

## Buusaa Gonofaa, Ethiopia

Buusaa Gonofaa (BG) was founded in May 1999 to run the microcredit activities developed since 1996 by HUNDEE, a local NGO that implements community-based development projects in rural areas of the Oromia region. BG was formed as a Share Company and received a license from the National Bank of Ethiopia (NBE). BG offers group loans through a network of 14 branches located in district towns of the Oromia region and serves clients living in rural areas within a radius of 25 to 30 km from the branch. As of June 2007, BG has a total outstanding loan portfolio of 2 M USD and 26,247 borrowers.

### GIRAFE Rating

#### Rating

**C+**

#### Outlook

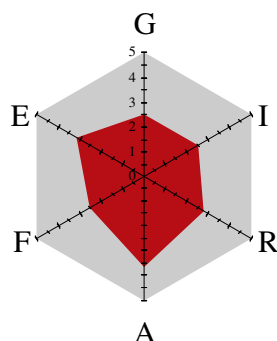
**Positive**

#### Date of the rating

**July 2007**

Valid until June 2008

#### Rating per evaluation area



Governance – Information – Risk –  
Activities – Funding – Efficiency

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#### Rating highlights

- Access to funding from SOS FAIM, ICCO and RUFIP since 2004/2005 combined with an important market potential triggered dramatic loan portfolio growth (x5 since 2004) which allowed BG to record a solid ROA of + 4.5% in 2006. Good performance coming after several years of very thin profitability or losses, seems to be confirmed for 2007 but still fragile.
- Credit risk kept low (PAR 31-365 below 1.5% for 2005, 2006 and 2007) thanks to well-designed and swiftly implemented credit policies. Portfolio concentration in agriculture leaves BG exposed in case of adverse climatic conditions.
- BG dwarfed by government-supported MFIs and thus handicapped in terms of pricing, but focused on improving its services through constant market research.
- Management team has most of the skills necessary for a reasonable management of current operations. Upcoming challenges require enhancing skills in financial planning and management, liquidity management, product development.
- Transition to a computerized MIS underway for 3 years. Risky process for which BG cannot rely on staff that received specific trainings or has some experience of such processes. Full implementation however planned for the end of 2007.

#### Outlook

Continued growth should bring BG the economies of scale and additional margins it needs to cater for potential increases of funding costs, provisioning expenses or MIS related expenses. Existing weaknesses well identified and addressed by organizational projects currently underway (training, MIS, planning, market research).

#### Performance indicators

USD	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
Assets	301,070	416,141	710,638	1,171,020	1,658,678	2,653,673
Growth	63.2%	40.6%	71.4%	63.1%	47.5%	60.7%
Loan portfolio	190,036	241,787	239,005	890,451	1,115,126	2,002,367
Growth	81.3%	29.4%	(0.8%)	268.9%	30.4%	80.4%
Outstanding deposits	-	52,015	84,604	136,322	260,261	368,505
Growth	-	-	63.3%	59.5%	98.8%	42.2%
Active borrowers	4,734	5,999	5,571	9,988	18,208	26,247
Active savers	-	-	5,514	10,061	18,096	25,552
Staff	28	37	55	76	123	137
ROE	(2.1%)	1.4%	0.1%	(6.7%)	6.8%	4.1%
ROA	(2.0%)	1.2%	0.1%	(4.7%)	4.5%	2.1%
Liabilities / Equity	0.12x	0.19x	0.30x	0.51x	0.51x	1.35x
Portfolio Yield	49.2%	48.3%	41.1%	31.4%	30.8%	29.7%
Operating expense ratio	51.1%	40.0%	35.8%	38.6%	22.2%	23.8%
PAR 31-365	4.1%	1.8%	3.9%	0.4%	1.2%	1.0%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Write-off ratio	0.0%	5.6%	2.1%	1.9%	0.0%	0.0%

## Microfinance sector

The Ethiopian microfinance sector is relatively young but has grown rapidly in recent years. Informal microfinance (including informal group-based credit associations) and NGO credit programs have existed for many years. In 1996 the Government introduced a legal framework intended to professionalize the industry and encourage sustainability through the Proclamation 40/1996. In addition to a minimum capital requirement, liquidity level, reporting requirements and annual inspection by the National Bank of Ethiopia (NBE), the law specifically endorses deposit mobilization, which is a primary source of funds for the sector. Although the law presented some limitations at inception, much progress has been made to improve it, like the liberalization of interest rates on loans, the softening of the cap on loans (established first at 5,000 ETB, around 550 USD) and the possibility to offer loan products different from group loans. In this context, Ethiopian MFIs have made impressive strides in their financial and operational performance with a focus on increased efficiency and sustainability.

MFI	Loan portfolio (M USD)	Active clients	Avg. outst. loan per client	Deposits (M USD)
DECSI	82.1	392,693	209	22.0
ACSI	75.3	515,686	146	40.1
OCSSCO	25.5	181,403	140	9.1
ADSCI	15.6	83,000	188	4.8
OMO	12.5	106,460	118	5.6
Wisdom	5.3	44,165	120	1.4
PEACE	3.0	20,546	145	0.7
Eshet	2.7	23,734	114	0.3
SFPI	2.3	19,856	116	0.8
Benshangul	2.2	NA	NA	0.7
Wasasa	2.0	22,752	89	0.6
Sidama	2.0	26,567	74	0.5
Gasha	1.4	10,337	140	0.6
Meket	1.1	7,426	151	0.5
Buusaa Gonofaa	1.1	18,208	61	0.3
AVFS	0.7	5,931	121	0.2
Others	5.1	39,389	NA	1.3

Data as of December 2006, according to AEMFI or data taken from MFI financial statements when available.

As of December 2006, 28 MFIs licensed by the NBE served approximately 1.5 million clients through more than 500 branches and sub-branches and accounted for 3% of total financial sector assets. The industry is heavily concentrated in six large MFIs affiliated to regional governments. These MFIs are among the largest in Africa - the largest, ACSI, serving as many as 500,000 borrowers - and represent over 80% of both sector assets and total clients. The remaining MFIs are generally linked to indigenous or international

NGOs. Savings and credit cooperatives (SACCOs) also play a large role in the provision of financial services. The approximately 700 SACCOs operating in Ethiopia are usually urban, employee-based cooperatives<sup>1</sup>.

