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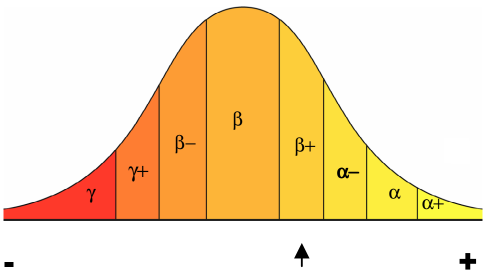
# December 2007 — LAPO — Nigeria

**2nd MicroRate Rating**

## β+

***Moderate Risk.*** Strengthened operations and internal controls. Average efficiency and staff productivity. Profitable

**Future Rating Outlook** **Stable**




| | |
|---|---|
| Date of visit | May 08 |
| Previous Rating | β |
| Date of Previous Rating | Dec 05 |
| Number of MRI Ratings | 2nd |

**Principal Performance Indicators**

| | Dec-05 | Dec-06 | Dec-07 |
|---|---|---|---|
| Gross Portfolio Loan* | $3,416 | $7,659 | $16,484 |
| Number of Clients | 43,699 | 84,006 | 129,269 |
| ROE** | 10.4% | 23.8% | 30.3% |
| Portfolio Yield | 61.9% | 61.4% | 59.2% |
| Portfolio at Risk | 1.1% | 0.6% | 1.5% |
| Operating Expenses | 39.9% | 35.3% | 34.4% |
| Average Loan Size | $78 | $91 | $128 |
| Borrowers per Staff | 148 | 168 | 127 |

* (000 $) ** Adjusted

## Summary

The NGO Lift Above Poverty Organization ("LAPO") is a non-profit MFI, with over 20 years of operations. LAPO was initially supervised by the Grameen Bank of Bangladesh and received technical assistance from another large Bangladeshi MFI, the Grameen Foundation USA and ASA. Thanks to the aid of both organizations, LAPO has developed into a large, profitable microfinance institution.

Through a fast-growing network of 108 branches in south-west Nigeria, LAPO reaches almost 130,000 borrowers with loans averaging $128 per client and a total gross portfolio of US$16.4 million.

## Rating Rationale

LAPO is a sustainable and profitable microfinance institution. Operational procedures and internal controls have been improved to keep pace with the institution's rapid loan portfolio growth. Furthermore, LAPO is well positioned at the lower end of the microcredit niche.

A suitable group loan methodology and solid repayment culture have helped produce strong portfolio quality. However, the client desertion rate remains high.

Thanks to high staff morale and a committed management team, LAPO is establishing a solid basis for future development. However, deficiencies in the MIS system continue to hamper operational performance and management's ability to lead the institution. Furthermore, LAPO should focus on improving efficiency and productivity.

LAPO consistently displays excellent operating margins, good liquidity levels, and high profitability. However, as an NGO, LAPO faces future funding constraints due to its high debt/equity ratio.

## Strengths

- Fast growth with excellent positioning at the lower end of the market
- Good loan portfolio quality
- Highly profitable
- Stable and committed management and staff

## Weaknesses

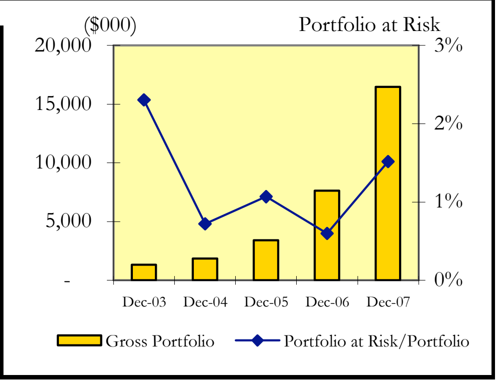
- Client savings intermediation without a license and without an appropriate structure
- Inadequate MIS, cannot keep up with fast growth
- Low staff productivity
- Some exchange risk exposure

## GENERAL SUMMARY

| LAPO | Dec-07 | Quartile | MicroRate Africa Sample 1st Quartile* | MicroRate Africa Sample Average |
|---|---|---|---|---|
| ROE** | 30.2% | 1st | 22.2% | 14.3% |
| Portfolio at risk | 1.5% | 1st | 2.0% | 4.3% |
| Operating expenses | 34.4% | 2nd | 14.0% | 23.4% |
| Client per employee | 127 | 2nd | 167 | 119 |
| Gross Portfolio Loan*** | $16,484 | 3rd | $69,897 | $54,575 |
| Number of clients | 129,269 | 3rd | 67,084 | 61,585 |
| Operating margin | 13.1% | 1st | 8.9% | 6.4% |
| Average loan size per client | $128 | 1st | $498 | $963 |

*Lower limit of the 1st Quartile **Adjusted ***(000$)

Gross Loan Portfolio vs Portfolio at Risk




### Financial Situation *(pg. 4)*

LAPO is highly profitable, due to generous operating margins and gearing that is high for a NGO. Borrowings are well diversified among a large number of mainly foreign lenders. Approximately one third of funding is provided by client deposits even though as a NGO, LAPO is not licensed to mobilize savings.

### Microfinance Operations and Portfolio Quality *(pg. 7)*

Since the last MicroRate rating in 2006, LAPO has grown rapidly. Village banking loans still account for the bulk of lending, but these have recently been complemented by solidarity loans and even individual loans. However, very fast growth has resulted in procedural weaknesses at some branches. Portfolio quality, though lower than in 2006, remains excellent.

### Organization and Management *(pg. 8)*

High staff morale, and very low staff turnover are positive aspects. Operations have been decentralized as the branch network has grown.

LAPO has not been able to benefit from economies of scale as it expanded. Administrative expenses have grown at roughly the same pace as the loan portfolio. Controls, which had been weak two years ago, have improved substantially. Unfortunately the same is not true for the Management Information System, which remains inadequate and is unable to keep pace with rapid expansion.

### Governance and Strategic Positioning *(pg. 10)*

LAPO's Board has been strengthened and now includes members with financial expertise and banking experience. Board committees have been set up to concentrate on specific aspects of LAPO's operations. The institution continues to be excellently positioned towards the lower end of the microfinance market, where competition is less pronounced. The extensive branch network moreover, allows LAPO to reach underserved areas.

### Social Perspective *(pg. 10)*

LAPO successfully fulfills its mission by serving the poorest microcredit niche in Nigeria and increasing outreach through geographic and product diversification.

The MFI has historically placed social objectives at the center of its institutional strategy. Moreover, social objectives are reflected into its processes and have been instilled to clients as well as staff. There is little probability for mission drift. Retaining their clients remains however a big challenge.

