield indicates that it has been continuously declining since operations begun in 2004. Whereas the yield in 2004 was 22%, the yield for the year 2007 was 14%. It is not possible to evaluate the existence and extent of a yield gap given the shortcomings of unreliable data. However, given the weaknesses in delinquency management and the observed declining trend, there is likely to be a significant yield gap essentially due to overestimated portfolio.

Revenue quality remains fairly well established in the short-term. On one hand PAWDEP has shown that its group loan product is popular with clients due to the apparent absence of interest charges by the institution. On the other hand, however, increasing competition and an improving regulatory environment ultimately nullify any long-term competitive advantage of this product. Furthermore, there is currently insufficient internal capacity for product development at PAWDEP. In terms of the individual loans, PAWDEP currently is not positioned to compete effectively in this market as the requisite business appraisal skills need to be developed further.

The operating expense ratio has been on a declining trend having decreased from 30% in 2004, to 9.7% in 2007. This trend is by and large attributed to faster growth in the size of the portfolio than the corresponding increase in operational expenses during the period being reviewed. In real terms, however, operational expenses increased by 54% in the period 2005 to 2006 and 80% in 2006 to 2007. Further more, the data upon which this analysis is made is not reliable as the portfolio is likely to be overstated and is undermined by inaccurate accounting.

PAWDEP has a high asset deployment having committed 90% of its total assets to the loan portfolio over the past 3 years. Without liquidity management procedures, however, such a high level of asset deployment threatens the institutions liquidity position and offers insufficient coverage for withdrawal of client deposits.

The short-term outlook on profitability is negative given the fact that PAWDEP still needs to absorb all the relevant costs of transformation (especially IT and HR) in addition to the strong likelihood of making significant upward adjustments to the loan loss provision expense.



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.

Performance indicators

Data in USD, unless otherwise stated

Note: The financial and portfolio data presented in this report is provided for indicative purposes only as the available institutional data did not meet Planet Rating's standards of reliability.

	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Loan Portfolio				
Loan portfolio evolution				
Loan portfolio	319,260	1,645,394	3,204,915	4,994,550
Loan portfolio (KES)	24,806,538	119,784,674	224,173,721	319,501,724
Evolution	-	382.9%	87.1%	42.5%
Average outstanding loan	159,630	993,072	2,458,713	4,249,452
Active borrowers	14,000	22,750	28,735	40,000
Evolution	-	62.5%	26.3%	39.2%
Average outstanding loan per client	23	72	112	125
% of GDP per capita	4.5%	12.2%	16.2%	13.7%
Average amount disbursed per loan	25	127	237	324
% of GDP per capita	4.9%	21.5%	34.3%	35.7%
Portfolio quality				
Rescheduled loans	n/a	n/a	n/a	n/a
PAR 31-365	n/a	n/a	n/a	n/a
PAR > 365	n/a	n/a	n/a	n/a
Write-off ratio	n/a	n/a	n/a	n/a
Credit risk coverage				
Risk coverage ratio (PAR 30)	n/a	n/a	n/a	n/a
PAR 31 net of loan loss provision / Equity	n/a	n/a	n/a	n/a
Savings				
Outstanding deposits	319,260	1,645,394	3,204,915	4,638,690
Outstanding deposits (KES)	24,806,538	119,784,674	224,173,721	296,737,304
Evolution	-	382.9%	87.1%	32.4%
Mandatory savings (%)	39.4%	39.4%	39.4%	42.4%
Voluntary savings (%)	0.0%	0.0%	0.0%	0.0%
Active savers	14,000	22,750	28,735	40,000
Evolution	-	62.5%	26.3%	39.2%
Average outstanding deposit per saver	23	72	112	116
Mandatory	9	28	44	49
Voluntary	n/a	n/a	n/a	n/a
Staff				
Total number of staff	25	34	52	56
% Credit officers	52.0%	50.0%	65.4%	62.5%
Turnover	0.0%	3.4%	4.7%	7.4%
Profitability analysis				
ROE	200.0%	193.7%	99.9%	30.7%
Liabilities / Equity	215.74x	16.7x	10.4x	10.8x
Capital adequacy ratio	0.5%	6.0%	9.6%	9.1%
ROA	0.9%	9.3%	7.7%	2.6%
Profitability structure				
Portfolio Yield	34.4%	25.4%	18.8%	14.3%
Operating expense ratio	30.5%	13.1%	8.5%	9.7%
Cost per borrower	3	6	7	10
Staff productivity	560	669	553	714
Loan officer productivity	1,077	1,338	845	1,143
Average outstanding loan per client (USD)	23	72	112	125
Funding expense ratio	0.0%	0.0%	0.0%	0.0%
Cost of savings	0.0%	0.0%	0.0%	0.0%
Cost of liabilities	0.0%	0.0%	0.0%	0.0%
Loan Loss Provision expense ratio	3.0%	2.5%	2.0%	1.7%
PAR 31-365	0.0%	0.0%	0.0%	0.0%
Write-off ratio	0.0%	0.0%	0.0%	0.0%
Resource optimization				
Outstanding Loan Portfolio / Assets	97.7%	92.8%	89.7%	90.8%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	0.0%
Liquidity				
Cash to demand deposits	1.0%	5.5%	10.0%	8.6%
Liquidity / Total assets (LAR)	1.0%	5.2%	9.1%	7.3%
Financial self-sufficiency	102.8%	162.6%	179.5%	125.1%
Exchange rate 1 USD= xx KES	**77.7**	**72.8**	**69.9**	**64.0**