In general, Ethiopian MFIs serve both urban and rural areas. Although the outreach of the Government-supported MFIs is broader, NGO MFIs and new WOCCU-supported rural SACCOs have made efforts to increase rural outreach. The range of products offered by regulated MFIs is limited, but some Government supported MFIs have begun to offer products other than credit and savings, including payment and remittance services. Government-supported MFIs also offer agricultural input supply loans using Government credit lines. These loans have been criticized by international donors and NGO partners as constituting inappropriate government influence in competition.

Both bilateral and multilateral donor agencies are active in the Ethiopian microfinance sector, offering grants and technical assistance. The sector has been strongly supported in the past few years by the Rural Financial Intermediation Program (RUFIP), financed by IFAD, ADB, Development Bank of Ethiopia and Government of Ethiopia. The program includes a package of almost 95 M USD broken down in various components of capacity building, grants, equity and credit funds for a period of seven years. The industry benefits from a very dynamic national network organization, the Association of Ethiopian Microfinance Institutions (AEMFI), which serves as a channel for policy dialogue and a driver of industry transparency.

Despite the rapid growth of the Ethiopian microfinance sector and the large scale of the dominant MFIs, there is still a huge gap between supply and demand. Access to finance is still primarily through informal means: current estimates indicate that microfinance providers meet just 10-12% of demand, and rural areas, that concentrate more than 80% of the 70 million Ethiopians, are particularly underserved<sup>2</sup>. Instances of over-indebtedness and cross indebtedness have however already been observed in some areas, even if they remain pretty scattered. Given the high vulnerability of the target clientele and the difficulties lying ahead for the implementation of any credit bureau (lack of efficient national identity system; clients living in remote areas making it difficult to visit all client's homes), it seems important to discuss measures at sector level to prevent such risk or monitor its rise.

Other challenges include the ongoing reliance on and influence of the Government on the largest institutions and

<sup>1</sup> *Short Study on Microfinance, Ethiopia*. February 2003, background documents country strategy 2003-2007, Jennifer Sebstad.

<sup>2</sup> *Regulating Microfinance in Ethiopia*, Gobezie: 2005

the heavy concentration of the industry in these institutions. The remaining market remains fragmented among smaller and weaker MFIs. The regulatory framework still has some scope to improve: loan loss provisioning requirements are too loose, accounting policies are not standardized and supervisory visits tend to concentrate only on the largest institutions. Finally, the lack of liberalization of the financial markets mean that foreign participation and direct lending from foreign sources in MFIs is forbidden, leading to growth limitations for private institutions.

## Political & economic environment

After the high agriculture production of 2005, growth has kept a reasonable level in 2006, but is still insufficient to reduce the widely spread poverty (Ethiopia is ranked 170 out of 177 countries in the 2006 Human Development Index of UNDP). Additionally, the various infrastructure works launched in rural areas (roads, electricity) have contributed to boost the economy and should enable the development of the country in the long run. The economy will however remain very vulnerable to climate hazard, reducing the capacity to forecast for 2007. Inflation remains high and the national balances are heavily negative. Social and capital investments affect the State budget and public companies, while the tax base is still very narrow. The dramatic increase of exports (coffee, oleaginous, gold) is however inferior to that of imports (mainly oil). Although debt cancellations granted within the HIPC and MDRI frameworks will reduce the financing needs of the country, these will remain high and will need to be covered by international cooperation.

(USD millions)	2004	2005	2006 (e)	2007 (f)
Economic growth (%)	11.1	8.8	5.2	5.4
Inflation (%)	8.6	6.8	10.5	8.0
Public sector balance (%GDP)	-10.2	-10.7	-10.7	-11.1
Exports	600	818	1,044	1,139
Imports	2,587	3,633	4,047	4,215
Trade balance	-1,987	-2,815	-3,033	-3,076
Current account balance (%GDP)	-10.9	-15.8	-13.1	-10.8
Foreign debt (%GDP)	76.0	53.8	47.4	14.7
Debt service (%G&S exports)	11.4	6.9	2.8	2.8
Foreign currency reserves (in months of imports)	5.0	4.2	3.1	3.1

However, political evolutions could threaten international support. The domestic situation is characterized by the consequences of the strong repression of post-electoral demonstrations in June and November 2005, which led to the decapitation of opposition and the revival of ethnic rivalries in various regions. Also, the border disagreement with Eritrea is not resolved, and there is a risk that war will

resume. Since the summer of 2006 the risk of a generalized conflict in the Horn of Africa has increased with the deterioration of the political situation in Somalia, where Ethiopian military support to the provisional government has triggered war declarations from Islamic militias that control most of the territory.

Source: COFACE's Country Risk Ratings Guidebook 2006. (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

Buusaa Gonofaa (BG) was founded in May 1999 by HUNDEE, a local NGO that implements community-based development projects in rural areas of the Oromia region. Among other activities, HUNDEE had been running a credit scheme since 1996 until the National Bank of Ethiopia issued a new directive in June 1998, which required NGO-run credit schemes to be incorporated as separate legal entities and to register for a license to conduct microfinance activities according to the 1996 legislation on microfinance. BG was formed as a Share Company under the Ethiopian Commercial Code with a total capital of 214,000 ETB (24,000 USD). In 1999, BG received the license number MFI/011/99 from the National Bank of Ethiopia (NBE) and has since then complied with the quarterly reporting requirements defined by the NBE. BG received two inspections of the NBE teams, in 2002 and 2007.

Aweke Gebre Selassie and Co, Ethiopian certified public auditors, are BG's external auditor since 2001 and have always certified the financial statements without reserve.

### Ownership

More than 93% of the capital was brought by HUNDEE. The NGO HUNDEE holds 19.6% of the equity in its own name (20% being the maximum stake that one shareholder can have in an MFI<sup>3</sup>) while 75% has been distributed to four HUNDEE members and managers (among which Buusaa Gonofaa's ED) that each hold approximately 19% of the shares. These four shareholders have signed disclaimers by which they recognize that, except for an out-of-pocket portion of 1,000 ETB, their contribution is in fact the propriety of HUNDEE and abandon any claim on the value of the shares or dividends. The remaining 7% of the equity is held by 11 individuals, most of which are related to HUNDEE.

<sup>3</sup> The NBE has however until now been flexible in the application of this rule.