## Context

| COUNTRY PROFILE | Dec-03 | Dec-04 | Dec-05 | Dec-06 | Dec-07 |
|---|---|---|---|---|---|
| Annual Inflation | 14.0% | 15.0% | 14.0% | 8.0% | 7.0% |
| Annual Devaluation | 8.0% | -3.0% | -2.5% | 2.7% | -11.0% |
| End of Period Official Exchange Rate / US$ | 136.5 | 132.4 | 129.0 | 132.5 | 118.0 |
| Deposit Rate (Year Average) | 14.0% | 13.0% | 11.0% | 10.0% | 11.0% |
| GDP Annual Growth | 4.0% | n/a | 7.2% | 5.2% | 5.2% |
| Population (million) | 126.0 | 129.0 | 134.0 | 140.0 | 140.0 |
| Incidence of Poverty (%) | 54.4% | 54.4% | n/a | n/a | n/a |

Source: International Finance Statistics; World Bank, Central Bank of Nigeria (CBN)

The Nigerian economy, primarily based on petroleum extraction, has been stable for the past number of years. In fact, the main macroeconomic indicators show a controlled inflation rate, stronger local currency (Naira) and sustained growth.

Nigeria's often volatile politics have been comparatively calm recently. The President, who was elected a year ago has gained popular acceptance due to his interest in social development and poverty alleviation programs. However, serious obstacles remain within the country and might affect its stability. Corruption remains high[1] and some regions continue to be affected by social unrest.

The high level of unemployment is also a problem; micro enterprise has consequently become one of the alternatives for self-employment and income generation. Considering the size of the population (140 million people, half of whom live in poverty), the Nigerian microfinance market is potentially very large, especially considering the fact that 65% of the economically active population (with a minimum wage of 5,500 Nairas, equivalent to $45 dollars) has no access to formal financial institutions[2].

### Microfinance Sector

Microfinance activity started in the early 1980's, led by NGOs, development programs and small informal lenders. Even though microfinance is still a developing sector (with no credit bureau[3] or consolidated performance data), some progress has been made in creating a regulatory framework. For instance, micro enterprise is defined by the Central Bank of Nigeria (CBN) as a business with no more than $5,000 dollars in assets and revenues of less than twice the minimum salary. In 2005, the CBN set a deadline for all Community Banks to convert to a regulated Microfinance Banks (MFBs). At the end of 2007, the Central bank had authorized more than 700 MFBs. These MFBs perform lending and deposit-taking activities.

The growing number of regulated MFBs has not been accompanied by an increase in microfinance competition. On one hand, the market remains largely untapped, particularly in the North of the country. On the other hand, the MFBs have already been criticized for drifting from their core mission by offering priority loans to SMEs.

Financial aid and grants continue to serve as the main funding sources for local MFIs. Such aid comes mainly from abroad as local commercial banks show skepticism in supporting microfinance initiatives. The CBN is currently deciding how to further link MFBs with commercial banks. The Nigerian Government is generally supportive of the microfinance sector. For example a USD 426 million microcredit development fund, administered by the CBN was launched in early 2008.

LAPO is considered one of the largest MFIs in Nigeria. As an NGO, LAPO was not affected by the mandate forcing the CBN to transform into a regulated MFB. However, given LAPO's rapid growth, it is expected that pressure to convert into a supervised financial institution will increase. LAPO is considering transformation as a medium-term goal *(See section on Governance).*

[1] Corruption Perception Index-CPI 2007 shows that Nigeria is among the 30 most corrupted countries worldwide.
[2] Source: Central Bank of Nigeria
[3] However, nine Nigerian banks have set up mid-2007 the first credit bureau in partnership with Dun & Bradstreet, a global credit information provider, Accenture and the International Finance Corporation (IFC).

## Financial Situation

| FINANCIAL RATIOS | Dec-03 | Dec-04 | Dec-05 | Dec-06 | Dec-07 |
|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | |
| Debt / Equity | 0.7 | 0.8 | 1.3 | 2.6 | 3.9 |
| **Asset Quality** | | | | | |
| Portfolio at Risk / Gross Loan Portfolio | 2.3% | 0.7% | 1.1% | 0.6% | 1.5% |
| Write-offs / Gross loan portfolio | 2.2% | 3.1% | 0.1% | 0.0% | 0.5% |
| Loan loss reserves / Portfolio at Risk | 86.8% | 276.2% | 187.4% | 333.0% | 131.8% |
| Loan loss provision exp. / Average gross portfolio | 3.3% | 4.2% | 1.3% | 1.6% | 2.0% |
| **Management** | | | | | |
| Operating Expense / Average Gross Loans | 35.9% | 45.5% | 39.9% | 35.3% | 34.4% |
| Number of Borrowers / Credit Officer | 179 | 160 | 181 | 370 | 307 |
| Number of Borrowers/ Staff | 122 | 114 | 148 | 168 | 127 |
| **Earnings** | | | | | |
| Net income / Average equity | 10.1% | 16.0% | 26.0% | 33.2% | 39.9% |
| Net income / Average assets | 6.8% | 8.9% | 12.1% | 10.6% | 8.4% |
| Portfolio Yield | 50.6% | 64.8% | 61.9% | 61.4% | 59.2% |
| Cost of borrowed funds | 3.2% | 4.4% | 3.2% | 8.2% | 8.4% |
| **Liquidity** | | | | | |
| Current Ratio (Current Assets/Current Liabilities) | 3.3 | 2.6 | 3.2 | 2.3 | 1.9 |
| (Cash & Banks + Temp Inv) / Gross Loans | 8.7% | 8.2% | 35.2% | 12.2% | 25.1% |
| (Cash & Banks + Temp Inv) / Savings | 26.6% | 20.1% | 85.3% | 26.6% | 49.1% |

LAPO shows good liquidity and high profitability; such factors can be partially explained by very high operating margins. However, LAPO's indebtedness level is high for a NGO and the relatively narrow equity base could become an obstacle to future growth.

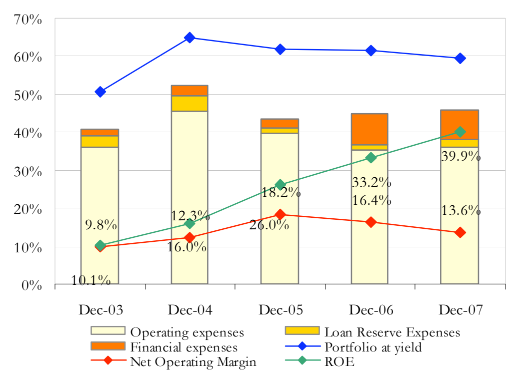
Operating margins[4] have decreased as a result of a declining portfolio yield and higher provisioning expenses. Operating expenses and funding costs decreased, but not by enough to offset those negative developments. As a result, margins diminished from around 16% in 2006 to 13% in 2007. Nonetheless, they remain extraordinarily high.

| RATIO | LAPO | | | MicroRate Average |
|---|---|---|---|---|
| | Dec-05 | Dec-06 | Dec-07 | Dec-06 |
| Portfolio Yield | 61.9% | 61.4% | 59.2% | 43.1% |
| Operating Expenses | 39.9% | 35.3% | 34.4% | 36.9% |
| Provision expenses | 1.3% | 1.6% | 2.0% | 1.3% |
| Financial Expenses | 2.5% | 8.1% | 9.7% | 4.6% |
| Net Operating Margin | 18.2% | 16.4% | 13.1% | 0.3% |
| ROE | 26.0% | 33.2% | 39.9% | 4.8% |

The lack of competition in the local microfinance market is reflected in a high and relatively stable portfolio yield (59.2%). The MFI was unable to improve operating efficiency, despite rapid portfolio growth. The impact of economies of scale was neutralized by lower staff productivity and higher administrative cost due to geographical extension (*see Microfinance Operations Section).*

LAPO's operating expenses are very high for a MFI of this size, even if the low average loan size is taken into account. In a more competitive environment than the one prevailing in LAPO's markets, an operating expense ratio (operating expenses/average gross portfolio) of 34% would constitute a serious handicap.