PAWDEP	**KES**				**USD**				**Evolution**		
Income Statement	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Dec. 2007**	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Dec. 2007**	**2005/04**	**2006/05**	**2007/06**
Financial Revenue (a)	**4,272,902**	**18,352,715**	**32,375,603**	**38,876,522**	**54,992**	**252,098**	**462,860**	**607,730**	**329.5%**	**76.4%**	**20.1%**
Financial Revenue from Loan Portfolio	4,272,902	18,352,715	32,375,603	38,876,522	54,992	252,098	462,860	607,730	329.5%	76.4%	20.1%
Interest on Loan Portfolio	2,751,363	13,719,493	25,100,000	28,459,140	35,410	188,455	358,844	444,882	398.6%	83.0%	13.4%
Fees and Commissions on Loan Portfolio	1,521,539	4,633,222	7,275,603	10,417,382	19,582	63,643	104,016	162,848	204.5%	57.0%	43.2%
Penalty Revenue on Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-
Financial Revenue from Investments	-	-	-	-	-	-	-	-	-	-	-
Other Operating Revenue	-	-	-	-	-	-	-	-	-	-	-
Financial Expense (b)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest paid on borrowings	-	-	-	-	-	-	-	-	-	-	-
Interest paid on deposits	-	-	-	-	-	-	-	-	-	-	-
Net Inflation Adjustment Expense	-	-	-	-							
Other Financial Expenses	-	-	-	-	-	-	-	-	-	-	-
Financial income [c=a-b]	**4,272,902**	**18,352,715**	**32,375,603**	**38,876,522**	**54,992**	**252,098**	**462,860**	**607,730**	**329.5%**	**76.4%**	**20.1%**
Net Loan Loss provision expense (d)	**372,098**	**1,796,770**	**3,362,606**	**4,607,908**	**4,789**	**24,681**	**48,074**	**72,032**	**4**	**87.1%**	**37.0%**
Loan loss provision expense and write-off	372,098	1,796,770	3,362,606	4,607,908	4,789	24,681	48,074	72,032	382.9%	87.1%	37.0%
Recovery from Loans written off	-	-	-	-	-	-	-	-	-	-	-
Operating expense (e)	**3,785,356**	**9,490,919**	**14,671,584**	**26,476,345**	**48,718**	**130,370**	**209,753**	**413,886**	**2**	**54.6%**	**80.5%**
Personnel Expense (includes fringe)	2,100,000	5,880,000	9,684,000	8,093,075	27,027	80,769	138,448	126,513	180.0%	64.7%	(16.4%)
Administrative Expense (non-staff operating expenses)	1,685,356	3,610,919	4,987,584	18,383,270	21,691	49,601	71,305	287,373	114.3%	38.1%	268.6%
Depreciation and amortization	82,325	424,168	465,834	1,628,223	1,060	5,826	6,660	25,453	415.2%	9.8%	249.5%
Consulting fees	-	-	25,000	-	-	-	357	-	-	-	(100%)
Administrative Expenses	1,593,599	3,167,887	4,461,022	16,723,275	20,510	43,515	63,777	261,423	98.8%	40.8%	274.9%
Others	9,432	18,864	35,728	31,772	121	259	511	497	100.0%	89.4%	(11.1%)
Net Operating Income Before Taxes and Donations [f=c-d-e]	**115,448**	**7,065,026**	**14,341,413**	**7,792,269**	**1,486**	**97,047**	**205,033**	**121,811**	**6,020%**	**103.0%**	**(45.7%)**
Income Taxes (g)	-	-	-	-	-	-	-	-	-	-	-
Net Operating Income Before Donations [h=f-g]	**115,448**	**7,065,026**	**14,341,413**	**7,792,269**	**1,486**	**97,047**	**205,033**	**121,811**	**6,020%**	**103.0%**	**(45.7%)**
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	-	-	-	-	-	-	-	-
Net Income Before Donations [k=h+i-j]	**115,448**	**7,065,026**	**14,341,413**	**7,792,269**	**1,486**	**97,047**	**205,033**	**121,811**	**6,020%**	**103.0%**	**(45.7%)**
Donations (l)	-	-	-	-	-	-	-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]	**115,448**	**7,065,026**	**14,341,413**	**7,792,269**	**1,486**	**97,047**	**205,033**	**121,811**	**6,020%**	**103.0%**	**(45.7%)**