Shareholder	Occupation	Share
HUNDEE Association (NGO)		19.6%
Mr. Alemayehu Diro Lalise	HUNDEE's Operations Manager	18.7%
Dr. Gemetchu Megersa Ruda	HUNDEE's Board member	18.7%
Mr. Teshome Yohannes Dayesso	Buusaa Gonofaa Executive Director	18.7%
Mr. Zegeye Asfaw Abdi	HUNDEE's Executive Director	19.6%

The 5-member Board has been chaired since inception by HUNDEE's Executive Director. Two other members are drawn from HUNDEE or its subsidiaries. In an effort to develop a more diversified Board, two Board members with banking and insurance backgrounds have been elected in 2007.

## Donations

BG has received over 8.9 METB (1 M USD) in grants, ICCO and SOS FAIM being the main donors with 410 K USD and 342 K USD respectively. Other fund providers include World Solidarity Movement (WSM), and Arsi Bale Rural Development Project<sup>4</sup> (Ethio-Italian Cooperation).

Funds received by HUNDEE and earmarked for microcredit have been granted to BG in the form of a revolving fund for a total amount of 149 K USD. These funds do not bear any interest and are unlikely to need to be repaid to HUNDEE.

## Funding composition

BG expansion was mainly funded by donations until 2004, when it started accessing subsidized loans from RUFIP. BG currently has four outstanding loans with RUFIP for a total amount of 9.1 METB. All loans bear a 6% interest rate, have a 12-year term and have been granted with a 7-year grace period.

## Management team

The management team includes the General Manager (GM), the Operational Manager (OM), the Financial Manager (FM) and the Internal auditor (IA). The GM, Teshome Yohannes Dayesso, had led the institution since its creation. He was one of the founders of HUNDEE where he was working as Finance and Administration Officer. His microfinance knowledge is drawn from on-the-job experience and complemented by several workshops, study tours to major microfinance institutions and international microfinance trainings provided by CGAP, MAIN and MicroSave. He

<sup>4</sup> Funds received through the ARBDP are a revolving fund which ownership has not yet been fully transferred to Buusaa Gonofaa.

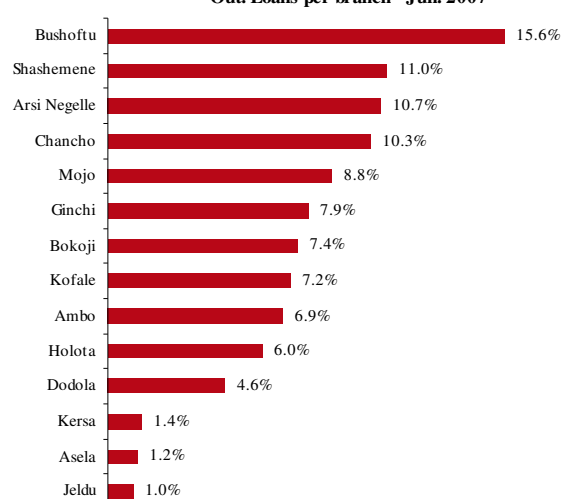
holds a Bachelor degree in Business Management from the Faculty of Business and Economics of Addis Ababa.

## Organization

Credit operations are decentralized with all credit decisions being approved at branch level by the branch manager (BM). Disbursements are made in cash at the branch in the presence of the BM, the cashier and the LO. Repayments are collected in cash, either at the branch for urban clients or at collection points that can be located 15 to 25 km away from the branch for rural clients. Loan officers reach these locations either by foot or by motorcycle (usually one motorcycle available per branch). Cash amounts necessary for upcoming disbursements might be kept in the safe overnight and excess cash is deposited at the bank on a daily basis.

A manual bookkeeping system is implemented at the branches that allows branch staff to maintain cash transactions records, client ledgers, expected and late repayments, as well as monthly activity reports. All accounting documents are sent to HQ (located in Addis Ababa) on a bi-monthly basis for a computerized recording. All accounting information, including group-level loan information is entered in Peach Tree (basic off-the-shelf accounting software). Cash reconciliations are performed on a monthly basis and loan information are reconciled with manual client ledgers kept at the branches on a quarterly basis. A computerized MIS (Loan Performer) is currently being tested.

Out. Loans per branch - Jun. 2007



## Market penetration

Buusaa Gonofaa operates in the Oromia region through a network of 14 branches located in district towns that are the administrative centers for the Woreda<sup>5</sup> (Ambo, Asella, Kersa, Jeldu, Arsi Nagelle, Shashemene, Mojo, Holota,

<sup>5</sup> These towns usually have a population of over 10,000 people.

Chanco, Ginchi, Bushoftu, Bokoji, Kofale and Dodola). Each branch serves clients that are within a 25km radius from the branch office, both in urban and rural areas.

## Products and services

BG offers group loans organized in cycles with gradually incrementing amounts. The credit methodology heavily relies on group self-selection and group decision. The loan offering is divided into two loan products:

- **Homaa-Homaa loan:** general purpose loan offered to micro-entrepreneurs organized in groups of 12 to 20 individuals, in urban and rural areas with amounts ranging from 150 ETB (17 USD) to 5,000 ETB (564 USD) per client for a duration of 6 to 24 months. Repayments can be adapted to the clients' cash-flows and are weekly (mainly in urban areas), bi-weekly, monthly or in bullet payments that are mainly used for rural clients (interest paid during the course of the loan; principal repaid in two to four bulk repayments during harvest times). A 10% deposit is required as a guarantee to complement the group guarantee and, at each installment compulsory saving deposits have to be made with an amount that equals the interest. Homaa-Homaa loans bear a 2% per month flat interest rate, irrespective of the repayment modalities chosen by the clients. The effective interest rate (including all fees and commissions and the effect of mandatory savings) thus varies from 29% for bullet repayments on a 6-month loan, to 73% for weekly repayments on a 12-month loan (or 24% and 48% respectively when removing the effect of mandatory savings).
- **Employee loan:** it has been introduced in 2005 and is offered to groups of salaried people, mainly civil servants, for amounts that range from 500 ETB (56 USD) to one third of the client's salary and durations of 6 to 24 months. Repayments are deducted each month from the client's salary by the employer. The interest rate is 12.6% per year flat. The effective interest rate (including all fees and commissions and the effect of mandatory savings) varies from 38% to 45% depending on the duration of the loan (or 32% to 39% when removing the effect of the mandatory savings).

## Networks

Buusaa Gonofaa is an active member of the Association of Ethiopian Microfinance Institutions (AEMFI) and of the Microfinance African Institutions Network (MAIN). BG General Manager sits on the Board of both organizations.