**Operating Margin and ROE**




Within the last two years, the funding structure changed. LAPO has been remarkably successful in diversifying its funding sources.

More commercial credit lines pushed borrowing costs up. As of December 2007, total funding cost (interest expense/average portfolio) increased to 9.7%, as compared to 2.5% in 2005. However, this increase is mitigated by the proportion of client savings and subsidized loans, which compose 31% and 16% of total funding respectively.

[4] The difference between the portfolio yield and the sum of operation costs (financed and through provisions).

| LAPO Source of Funds | |
|---|---|
| **Commercial Liabilities** | **Participation** |
| Triple Jump | 16% |
| Zenith Bank | 15% |
| Deutsche Bank | 11% |
| Impulse | 7% |
| Skye Bank | 7% |
| Incofin | 5% |
| Micro Credit Enterprise | 6% |
| Calvert | 4% |
| DBMF/ Netrifund | 4% |
| Novib | 4% |
| Others | 1% |
| **Subsidized Liabilities** | |
| CitiBank | 8% |
| Cordaid | 5% |
| KIVA | 3% |
| Grameen Foundation USA | 3% |
| PFD | 1% |

With a cost of only 4-5%, savings deposits are a much cheaper source of funding than commercial credits. Recognizing this, LAPO has strongly pushed savings mobilization. In MicroRate's opinion, this policy bears a serious risk since as a NGO, LAPO is neither authorized nor adequately equipped to mobilize savings from the public.

Rapid loan portfolio growth was funded mainly through borrowing and as a result, the debt/equity ratio grew from 1.3:1 to 3.9:1 in the last 2 years. Without considering the subordinated loan with Deutsche Bank (signed last 2007) the level of debt would have been even higher at 4.2 times equity. Although LAPO has plowed its high profits back into operations, this measure has not been enough to maintain a stable equity base. A debt/equity ratio of 3.9:1 – and rising – is exceedingly high for a NGO and LAPO must be prepared for a situation where lenders refuse to increase their exposure unless equity is strengthened considerably.

There is no maturity mismatch since the entire loan portfolio is short term and 61% of loans are long-term. Similarly, the interest rate risk is mitigated by the fact that all loans have been contracted at fixed interest rates.

LAPO now boasts more diversified funding sources (as shown in the box above). Some lenders are international Microfinance Investment Vehicles (MIVs) -such as Incofin, Novib, Calvert Foundation, or Grameen Foundation- and commercial banks –such as Zenith Bank, and Citibank. The Citi loan is one of a number of back-to-back arrangements where the proceeds of a foreign loan serve as collateral for a local currency loan. Such arrangements tend to be very expensive unless the borrower can leverage the collateral, depositing say, 70 or 50 cents to secure one dollar (equivalent) in local currency borrowing. So far, Citi has not allowed LAPO to do this.

Almost 50% of LAPO's borrowings were contracted in foreign currency (of which 56% were in Euros and 44% in dollars). However, 41% of these loans are used in back-to-back operations in which local currency loans are secured from local commercial banks. Nonetheless, LAPO carries some residual foreign currency risk; however, this amounts to less than 10% of total assets.

Increasing provisioning expenses are adding to the pressure on operating margins. Provisioning expenses have increased from 1.3% of the average gross portfolio in 2005 to 2% in 2007.

LAPO is a highly profitable MFI. Profitability has grown considerably over the last five years. In recent years, increased leverage has more than offset contracting margins, with the result that return on equity reached nearly 40% in 2007 (2006: 33.2%). Even after adjusting for inflation and interest rate subsidies, return on equity remains high at 31.1%.

Lower operating margins are however reflected in return on assets, which decreased to 8.4% in 2007 (10.6% in 2006). Nonetheless, 8.4% remains a very high level when compared to other MFIs rated by MicroRate.

Liquidity is high. As of the end of 2007, cash and short term investments amounted to 25.1% of the gross portfolio and around 50.0% of total savings. However, that ratio was strongly influenced by loans disbursed in late 2007. If the proceeds from these loans are not taken into account, liquidity still remains high at 16% of the gross portfolio and 30% of deposits, respectively.

Overall, LAPO is a highly profitable and rapidly growing entity. However, a comparatively narrow equity base could in the future force the institution to slow down growth. Also, experience in other microfinance markets shows that competition can force down lending rates quite rapidly. Were that to happen in LAPO's market, high operating expenses would make it difficult for the MFI to adjust to lower lending rates.

## Microfinance Operations and Portfolio Quality

| COMPANY PROFILE | Dec-03 | Dec-04 | Dec-05 | Dec-06 | Dec-07 |
|---|---|---|---|---|---|
| Gross Loan Portfolio | $1,317 | $1,880 | $3,416 | $7,659 | $16,484 |
| *Annual Change in Gross Loans* | *39.1%* | *42.7%* | *81.7%* | *124.2%* | *115.2%* |
| Number of Borrowers | 23,136 | 29,812 | 43,699 | 84,006 | 129,269 |
| *Annual Change in Number of Borrowers* | *23.5%* | *28.9%* | *46.6%* | *92.2%* | *53.9%* |
| Number of Loans Outstanding | 23,136 | 29,812 | 43,699 | 84,006 | 129,269 |
| Average Loan Balance (per borrower)-Actual Amounts | $57 | $63 | $78 | $91 | $128 |
| Portfolio at Risk / Gross Loan Portfolio | 2.3% | 0.7% | 1.1% | 0.6% | 1.5% |
| Portfolio Yield | 50.6% | 64.8% | 61.9% | 61.4% | 59.2% |

Since the last MicroRate rating in 2006, LAPO's operations have been characterized by a growing loan portfolio, diversified loan products and improved internal controls. Notwithstanding, certain operating procedures at the branch level presents cause for concern.