PAWDEP	KES				USD				Evolution		
Balance sheet	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Dec. 2007**	**Dec. 2004**	**Dec. 2005**	**Dec. 2006**	**Dec. 2007**	**2005/04**	**2006/05**	**2007/06**
ASSETS	**25,021,986**	**127,185,148**	**246,080,384**	**346,726,142**	**322,033**	**1,747,049**	**3,518,105**	**5,420,131**	**408,3%**	**93,5%**	**40,9%**
Short Term Assets	**24,727,811**	**124,858,641**	**243,575,311**	**340,709,559**	**318,247**	**1,715,091**	**3,482,291**	**5,326,078**	**404,9%**	**95,1%**	**39,9%**
Cash and Due from Banks	239,819	6,552,185	22,415,644	25,401,191	3,086	90,003	320,467	397,079	2,632%	242,1%	13,3%
Short Term Investments	48,552	198,552	198,552	198,552	625	2,727	2,839	3,104	308,9%	0,0%	0,0%
Short Term Net Loan Portfolio	24,434,440	117,987,904	220,811,115	314,893,816	314,472	1,620,713	3,156,841	4,922,518	382,9%	87,1%	42,6%
Short Term Gross Loan Portfolio	24,806,538	119,784,674	224,173,721	319,501,724	319,260	1,645,394	3,204,915	4,994,550	382,9%	87,1%	42,5%
(Loan Loss Reserve)	372,098	1,796,770	3,362,606	4,607,908	4,789	24,681	48,074	72,032	382,9%	87,1%	37,0%
Interest Receivable	-	-	-	-	-	-	-	-	-	-	-
On loan portfolio	-	-	-	-	-	-	-	-	-	-	-
On investments	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	5,000	120,000	150,000	216,000	64	1,648	2,144	3,377	2,300,0%	25,0%	44,0%
Long term assets	**294,175**	**2,326,507**	**2,505,073**	**6,016,583**	**3,786**	**31,958**	**35,814**	**94,053**	**690,9%**	**7,7%**	**140,2%**
Long Term Net Investments	-	-	-	-					-	-	-
Long Term Gross Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets	294,175	2,326,507	2,505,073	6,016,583	3,786	31,958	35,814	94,053	690,9%	7,7%	140,2%
Other Long Term Assets	-	-	-	-	-	-	-	-	-	-	-
LIABILITIES AND EQUITY	**25,021,986**	**127,185,148**	**246,080,384**	**346,726,142**	**322,033**	**1,747,049**	**3,518,105**	**5,420,131**	**408,3%**	**93,5%**	**40,9%**
Liabilities	**24,906,538**	**120,004,674**	**224,558,497**	**317,411,987**	**320,547**	**1,648,416**	**3,210,416**	**4,961,883**	**381,8%**	**87,1%**	**41,3%**
Short term liabilities	24,906,538	120,004,674	224,558,497	297,411,987	320,547	1,648,416	3,210,416	4,649,237	381,8%	87,1%	32,4%
Demand Deposits	24,806,538	119,784,674	224,173,721	296,737,304	319,260	1,645,394	3,204,915	4,638,690	382,9%	87,1%	32,4%
Compulsory Deposits	-	-	-	-	-	-	-	-	-	-	-
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	-	-	-	-	-	-	-	-	-	-	-
Interest payable	-	-	-	-	-	-	-	-	-	-	-
Accounts Payable and Other Short Term Liabilities			384,776	674,683	1,287	3,022	5,501	10,547	120,0%	74,9%	75,3%
Long term liabilities	-	-	-	20,000,000	-	-	-	312,646	-	-	-
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	-	-	-	20,000,000	-	-	-	312,646	-	-	-
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-	-	-
Equity	**115,448**	**7,180,474**	**21,521,887**	**29,314,155**	**1,486**	**98,633**	**307,689**	**458,248**	**6,120%**	**199,7%**	**36,2%**
Tier 1 Capital	**115,448**	**7,180,474**	**21,521,887**	**29,314,155**	**1,486**	**98,633**	**307,689**	**458,248**	**6,120%**	**199,7%**	**36,2%**
Paid-In Capital	-	-	-	-	-	-	-	-	-	-	-
Donated equity	-	-	-	-	-	-	-	-	-	-	-
Retained earnings without donations and reserves	115,448	7,180,474	21,521,887	29,314,155	1,486	98,633	307,689	458,248	**6,120%**	199,7%	36,2%
Tier 2 Capital	-	-	-	-	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-
Other equity accounts	-	-	-	-	-	-	-	-	-	-	-