## ■ Governance

Governance and Decision making is rated “c”

### Decision making

The institution's shareholding structure is constrained by Ethiopian legislation (no foreign investment allowed; individual participation limited to 20% per shareholder) which so far resulted for BG in a shareholding structure that does not really provide a more efficient ownership than that of an NGO type of MFI (95% of the shares currently belong directly or indirectly to HUNDEE). This concentration of capital has the positive effect that all shareholders and Board Members have the same vision of Buusaa Gonofaa's mission (provision of sustainable microfinance services to the rural poor within Oromia region). BG is however exploring options to diversify its shareholding structure with Ethiopian businessmen who have expressed their adherence to BG's social mission. At current capital levels (23 K USD), the investment is still very reasonable, even for an individual.

Some Board members have high profiles which is instrumental in BG's relationship with Ethiopian administration or officials. The lack of members with financial or business background in the Board has been tackled with the nomination of two new members in 2007 coming from the banking and insurance sector.

Through close contacts between some Board members and the ED and frequent informal meetings, Board members influence some of the decisions and provide their input for the definition of the strategy. However, the lack of formalization of the Board's functioning (few formal meetings documented in minutes) prevents it from playing a leading role in the definition of the strategy or controlling the management team. Board members are provided with interesting annual reports, clear financial statement with good explanation of past performance, but key decisions are taken without prior formal Board approval and it is thus difficult to measure the level of follow-up on informal decisions. This relatively weak oversight by a formal Board does not help management keep up with the pace of actions indicated in the plans. Decision has however been taken to increase the number of Board meetings in 2007 (6 have already been held since January, even if only two were formal ones documented in minutes).

### Planning

The business plan (2006—2008) defines general orientations that concentrate on the improvement of BG social performance (expansion of the branch network from 8 to 15 branches, adaptation of the loan product to increase rural outreach and provide better services to clients, introduction of savings). Some of the financial and organizational

challenges are mentioned (MIS, internal audit, training for staff) but key issues are not sufficiently investigated and tackled (productivity, efficiency, competitiveness, middle management empowerment).

Current targets and speed of development of the network seem pretty optimistic or ambitious and could prove risky if the organizational structure is not sufficiently strengthened before full plan implementation.

BG has had difficulties in the past providing accurate financial projections (planned vs. actual show significant differences in 2004 and 2005, quality of planning improved in 2006). This represents a challenge in the communication with fund providers and will make it difficult to access commercial funding before a better track record of accurate financial projection is built. The financial model used for the 2007-2009 projections is still too complicated and unlikely to yield accurate results since it uses assumptions in terms of average portfolio yield when BG revenue can better be predicted by the amount of loans disbursed and duration of loans (flat interest rate with very diverse repayment schedules that lead to very diverse portfolio yields).

BG has however institutionalized the planning process as being a yearly, collective exercise with half yearly revision of financial/operational targets and has taken concrete actions to improve accuracy of operational targets which could in turn help improve the financial projections in the coming years.

## Management team

The Management Team (GM, OM, FM and IA) shows a strong commitment to BG's success, a strong adherence to BG's mission and is eager to learn and improve the institution's performance. The team has adequate educational backgrounds and/or relevant professional experience. Its knowledge of microfinance specific techniques was mainly gained on-the-job. Even if the team has most of the skills necessary for a reasonable management of current operations, upcoming challenges include the need for refined skills in financial planning and financial management, liquidity management, product development and MIS management. The team has indeed given itself the challenge of managing a fast growth as well as important organizational changes and improvements at the same time. This so far has resulted in relatively slow implementation of the latter, due to difficulties in prioritizing and setting clear timing.

The wide decentralization of operations implies that BMs are outright members of the management team: their skills, performance and motivation vary widely from one branch to another which weakens the network. Additional training and

improved coaching from a newly appointed operations coordinator is planned for 2007/2008.

The small size of the team allows for constant communication among Management team members. Quarterly meetings with branch managers ensure a good communication of key issues, goals and objectives to BMs, as well as experience sharing among BMs and bottom-up communication of suggestions from BMs. Despite a pretty participative decision-making, a key person-risk exists with the GM, which is difficult to avoid in an institution of the size of BG. The GM indeed centralizes all contacts with partners and fund providers.

## Human resource management

BG has an overall good administrative management of personnel issues. Until 2006, the Human Resources Management processes remained pretty informal, which was adapted to the small size of the institution. In 2006, with the recruitment of an experienced HR manager and the development of new HR policies, BG has taken a good step towards a more professional HR management. The personnel manual, that was recently designed, is currently under finalization and has been partially implemented. It includes all necessary policies for a good management of human resources: clear salary grid, performance evaluation system and promotion rules.

- Performance evaluations that will be used to decide on staff promotion, salary increase and annual bonus have been conducted for the first time in 2006. This first implementation allowed to identify some weaknesses of the process (development of individualistic strategies by staff) and the framework has been refined in collaboration with Branch Managers to include incentives that promote collective work and achievement of institution's goals.
- The definition of the salary grid was based on an industry benchmark and management chose to position BG as a good opportunity for employees with relatively good salary and benefit package when compared to major competitors.

A necessary revision of the training process and organization is planned, based on the input from an assessment of training practices and training needs by CIDR. So far, field staff indeed did not receive sufficient training (be it in-house or external training), which is especially detrimental for the case of branch managers that play a key role in the organizational structure.

## ■ Information

Information is rated “c”

Despite inefficiencies that are inherent to manual systems, the current MIS (a mix of manual recording in the branches and computerized centralized accounting) provides accurate, up-to-date and relevant information. The system is well designed and staff is proficient in its use. Good checking mechanisms are in place and all reports (expected repayments and overdue loans, daily cash positions, monthly portfolio reports by LO and by branch, monthly financial statements) that are necessary for a good follow-up of the institution’s performance are produced and provided on time to the different stakeholders. The Operations Department however could make a better use of the rich information sent on a monthly basis by the branches and that are neither cross-checked nor consolidated sufficiently rapidly at HQ to really be an efficient monitoring tool.

Given its expansion strategy and despite a reasonable performance and reliability of the manual MIS, BG adequately decided to migrate to an automated MIS (Loan Performer by Crystal Clear Software Ltd, Uganda - LPF). The migration to the new system has been delayed for almost three years (the selection process was conducted in 2004) due to the need to correct software bugs and adapt operational systems to the new constraints created by the MIS (less flexibility in the definition and adaptation of the loan repayment schedules for example). Most corrections have now been implemented and the system is currently being tested in 6 branches. These branches should transfer from the manual system to LPF before the end of 2007. During this transition period branches have to manage both systems at the same time which creates additional tasks for staff.