In local currency terms, the loan portfolio grew by 92% in 2007. The number of borrowers increased by 54%. This is mainly explained by the aggressive branch networking expansion in urban and rural areas. The number of branches tripled from 39 in 2005 to 108 in 2007, with most of them concentrated in such areas of southwestern Nigeria as Lagos, Oyo and Edo States.

Even though average loan size has consistently increased, it remains remarkably low at $128 dollars.

Although group loans are still LAPO's principal product (77% of total portfolio), new loan products have been recently introduced to meet client demand. In addition to its traditional group loans, LAPO offers individual loans, such as farming and business asset loans. Such loans are larger, with monthly or quarterly repayments and rates that decrease with loan size.

LAPO's sub-products include seasonal loans which cover liquidity needs for up to four months.

**Loan Products Table**

| Loan Type | Interest Rate Flat (per.month) | Min- Max Loan Size | Deposit | % Portfolio |
|---|---|---|---|---|
| Regular | 3.0% | $130-$700 | 2% of loan as risk premium+ 10% of loan | 77.2 |
| Farming | 2.5% | $260-$700 | | 9.9 |
| Festival | 3.0% | $340-$425 | | 6.7 |
| Individual | 2.5% | $450-$4,500 | | 3.5 |
| Kiva | 2.0% | $180-$1,300 | 2% of loan as risk premium | 2.7 |

Group loan methodology is adequately and uniformly applied. Positive methodology aspects include regular client appraisals at group meetings and the existence of monitoring group who provide outside supervision (*see Organization and Management*).

LAPO also serves smaller groups, formed by borrowers with good credit history, with higher loan amounts.

The MFI is in the process of developing its own individual credit methodology. In MicroRate's experience, the transition from village banking to individual lending often presents a challenge to MFIs. Failing to obtain the adequate assistance from an institution with experience in individual lending could largely compromise the future of individual lending operations.

As is typical for village banking, forced savings are a key component of LAPO's lending methodology. These savings are used as collateral in the event of non-payment, but only as a last resort. In addition to mandatory savings, LAPO also mobilizes voluntary savings. To encourage clients to deposit their savings with LAPO, an annual interest rate of 4-5% is offered. This has proven to be highly successful and savings deposits account for over a third of total funding. Best practice would call for a MFI that is not authorized to mobilize savings, to set up an arrangement that allows its clients to deposit their savings in a licensed financial institution. LAPO's present policy of using savings deposits to fund its operations – besides being illegal – exposes its clients to risks of which they are unaware. LAPO's high liquidity somewhat mitigates this risk. Nonetheless, intermediating savings on a large scale without the proper authorization must be considered an unacceptable practice that LAPO should address urgently.

Internal controls have also been reinforced along with the growth of operations. The initial supervision within groups is complemented by an outside monitoring group, and supervised by a decentralized audit staff.

The branch offices are currently addressing some of the operational risks observed in the last MicroRate report. When at all possible, the handling of cash by staff is now limited and transfer/collections are made through local banks. However, cash planning can be improved at the branch level.

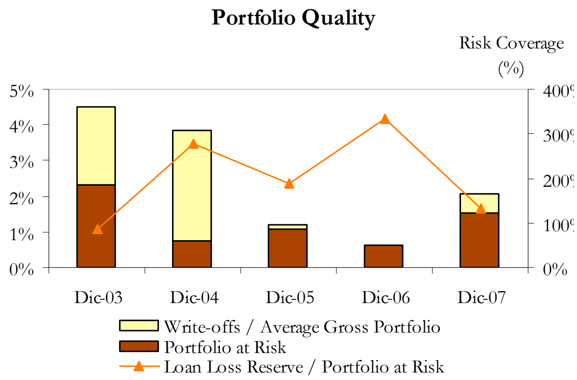
The functions and responsibilities of the Branch Manager and Credit officer remain completely separate to allow for improved operations control. However, file safety is not considered a priority.

Despite LAPO's efforts to better meet their client needs, the borrower attrition rate[5] has increased to a very high 51%. In 2006, the rate was only 27%. In Delta State, social unrest in communities probably plays a large role in client loss. However the trend is also strong in Lagos State where over 40% of all branches are concentrated.

### *Portfolio Quality*

| RATIO | LAPO | | | MicroRate Average |
|---|---|---|---|---|
| | Dec-05 | Dec-06 | Dec-07 | Dec-06 |
| Portfolio at Risk/Gross Loan Portf. | 1.1% | 0.6% | 1.5% | 4.9% |
| Write-offs /Gross Loan Portf. | 0.1% | 0.0% | 0.5% | 0.9% |
| Loan loss reserves / Portf.at Risk | 187.4% | 333.0% | 131.8% | 96.5% |

In the last two years, portfolio at risk (PAR 30) plus write-offs more than doubled. However, an overall ratio of 2.0% as of December 2007 remains well below MicroRate`s African average of 5.9%.




[5] MicroRate formula: number of clients that dropped out during period /number of clients beginning of period.

Due to software constraints (see *Management Information System*), only PAR30 for group loans and farming loans is tracked, showing deterioration in both cases. PAR30 reached 2.1% and 3.3% for these two products respectively (0.8% and 2.1% as of Dec.-06). Ongoing violence in certain regions such as in the Delta State (where 15% of the total portfolio is located) accounts for some of the deterioration. It seems surprising that despite the poor results obtained in this region LAPO continues to expand there.

Not surprisingly, those branches with the highest client attrition rate also show higher portfolio at risk ratios.

Loan refinancing is not a common practice. However, LAPO`s software cannot track refinanced loans, which makes it possible that portfolio at risk is higher than has been reported by the information system.

Even though loan write-offs are low, the rate has increased in the last two years.

Loan loss reserves are ample, amounting to 131% of portfolio at risk plus refinanced loans.

## Organization and Management

| Organisation Profile | LAPO | | |
|---|---|---|---|
| | Dec-05 | Dec-06 | Dec-07 |
| Total Branches | 39 | 62 | 108 |
| Total Staff | 295 | 500 | 1018 |
| Total Credit Officers | 242 | 227 | 421 |
| Staff Turnover | 6% | 5% | 8% |

Stable personnel and high staff morale, decentralization and function specialization are positive aspects of LAPO's organization.

Mr. Godwin Ehigiamusoe, the Executive Director, is LAPO's founder and a pioneer in the Nigerian microfinance industry. The management team that supports him is composed of the General Manager, and the heads of Operations, Finance, Planning, Human Resources and MIS. All of them are professionals with proven experience and solid commitment to LAPO.

As the portfolio has grown, LAPO has decentralized operational, administrative and internal control activities in order to increase the fluidity of certain processes.

Regional offices coordinate several branches and have Supervisors, as well as their own Human Resources, MIS staff and Auditors.

Stable staff is a clear strength. Professional career development advice is offered within the organization, thereby improving staff morale. Low staff turnover (11% as average within last 3 years) is a result of promotions (more widely available for Operational staff), salary revision and the progressive implementation of an incentive scheme.