Formulas

Return on assets (ROA):	Net operating income before donations / Average assets
Return on equity (ROE):	Net operating income before donations / Average equity
Leverage:	Debt (savings + debts) / Equity (end of period)
Portfolio yield:	Portfolio revenue / Average gross outstanding portfolio
Operating expense ratio:	Operating expense / Average gross outstanding portfolio
Staff productivity:	Active borrowers / Total personnel (end of period)
Funding expense ratio:	Interest and fees paid on funding liabilities / Average gross outstanding portfolio
Cost of savings ratio:	Interest and fees paid on deposits / Average deposits
Cost of borrowings ratio:	Interest and fees paid on borrowings / Average borrowings
Loan loss provision expense ratio:	Net loan loss provision expense / Average gross outstanding portfolio
Adjustment expense ratio:	Total adjustments / Average gross outstanding portfolio
Net portfolio as a % of assets:	Net outstanding portfolio / Total assets (end of period)
Risk coverage ratio:	Loan loss reserve / Portfolio at risk (31-365 days)
Write-off ratio:	Loans written off / Average gross outstanding portfolio

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+ A A-	Current institutional, operational and financial performances are excellent when compared to industry standards. 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.	
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.	SPECULATIVE INVESTMENT
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	
D	**High risk**: Important weaknesses in operational and financial areas result in high institutional vulnerability and potential risk of default. Performance is very poor in several important evaluation areas.	TECHNICAL ASSISTANCE REQUIRED
E	**Immediate risk of default:** Existing operational and/or financial and/or strategic weaknesses create an outstanding risk of default. Performance is very poor in most evaluation areas.	