The organization of the transfer does not ensure that BG will be able to benefit soon from the productivity gains expected from this software. Indeed, up to now, no precise deadline has been determined and no clear planning has been defined. Besides, in order to manage that risky period of MIS transition, BG cannot rely on staff that has received specific trainings or has some experience of such processes. Updated internal controls systems and final testing have only been informally defined but not systematically thought through nor compiled in procedures manuals or training documents.

Data security is currently reasonably well ensured thanks to the existence of carbon copies of all major documents one being stored in the branch and the other one at HQ. BG is however not yet sufficiently conscious of the data security risks related to the implementation of the MIS: good practice of back-ups is regularly performed by the MIS coordinator and the branch staff, but is not yet formalized in manuals;

other data security measures will also have to be put in place, formalized and verified (password protection, anti-virus, print-outs). Due to their location, in majority in the rural areas, branches cannot rely on strong infrastructures and have to cope with difficulties like power cuts; specific equipments have been put in place to protect the computers in these instances.

## ■ Risk Management

Risk Management is rated “c”

### Procedures and internal controls

Current policies demonstrate a good understanding of major risks faced by microfinance institutions and, for most processes, standard procedures are defined and applied but are not all formalized in manuals that can be easily used as a reference by staff. Most of the manuals are currently being finalized or validated by the BoD or need to be updated. Employees in charge of key control points (notably related to cross-verification or separation of incompatible duties) are not always aware of their crucial roles in the system and these controls are thus not always implemented: disbursements are in some branches made without the presence of the branch manager; regular (daily) cash count is not always performed by branch managers. Such instances of incompliance with procedures have not always been swiftly sanctioned which can be explained, if not excused, by the fact that BG’s organizational culture is still transitioning from a consensus-based organization in a development phase to a more standard formal microfinance institution.

Cash security is a specific challenge for BG given its operation mode that involves carrying cash in remote areas. Even while staying within the framework of existing procedures (that are not yet sufficiently precise), branches have developed different strategies regarding cash collection<sup>6</sup> that result in different level of cash security across branches. One general weakness in the field of cash security relates to the fact that the cashiers permanently have access to the safes without needing the intervention of a second person which creates a risk of theft that could easily be avoided.

On a more positive note, BG has, for several years, demonstrated a very clear dedication to information verification and reliability which constitutes an important strength of its internal control system.

<sup>6</sup> Collection for several groups at the same time or for only one group; presence of one or more LO, LO that stay late in rural areas being rejoined by others or not, LO being accompanied by some clients to the main roads or not

## Internal audit

The Internal Audit has a comprehensive coverage of most operational risks but audits of the HQ functions and of the new computerized information system still have to be implemented. Even if the Internal Auditor, who was hired in 2005, seems to have all required means to perform his duties, the institutional set-up does not yet guarantee its independence. He currently reports to the General Manager and only recently attended one BoD meeting. BoD members do not receive copies of his reports and did not create an Audit Committee dedicated to the analysis of his findings.

The Internal Auditor conducts quarterly 2 to 3-day surprise visits to all branches, based on a well designed audit methodology. They include all the necessary checking mechanisms and notably visits to current clients and drop outs. Given the development of the branch network, the staffing of the department will need to be increased in order to maintain an adequate level of control. This has already been taken into account and one credit agent has been promoted to internal audit in August 2007.

Internal Audit reports are clear, concise and informative but their “production” process is not sufficiently transparent and management does not make full use of them which reduces their impact: auditees do not get a chance to comment on the findings of the reports, no reports are produced if no noncompliance was detected during the visits, few measures are taken by management in case of noncompliance.

The work of the Internal Auditor is usefully complemented by External Auditors that have an extensive knowledge of the institution and perform a pretty thorough audit of internal controls and financial information even if it lacks visits to clients. There has been no rotation of external auditors since inception, which might reduce the acuteness of their controls.

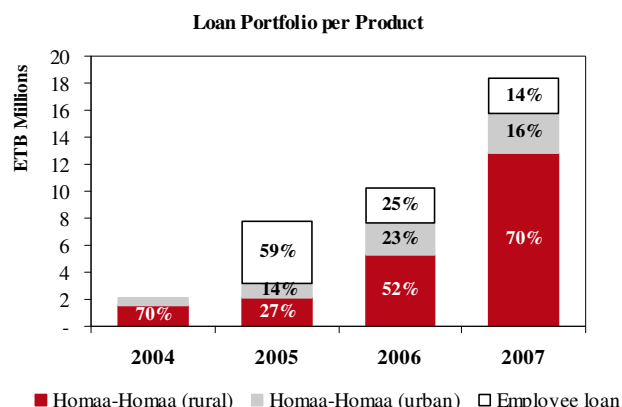
## ■ Activities

Activities: products and services is rated “b”

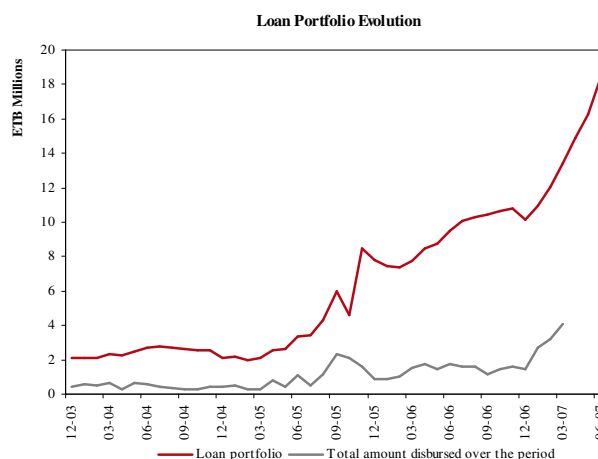
## Evolution and composition of the portfolio

The loan portfolio that had been stagnating at around 2 M ETB for several years, rapidly grew as soon as BG accessed significant funding from SOS FAIM, ICCO and RUFIP in 2004/2005. The composition of the portfolio that had been relatively stable in previous years (~70% Homaa-Homaa rural loan; 30% Homaa-Homaa urban loan) was dramatically changed in 2005 by the launch and very quick development of the Employee loan that came to represent 59% of the total portfolio just a few months after its launch. In order to be consistent with BG’s social focus on rural areas, the Board decided that the Employee loan should not exceed 20% of

the portfolio and more emphasis was put back on the Homaa-Homaa rural loan that, as of June 2007, constituted again 70% of the total portfolio.