At present, operational staff is locally recruited. No previous microfinance experience is needed for a credit officer position. New staff is trained internally for 4-5 weeks, which seems sufficient. Two weeks include an explanation of institutional theory and the other weeks are dedicated to field practice. If LAPO introduces individual lending, staff training would have to be considerably intensified.

### *Internal Audit and Internal Controls*

LAPO's internal controls were strengthened in the last 2 years. As the branch network grew, Divisional, Regional and Area Managers were added. All of them have experience as credit officers, and they thus have the necessary experience to make sure that credit policies are followed. The Audit program pays special attention to operational risk assessment.

Headed by an audit professional (with Accounting background), Internal Audit is independent from management and has direct access to the Board's Audit Committee, which meets quarterly.

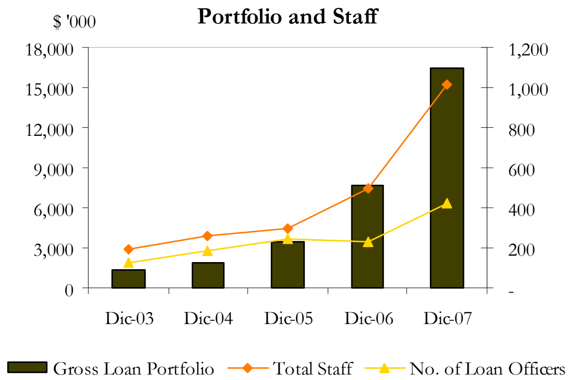
It is noteworthy that the size of the Audit department has increased from 8 employees at the end of 2005 to 23 employees by the end of 2007. Moreover, some of the internal auditors are permanently located at the largest branches. Following an Annual Plan, audit teams visit each branch at least twice a year.

Finally, LAPO, through its Internal Audit Area, implemented a Risk Management Framework which covers most potential operational, administrative and financial risk areas.

### *Productivity and Efficiency*

Operating efficiency improved only marginally in 2007, even though the portfolio nearly doubled (in local currency terms). Instead of taking advantage of economies of scale, LAPO has allowed staff productivity to drop and administrative expenses to increase disproportionately.

Loan officer productivity fell back to 307 borrowers per loan officer in 2007 after having improved dramatically in 2006. This is somehow explained by LAPO's expansion plan, whereby new loan officers, who are less productive, have contributed to dilute productivity levels. Indeed, LAPO's number of loan officers almost doubled from 227 to 421 in December 2007. Moreover, the rapid increase in administrative staff (120% higher than in 2006) decreased overall staff productivity from an already low 148 borrowers per employee in 2005 to 127 in 2007. The average of African MFIs rated by MicroRate is 161.




Hopefully, the new staff incentive scheme will boost productivity. However, in MicroRate's opinion, the scheme lacks clarity and it may prove difficult for staff to understand.

### *Management Information System*

The original software used by LAPO (named M2) was revised and improved in the last couple of years. Today's updated version has improved data capacity, reporting and security. However, its flexibility is limited and manual data entry leads to frequent errors.

At present, M2 can produce daily reports at the branch level to track client credit history. However, it cannot identify clients' past loans or refinanced loans.

Despite improvements in its design and capabilities, M2 has not yet been implemented in all branches. On an aggregate level, the system does not therefore produce such basic information as portfolio at risk per type of product. This is a serious limitation that affects decision making capabilities. Some specific query reports still have to be generated manually and outside the system.

Although it is a positive factor that MIS staff was assigned to the branches, the program still requires manual data entry and is prone to error. During random checks, MicroRate found loans that had been recorded in default although the client had been paid in advance. In fact, the system cannot recognize loan prepayments.

The system is neither integrated with the accounting system nor interconnected to the branches. The consolidation of financial statements remains centralized and may take more than a month. Data security has been reinforced since daily back -ups are stored outside the branches.

Overall, LAPO's Management Information System is no longer adequate for an operation of its size and complexity. As the branch network grows, the MIS falls increasingly behind, to the extent that it could seriously hamper management's ability to run the organization effectively.

## Governance and Strategic Positioning

With almost 20 years of operations, LAPO is a non- profit organization and a pioneer in Nigerian microfinance. LAPO is predominantly positioned in the south-west part of the country and is clearly focused on the lower end of the microcredit niche.

As LAPO intends to become a microfinance leader and sustainable MFI in the near future, the organization is in the process of ensuring that its institutional vision is uniformly transmitted.


The Board shows high commitment. It is composed of 7 members (including the Executive Director), 3 of whom joined the MFI in 2005. They are professionals with banking and microfinance experience; social researchers and a credit union leader, who represents the interest of borrowers. All members meet three times a year.

Over the last two years, LAPO has corrected several of the institutional deficiencies MicroRate observed and noted upon in its 2005 rating report. Credit, Audit, Finance and General Purpose sub-committees were implemented and past two years and Board members actively participate in such committees.

LAPO has also created manuals specifying stricter institutional policies and procedures. At present, LAPO has operations, accounting, internal audit, HR and risk management manuals.

LAPO's institutional strategy is clear. The institution is currently taking advantage of relatively low market competition. Positioning is reinforced through branch networking expansion in urban and rural areas. At present, the MFI has 108 branches with a growing presence in 9 (out of 36) Nigerian states.

LAPO is anticipating future competition by offering diversified and flexible loan products. In fact, the MFI has improved client relations in order to adapt to new demand trends.

Although group loans will remain as the institution's main product, the MFI intends within the short-term to enter new segment markets by offering individual loans aimed at small and medium-sized enterprises (although with average loan sizes of less than $5,000). Therefore, the new loan portfolio structure is planned to be comprised of 70% group loans and 30% either farming or commercial loans.
Despite being an NGO, LAPO is currently not facing any pressure to convert into a microfinance bank; such a transformation remains a medium-term goal. In order to meet capital requirements, the MFI needs $8 million. Accordingly, LAPO is looking to align with international investment funds

## Social perspective

| SOCIAL INDICATORS OF LAPO | Dec-03 | Dec-04 | Dec-05 | Dec-06 | Dec-07 |
|---|---|---|---|---|---|
| Number of clients | 23,136 | 29,812 | 43,699 | 84,006 | 129,269 |
| Population served by MFI's services | 24,563 | 32,938 | 48,735 | 88,430 | 135,974 |
| Percentage of clients in rural areas | 44% | 46% | 38% | 27% | 17% |
| Percentage of female clients | 98% | 98% | 98% | 98% | 98% |
| Number of financial products | 2 | 2 | 2 | 5 | 6 |
| Average first loan amount (US$) | n.a. | $117.3 | $121.9 | $155.5 | $218.3 |
| Client drop-out rate* | n.a. | 15% | 8% | 9% | 27% |
| Effective Interest Rate for regular loan (80% of loan portfolio) | 70%-80% | 70%-80% | 70%-80% | 70%-80% | 70%-80% |
| Cost per borrower (US$) | $17.6 | $24.4 | $24.2 | $23.2 | $33.6 |
| Staff turnover | 5% | 9% | 6% | 5% | 8% |

** calculated as (number of clients who dropped-out during the period)/(number of clients beginning of period + new clients during the period)*

***Institutional Mission***

*"To address the economic powerlessness of a large number of Nigerians through provision of financial services to micro, small and medium enterprises on affordable terms"*

*- LAPO*

***Social Results** –Evaluates the social results and the institution's capacity, efficiency and consistency in accomplishing its social mission.*

LAPO successfully fulfills its mission by serving the poorest microcredit niche in Nigeria and increasing outreach through geographic and product diversification.

Since its inception, LAPO has clearly focused on targeting the lowest market segment of microcredit, especially women (98%) mostly working in small commercial ventures and located in peri-urban and urban areas (over 17% are located in rural areas).

Currently, LAPO works with over 130,000 clients. Taking into account the families of each of them, it is estimated that more than 800,000 people benefit from the services of LAPO. Due to the large size of the Nigerian population (140 million), the penetration of services remains low but with high potential for growth.

LAPO provides small loans in an efficient manner. Average new loans are US$ 200 with an average term of 8 months. Adjusting for purchasing power parity (PPP) the amount is $430, or 1.6 times the official international poverty line established by the World Bank.

This level is considered low but has increased over the past 5 years with the introduction of individual loans. Its efficiency in providing loans measured as cost per borrower is remarkably low at US$30.

The effective interest rate of their main product is comprised between 70% and 80%. This relatively high rate is not exclusively explained by the lack of competition but also by the fact that providing smaller loans is more expensive. The profits made thanks to these revenues will however allow the non-profit organization to satisfy the strong demand and reach an increasing number of poor people in a sustainable way.

***Social Commitment** – Measures the social focus of the institutions and the probability of its deviating from its social mission in the future.*

The MFI has historically placed social objectives at the center of its institutional strategy. Moreover, social objectives are reflected into its processes and have been instilled to clients as well as staff.

There is little probability for mission drift. Retaining their clients remains however a big challenge.

The strong sense of social mission disseminated by the Board of Directors and management at all levels of the organization minimizes the risk that the institution loses sight of its developmental goals. This is reinforced by the client selection process, impact assessments and non-financial services in place to promote and implement the vision of the institution. Both clients and staff show a high degree of commitment and institutional identification to the institution.

The commitment to social mission is further strengthened by a client selection process that seeks applicants who are among the poorest. In fact, the poverty assessment conducted for each client disqualifies clients with poverty score above the standards set by LAPO.

On the basis of poverty score cards and other information collected, LAPO monitors the changes in the lives of their clients and regularly appraises their satisfaction. A significant sample of clients spread geographically is annually surveyed to measure progress in poverty status, health, education, feeding habits and income stability.

Moreover, LAPO offers a variety of non-financial services in order to increase the impact of its financial services. Through its not-for-profit subsidiary LAPO Development Center (LADEC), they provide training to their customers on various topics aimed at empowerment (gender, civic education, etc.). Training has reached over 15,000 clients. Annual development forums are also organized as think tanks on poverty alleviation. Finally, LAPO promotes maternal and child health, as well as HIV/AIDS prevention and care.

LAPO shows a strong vision of institutional responsibility towards its clients and employees, based on Christian fundamentals.

LAPO provides its clients mechanisms for information, complains, claims and suggestions though monthly group leaders' meetings. It also offers good incentive schemes and other benefits to its employees.

However client desertion remains high at 27% as at end 2007.

**Future**

In line with its fast expansion, LAPO will continue strengthening its operation performance. In this sense, some specific training will be received from USAID, specifically on operations and credit methodology issues.

One of the main challenges for LAPO is to improve the adequacy and effectiveness of its current Management Information System. This weakness is seriously affecting management's ability to guide the organization properly.

Local and international funding is expected within short-term to continue fueling the rapid loan portfolio expansion. In order to meet the 2008`s loan portfolio target, LAPO is negotiating about new $14 million credit lines.

The transformation into Microfinance bank might be a medium-term goal. Capital should be reinforced not only through net results but probably with the invitation of new partners.

## Financial Adjustments

The financial statements in this report are presented in accordance with a standard format, but were not adjusted based upon differing accounting or subsidy policies. Therefore, the tables presented next display performance indicators based upon adjusted financial statements and show comparisons between the various microfinance institutions. The adjustments are concentrated in the following areas: adjustment for inflation in the case that the institution does not do this itself, investment interests (only those which are recognized through an effective method), loan write-offs and provisions through investments (only those which are recalculated based upon a generally-accepted formula that is prudent for typical microfinance portfolios[6]), and adjustments for subsidized funds.[7]

MicroRate made two main adjustments to LAPO financial statements. There was an inflation adjustment of $187,000 dollars and for subsidized funds equaling to $ 206,000. As a result, net profit was reduced from $1 634,000 to $1 241,000. As a consequence return-on-equity (ROE) went from 39.9% to an adjusted 30.3%.

[6] MicroRate writes off loans that are overdue by more than 180 days and recalculates provisions in accordance with the following:

| | |
|---|---|
| 1-30 days | 10% |
| 31-60 days | 30% |
| 61-90 days | 60% |
| > 90 days | 100% |
| Refinanced | 50% |
| Refinanced with > 1 day delay | 100% |

[7] MicroRate uses the deposit rate established by FMI/International Finance Statistics as the minimum rate for local currency loans. For liabilities in US dollars, the London Interbank Office Rate (LIBOR) of one year + 2% and the preferential rate are used for short and long term loans respectively. The difference between the minimum market rate and the collection rate for funds applies to the average funds in balance and is counted as an additional financial expense.