Disbursements peak just before the rainy season<sup>7</sup> that is, in rural areas the period when farmers have to prepare the next agricultural season and have exhausted the proceedings of the previous harvest. The bulk of the repayments are collected during the harvest time between Dec. and March.



## Market position

Ethiopian microfinance institutions still have a very large potential market to cover, but an important part of this is deep rural and difficult to reach with current operating methods. Buusaa Gonofaa and its competitors are thus currently concentrating their service offering on the same markets (Woreda town center and rural areas located within a radius of 25 km max from the branch). Ethiopian MFI usually have regional focuses and Buusaa Gonofaa, with its focus on Oromia region, is operating in the same area as OCSSCO, a major regional actor that benefits from government support, and of several ex-NGO MFIs (Wasasa, Eshet, PEACE Wisdom), some of which have strong donor support. BG is piloting, with the assistance of CIDR, a new saving mobilization and loan methodology (Rural Credit and Saving Facility) that should allow it to extend its services to

<sup>7</sup> June, July, August.

very remote rural areas where no other institutions provide financial services.

BG currently does not have strong competitive advantages, and some of its product characteristics could in fact be a handicap (more stringent repayment policies than other MFIs, higher interest rates). BG is putting a lot of emphasis on the provision of a reliable and swift service and has the good practice of collecting client feedback which already led to some improvements of the loan products. A client satisfaction survey conducted in July 2007 should trigger other product adaptation or revision.

### Loan portfolio management

The credit methodology is inspired from traditional community organizations (idir; iqub) and relies quasi-exclusively on client-based input and group self-regulation. The groups define and validate the amounts to be taken by each member within the general loan policy defined by BG (minimum and maximum loan amounts and loan terms, gradual increments as clients go from cycle to cycle). The system has proved efficient in the past for rural based clients thanks to strong focus of LO on the initial training/animation of the groups as well as frequent client feedback collection by branch managers, and a strict repayment discipline imposed on groups that guarantees a good portfolio quality. The efficiency of the methodology will however be fully judged when a majority of clients will have reached cycles with the highest potential loan amount.

The employee group loan that has been launched without much prior testing, is operated with very lean methodology that would need to be strengthened. The client selection process and loan amount definition do not include the evaluation of the client level of indebtedness. Frequent relocation of civil servants that constitute the vast majority of the clients of that loan product made it challenging for an institution with a limited network like BG to collect all repayments on time.

The selection of loan officers focuses on individuals with a strong social motivation to serve people in rural areas which seems to constitute a great source of staff dedication and professionalism. The initial training is nevertheless pretty light and is essentially constituted by on-the-job training. This fact combined with non-finalized procedures creates a risk of inconsistency of performance across LO or branches. In general, portfolio evolution is well monitored through simple but well-designed report formats that are widely used and disseminated. The quality of LO supervision however varies across branches as the expansion and development of HQ makes it difficult for BG to create a sufficient pool of strong branch managers.

### Credit risk

Given the manual computation of the late repayment lists, data on PAR is not fully reliable but the quality of the information provided by each branch and each loan officer is closely monitored by the Internal Auditor. Its reliability was deemed sufficient to be used for rating purposes.

Except in 2004 (effect of the 2003 drought in Mojo branch and effect of political interferences in Holota and Chanco branch where clients were denied the right to attend repayment meetings), an excellent portfolio quality has been maintained for Homaa-Homaa loans over the past 4 years (PAR 31 days below 1%; PAR 1 day below 1 or 2%). This good performance is also maintained during the periods when the bullet payments come due<sup>8</sup>.

The performance of the employee loan is significantly lower, with a PAR31 at 3% in Dec. 2006 and more than 6% as of June 2007. Most delays are related to administrative issues<sup>9</sup> and are concentrated in the 31-60 days tranche. A revision of the loan methodology to adapt the repayment schedule to the administrative constraints is necessary to make sure that the indicator of portfolio quality remains an efficient one and that 10% PAR does not become a normal benchmark for staff.

Standard write-off policies are in place which are more conservative than NBE regulation (write-off after 180 days instead of 365 days) which results in a write-off ratio that is higher than international benchmarks (within the 2% range in 2004 and 2005). The compounded recovery rate on loans written-off is of 21% for the 2003-2006 period.

The provisioning policy is more conservative than that recommended by the NBE but still provides a pretty thin coverage of potential loan losses by provisions (PAR31 covered at 50 to 60%). Mandatory savings provide an additional financial guarantee that covers on average 20% of the loan outstanding. Group guarantee seem to have worked efficiently in the past years thanks to efforts made in group training and certification as well as thanks to a traditional organization of rural communities that includes strong solidarity among traditional groups and respect of financial obligations.

Prepayments are widely accepted within BG which has an impact on cash flow and interest rate but no real implication in terms of portfolio quality. Extension of repayment period (rescheduling) is however not allowed. Rules regarding

<sup>8</sup> The portfolio quality of term loan or bullet payments loan is not well predicted by a classic PAR that could thus be understated.

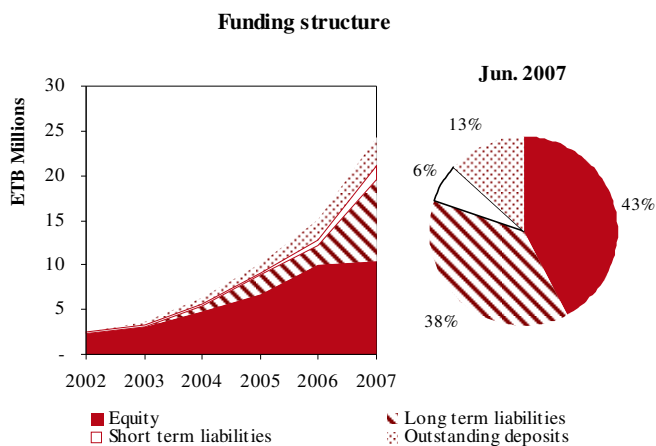
<sup>9</sup> Time needed by the administration to process the payments after the salary payday more than anticipated.

connected lending have just been implemented for field staff.