**LAPO**
(All amounts in US$'000 except as noted)

| **Income Statement for the year ended:** | **31-déc-03** | **31-déc-04** | **31-déc-05** | **31-déc-06** | **31-déc-07** |
|---|---|---|---|---|---|
| Interest and Fee Income | 572,9 | 1.035,7 | 1.638,3 | 3.397,4 | 7.149,5 |
| Interest and Fee Expense | (17,4) | (44,4) | (65,5) | (448,6) | (1.172,1) |
| **Net Interest Income** | **555,5** | **991,3** | **1.572,9** | **2.948,7** | **5.977,4** |
| Provision for Loan Loss | (37,6) | (66,8) | (33,7) | (88,4) | (247,3) |
| **Net Interest Income After Provisions** | **517,9** | **924,5** | **1.539,2** | **2.860,3** | **5.730,1** |
| Operating Expense | (406,5) | (728,0) | (1.056,1) | (1.952,9) | (4.154,4) |
| **Net Operating Income** | **111,4** | **196,5** | **483,1** | **907,5** | **1.575,6** |
| Other Income | 4,3 | 14,2 | 9,4 | 27,3 | 57,9 |
| Other Expenses | - | - | - | (45,9) | - |
| Extraordinary Items | - | 0,8 | - | - | - |
| **Net Income Before Taxes** | **115,7** | **211,5** | **492,5** | **888,9** | **1.633,6** |
| Taxes | - | - | - | - | - |
| **Net Income** | **115,7** | **211,5** | **492,5** | **888,9** | **1.633,6** |
| **Balance Sheet as at:** | | | | | |
| Cash and Banks | 100,1 | 153,5 | 778,2 | 739,9 | 3.733,0 |
| Temporary Investments | 14,3 | - | 424,0 | 193,9 | 407,9 |
| Net Loans | 1.291,0 | 1.842,8 | 3.347,7 | 7.505,6 | 16.154,6 |
| Gross Loans | 1.317,3 | 1.880,4 | 3.416,0 | 7.658,7 | 16.484,3 |
| *Performing Loans* | *1.287,0* | *1.866,8* | *3.379,6* | *7.612,7* | *16.234,0* |
| *Portfolio at Risk* | *30,4* | *13,6* | *36,5* | *46,0* | *250,2* |
| Loan Loss Reserve | 26,3 | 37,6 | 68,3 | 153,2 | 329,7 |
| Other Current Assets | 134,3 | 219,8 | 533,0 | 971,3 | 2.589,1 |
| **Current Assets** | **1.539,7** | **2.216,1** | **5.083,0** | **9.410,8** | **22.884,6** |
| Long Term Investments | 167,8 | 189,9 | 150,6 | 1.709,0 | 3.560,7 |
| Property and Equipment | 288,0 | 364,2 | 156,3 | 223,9 | 1.009,1 |
| Other Long Term Assets | - | - | - | - | - |
| **Long Term Assets** | **455,8** | **554,1** | **306,9** | **1.932,9** | **4.569,8** |
| **Total Assets** | **1.995,5** | **2.770,2** | **5.390,0** | **11.343,6** | **27.454,4** |
| Demand Deposits | - | - | - | 3.507,3 | 8.439,1 |
| Short Term Time Deposits | 430,8 | 763,6 | 1.409,7 | - | - |
| Short Term Funding Liabilities | - | - | - | 199,0 | 2.501,1 |
| Other Short Term Liabilities | 40,8 | 75,0 | 178,2 | 298,9 | 839,9 |
| **Current Liabilities** | **471,6** | **838,6** | **1.587,9** | **4.005,2** | **11.780,0** |
| Long Term Time Deposits | - | - | - | - | - |
| Long Term Funding Liabilities | 393,3 | 414,1 | 1.537,7 | 4.247,4 | 10.568,3 |
| Other Long Term Liabilities | - | - | - | - | - |
| **Long Term Liabilities** | **393,3** | **414,1** | **1.537,7** | **4.247,4** | **10.568,3** |
| Capital | - | - | - | - | - |
| Retained Earnings | 83,1 | 302,8 | 325,7 | 1.664,1 | 5.106,1 |
| Other Capital Accounts | 1.047,6 | 1.214,8 | 1.938,6 | 1.426,9 | - |
| **Equity** | **1.130,6** | **1.517,6** | **2.264,3** | **3.091,1** | **5.106,1** |
| **Total Liabilities & Equity** | **1.995,5** | **2.770,2** | **5.390,0** | **11.343,6** | **27.454,4** |
| **Key ratios:** | | | | | |
| **Asset Quality** | | | | | |
| Portfolio at Risk / Gross Loan Portfolio (%) | 2,3 | 0,7 | 1,1 | 0,6 | 1,5 |
| Loan Loss Provision exp. / Average Gross Portfolio (%) | 3,3 | 4,2 | 1,3 | 1,6 | 2,0 |
| Loan Loss Reserves / Portfolio at Risk (%) | 86,8 | 276,2 | 187,4 | 333,0 | 131,8 |
| Write-offs / Gross portfolio (%) | 2,2 | 3,1 | 0,1 | 0,0 | 0,5 |
| **Efficiency and Productivity** | | | | | |
| Operating Expenses / Average Gross Loan Portfolio (%) | 35,9 | 45,5 | 39,9 | 35,3 | 34,4 |
| Cost per borrower | 19,4 | 27,5 | 28,7 | 30,6 | 39,0 |
| Average outstanding loan size | 56,9 | 63,1 | 78,2 | 91,2 | 127,5 |
| Number of Borrowers per Staff (no.) | 121,8 | 113,8 | 148,1 | 168,0 | 127,0 |
| Number of Borrowers / Credit Officer (no.) | 179,3 | 160,3 | 180,6 | 370,1 | 307,1 |
| Operating Expenses / Net Interest and Other Income (%) | 72,6 | 72,4 | 66,7 | 65,6 | 68,8 |
| **Profitability** | | | | | |
| Net Income / Average Equity (%) (ROE) | 10,1 | 16,0 | 26,0 | 33,2 | 39,9 |
| Net Income / Average Assets (%) (ROA) | 6,8 | 8,9 | 12,1 | 10,6 | 8,4 |
| Portfolio Yield (%) | 50,6 | 64,8 | 61,9 | 61,4 | 59,2 |
| Net Interest Income / Average Gross Loan Portfolio (%) | 49,1 | 62,0 | 59,4 | 53,3 | 49,5 |
| Non Interest Income / Total Operating Income (%) | 0,7 | 1,4 | 0,6 | 0,8 | 0,8 |
| **Financial Management** | | | | | |
| Interest and Fee Expenses / Average Gross Portfolio (%) | 1,5 | 2,8 | 2,5 | 8,1 | 9,7 |
| Interest and Fee Expenses / Average Funding Liabilities (%) | 3,2 | 4,4 | 3,2 | 8,2 | 8,0 |
| Debt / Equity (:1) | 0,8 | 0,8 | 1,4 | 2,7 | 4,4 |
| Total Capital / Risk Weighted Assets (%) | 80,9 | 73,8 | 89,0 | 70,2 | 67,0 |
| *Tier One Capital / Risk Weighted Assets (%)* | 60,0 | 58,0 | 53,0 | 29,6 | 21,8 |
| *Tier Two Capital / Risk Weighted Assets (%)* | 20,9 | 15,8 | 36,0 | 40,7 | 45,2 |
| Cash and Liquid Assets / Total Deposits (%) | 26,6 | 20,1 | 85,3 | 26,6 | 49,1 |
| Cash and Liquid Assets / Liabilities to the Public (%) | 24,3 | 18,3 | 75,7 | 23,3 | 35,2 |
| **Nominal Growth indicators** | | | | | |
| Assets (%) | | 38,8 | 94,6 | 110,5 | 142,0 |
| Loan Portfolio (%) | | 42,7 | 81,7 | 124,2 | 115,2 |
| Shareholders Equity (%) | | 34,2 | 49,2 | 36,5 | 65,2 |
| Deposits (%) | | 77,3 | 84,6 | 148,8 | 140,6 |
| Net income (%) | | 82,8 | 132,9 | 80,5 | 83,8 |