Homaa-Homaa loan portfolio is widely concentrated on small agricultural activities and, even if the risk related to agriculture is somehow mitigated by the fact that branches are not established in “drought-prone” areas, by some geographical diversification and by the development of the employee loan, agriculture risk remains outstanding and is not covered by any specific reserve or insurance.

## ■ Funding and liquidity

Funding and liquidity is rated “c”



A funding base vastly composed of donations until 2005 has been since then diversified with the addition of five concessional long term loans from RUFIP. Long term liabilities now make up more than a third of the total funding. Buusaa Gonofaa did not yet develop savings collection services and all savings currently registered in the balance sheet are mandatory savings.

## Asset & Liability Management

NBE restrictions to the types of funding that can be accessed by MFIs, have contributed to maintain ALM at a low to moderate level.

- Long term resources represent more than 80% of the balance sheet and maturity risk should remain inexistent or low in the coming years (RUFIP loans include a 5-year grace period);
- No exposure to foreign exchange risk
- RUFIP loan contracts include the possibility for the DBE to revise interest rates during the course of the loan, but the fact that most Ethiopian MFI have contracted that type of loans and the social mission of RUFIP make it unlikely that the fund provider exercise this clause in a way that could hurt the MFIs.
- BG by far complies with the prudential norm related to savings (20% of savings kept in liquid assets).

- Current low leverage ensures that BG exceeds minimum capital requirements, even with the rapid addition of RUFIP loans in 2007.
- Some risk related to the strong reliance on one fund provider that represents 100% of current borrowings and 47% of total assets. Risk mitigated so far by the maturity of these funds.

## Funding strategy

BG’s ambitious strategy (opening of seven branches in three years) requires the mobilization of a significant amount of fresh funds in 2007 and subsequent years. Funding needs are indicated (24 M ETB for the 3-year period) in the strategic plan 2006-2008 but are not backed by robust financial projections and need to be refined. A revision of the business plan is planned for August 2007, with the support of Terrafina.

BG expects RUFIP to be its primary source of funding for the years to come. They have applied for the next round of funding and expect loans of about 2.3 M ETB. Further diversification is necessary as RUFIP has only limited funds left and is set to close in 2009. Some contacts have been developed with Ethiopian commercial banks, notably for borrowings to be backed by a guarantee provided by ADA, but have not yet materialized. Management team members have little to no experience so far in financial risk management and commercial loan negotiations and the institution needs to increase skills on that front before accessing more commercial loan types.

Even if BG does not benefit from the support of a financially strong founding organization, Buusaa Gonofaa and HUNDEE, with their clear social goals have been able to maintain good relationships for several years with international social fund providers (SOS FAIM, ICCO/Terrafina, WSM) that have helped in the financing of the expansion and of organizational development of BG.

## Liquidity management

BG will have to move from a management of excess liquidity (idle cash constantly above 15% of assets until 2005, thinner cash amounts since 2006) to a management of more scarce resources in the coming years: liquidity forecast, liquidity monitoring tools and liquidity management rules will need to be implemented soon. Some initiatives have already been taken (collection of historical data notably in order to gain a better understanding of the institution’s liquidity movements).

## ■ Efficiency and Profitability

Efficiency and Profitability is rated “b”

### Profitability analysis

After several years of very thin profitability or losses, Buusaa Gonofaa initiated in 2005 an important expansion that required significant investments that have only been fully used in 2006. This, added to a big drop in portfolio yield in 2005 (from 41% to 31%) led to a negative ROA of (-5%) in 2005. In 2006, thanks to the economies of scale reached through a portfolio that has been multiplied by 5 since 2004, BG recorded a solid ROA of + 4.5%. This positive trend that seems to be confirmed for 2007 is however still fragile given the institution’s weaknesses in financial planning and the investments that are still required to implement the new information system. Continued growth should however bring BG the economies of scale and additional margins it needs to cater for potential increases of funding costs, provisioning expenses or MIS related expenses.

BG operating expense ratio has been trending downward for several years and is standing at 22% as of Dec. 2006 (and June 2007), which is a good performance by international standards for an MFI of that size, but is almost 10 pt. above the median for Ethiopia (13%). The smaller outstanding loan size for BG (60 USD compared to a median of 110 USD for Ethiopian MFIs) is the major driver for this higher operating expense ratio, which is confirmed by a cost per borrower that stands at 13 USD, equal to Ethiopia’s median for that indicator. The Ethiopian market is also characterized by the existence of huge MFIs, five of which have more than 100,000 clients and total assets above 15 M USD, that dwarf BG and thus are likely to benefit from more economies of scale. This difference in cost base remains manageable in a market that has as much potential as Ethiopia, but in the long term makes it unlikely that BG can really compete on prices and requires that it further refines its differentiation strategy.

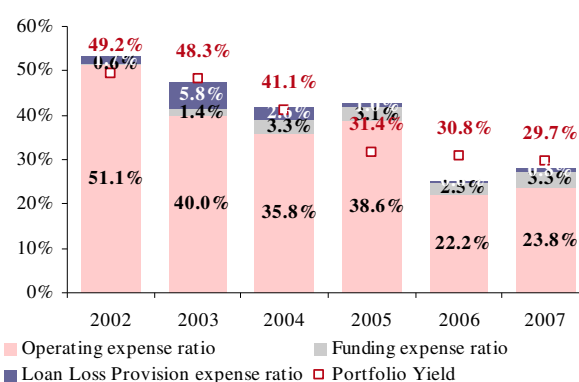
The portfolio drop recorded between 2004 and 2005 was not really planned for and is due to BG’s response to clients’ demand for loans with bullet repayments that was not accompanied by an adaptation of the flat yield charged. The yield has been stable since 2005 (around 30%<sup>10</sup>) and should remain so in the future given current product definitions. This stability is however not the result of an efficient piloting of the yield.

<sup>10</sup> The decrease for June 2007 partial year data is explained by the fact that Buusaa Gonofaa’s revenues are not proportional to its average outstanding portfolio but to amounts disbursed and that its disbursements are concentrated in May and June which distorts the analysis of the ratios usually used.

Despite this significant reduction in portfolio yield and notwithstanding the fact that BG charges interests that are within the range usually charged by MFI for such small loan amounts, BG’s interest rates are the highest in the Ethiopian formal microfinance market where the mean portfolio yield is of 19%<sup>11</sup>. BG might thus have a strong pressure from clients and potentially from policy makers to drive its interest rates down.