**UNADJUSTED COMPARISON TABLE***
**(US$'000)**
Extreme values - biaising the calculation of the average - are not taken into account.

| Period: December-2006 | MINIMUM | 1ST. QUARTILE | AVERAGE | MEDIAN | 3RD. QUARTILE | MAXIMUM |
|---|---|---|---|---|---|---|
| **Loan Portfolio** | | | | | | |
| Gross Loan Portfolio | $414 | $1,417 | $19,309 | $2,514 | $22,972 | $74,723 |
| *Annual Change in Gross Loan Portfolio* | *-20.3%* | *32.8%* | *51.9%* | *45.3%* | *86.6%* | *124.2%* |
| Number of Loans Outstanding | 841 | 7,078 | 63,862 | 18,900 | 73,182 | 356,971 |
| *Annual Change in Number of Loans Outstanding* | *-46.4%* | *6.1%* | *19.3%* | *13.5%* | *28.2%* | *92.2%* |
| Number of Borrowers | 841 | 7,078 | 55,136 | 18,900 | 71,950 | 291,682 |
| *Annual Change in Number of Borrowers* | *-46.4%* | *6.1%* | *24.4%* | *19.5%* | *43.1%* | *92.2%* |
| Average Oustanding Loan Size | $71 | $129 | $391 | $235 | $351 | $1,546 |
| Portfolio at Risk / Gross Loan Portfolio | 0.1% | 1.0% | 4.9% | 3.0% | 5.7% | 24.7% |
| Write-offs / Average Portfolio | 0.0% | 0.0% | 0.9% | 0.4% | 1.3% | 4.1% |
| Loan loss reserves / Portfolio at Risk | 9.8% | 40.3% | 96.5% | 69.6% | 91.7% | 333.0% |
| Loan loss provision expense / Average portfolio | 0.0% | 0.8% | 1.3% | 1.2% | 1.8% | 3.0% |
| | | | | | | |
| **Productivity Indicators** | | | | | | |
| Total operating expense / Average gross portfolio | 14.8% | 23.0% | 36.9% | 31.5% | 47.1% | 74.4% |
| Number borrower per credit officer | 49 | 247 | 287 | 314 | 357 | 403 |
| Number of borrower per staff | 14 | 127 | 164 | 168 | 220 | 254 |
| Portfolio yield | 26.5% | 32.1% | 43.1% | 39.4% | 55.2% | 65.9% |
| Personnel Expense/Average Gross Portfolio | 6.3% | 14.2% | 19.0% | 17.6% | 23.9% | 35.8% |
| Credit officers / Total personnel | 28.3% | 44.9% | 56.3% | 55.2% | 67.3% | 90.5% |
| Incentive Pay as % of Base Salary | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Percent of Staff with MFI < 12 Months | 27.5% | 31.8% | 34.9% | 36.1% | 38.6% | 41.0% |
| | | | | | | |
| **Financial Ratios** | | | | | | |
| Debt / Equity | 0.5 | 1.3 | 4.2 | 3.0 | 3.9 | 26.0 |
| Equity/Assets | 3.3% | 18.3% | 28.2% | 24.3% | 33.1% | 61.6% |
| Net Income / Average equity (ROE) | -75.6% | -10.7% | 4.8% | 12.9% | 21.7% | 48.0% |
| Net Income / Average assets (ROA) | -12.9% | -2.4% | 1.6% | 5.0% | 5.9% | 10.6% |
| Interest expense / Average Gross Portfolio | 0.0% | 1.9% | 4.6% | 2.8% | 8.3% | 10.5% |
| Interest expense / Average funding liabilities | 0.0% | 3.6% | 5.8% | 4.2% | 7.6% | 15.7% |
| Current assets / Current liabilities | 201.2% | 226.4% | 919.4% | 234.9% | 927.9% | 3006.8% |
| | | | | | | |
| **Absolute Currency Amounts** | | | | | | |
| Interest and Fee Income | $151 | $673 | $5,008 | $1,149 | $8,528 | $17,459 |
| Net Income | ($468) | ($38) | $1,138 | $171 | $1,724 | $4,830 |
| Total Assets | $557 | $2,175 | $26,980 | $3,498 | $34,627 | $130,329 |
| Deposits | $0 | $0 | $7,034 | $340 | $2,807 | $82,462 |
| Funding Liabilities (excluding Deposits) | $0 | $537 | $11,304 | $2,010 | $18,980 | $49,757 |
| Equity | $18 | $432 | $7,905 | $1,578 | $9,882 | $42,504 |
| | | | | | | |
| **Other ratios** | | | | | | |
| Portfolio / Total Assets | 46.8% | 65.4% | 72.9% | 74.3% | 81.3% | 90.0% |
| Operating margin | -25.2% | -7.7% | 0.3% | 5.8% | 7.5% | 16.4% |

| Rating | Microfinance Rating Scale Definition |
|---|---|
| α++ | Those MFIs with an **ongoing stable relationship** among the financial, operational and strategic considerations of sound microfinance practice as compared to an international set of similar companies and standards of the microfinance industry. **Optimal** efficiency and effectiveness. ***Very Low Risk* / *Risk excellent managed***, leaving company minimally susceptible to variability during economic cycles. |
| α+<br>α<br>α− | Those MFIs that ***have successfully balanced*** the financial, operational and strategic considerations of sound microfinance practice as compared to an international set of similar companies and standards of the microfinance industry. ***Excellent*** efficiency and effectiveness. ***Low Risk* / *Risk well managed***, leaving the company minimally susceptible to variability during economic cycles. |
| β+<br>β | Those MFIs ***working to define*** a relationship among the financial, operational and strategic considerations of sound microfinance practice as compared to an international set of similar companies and standards of the microfinance industry. ***Good*** efficiency and effectiveness. ***Moderate Risk* / *Incipient Risk Management***, leaving the company subject to some variability during economic cycles. |
| β− | Those MFIs ***lacking*** a clear relationship among the financial, operational and strategic considerations of sound microfinance practice as compared to an international set of similar companies and standards of the microfinance industry. ***Acceptable*** efficiency and effectiveness. ***Moderate Risk* / *Inadequate Risk Management***, leaving the company subject to significant variability during economic cycles. |
| γ+<br>γ | Those MFIs ***with financial, operational or strategic weaknesses that have the potential to threaten their viability, now or in future***, as compared to an international set of similar companies and standards of the microfinance industry. ***Poor*** efficiency and effectiveness. ***High Risk***, with high variability during economic cycles. |