BG’s operations, like that of other MFIs in Ethiopia, could be affected in the future by occurrence of adverse climatic conditions, given the important proportion of clients that depend on agricultural activities (directly or indirectly). BG has no specific provision to cover that risk and such event would significantly affect BG’s profitability.

Profitability structure

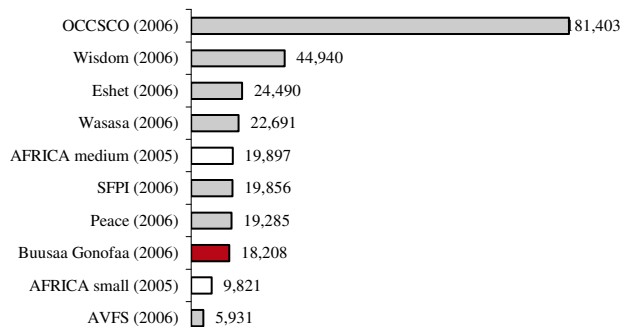


*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution’s performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee 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.*

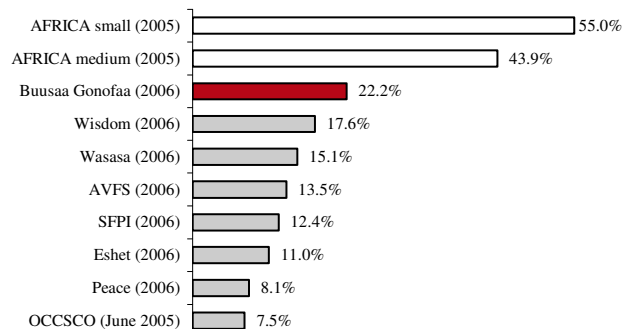
<sup>11</sup> Mix Benchmarks for Ethiopia 2005

## Benchmarking

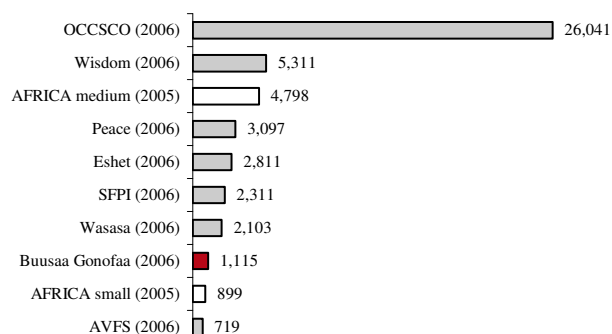
Active borrowers



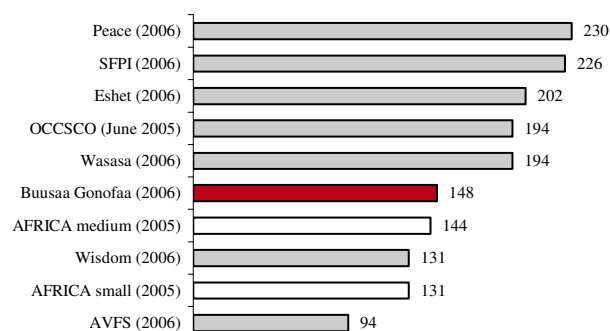
Operating expense ratio



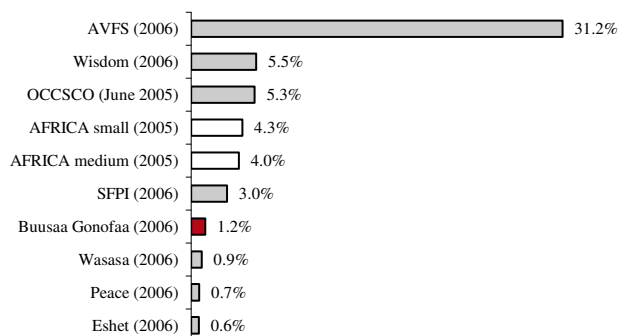
Loan portfolio (K USD)



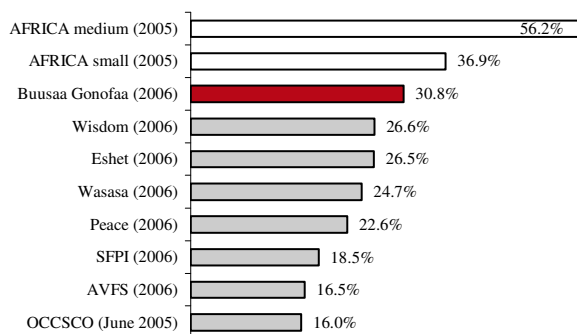
Staff productivity



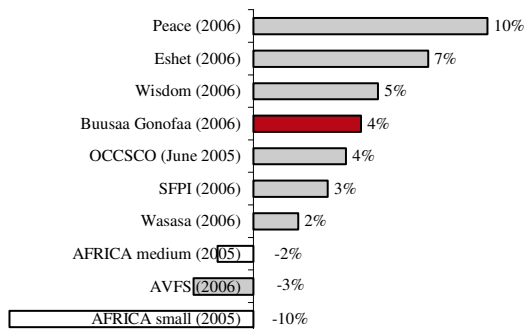
PAR 31-365



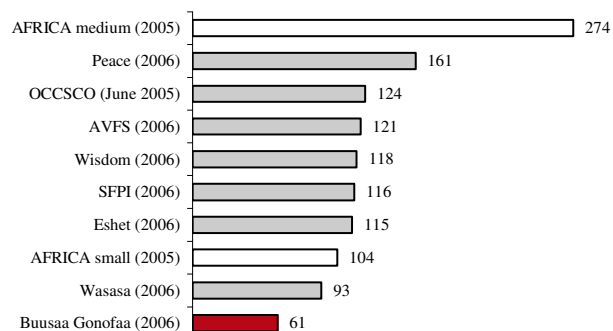
Portfolio Yield



ROA



Average outstanding loan per client



Source: MFI financial statements for MFIs rated by Planet Rating; Mix Market for other MFIs (except for OCCSCO portfolio data for 2006 that are taken from AEMFI statistics; MBB Africa 2005 for benchmarks

## ■ Performance indicators

Data in USD, unless otherwise stated

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007
<b>Loan Portfolio</b>	<b>USD, unless otherwise stated</b>					
Loan portfolio	190,036	241,787	239,005	890,451	1,115,126	2,002,367
Loan portfolio (ETB)	1,647,857	2,133,046	2,116,415	7,806,587	10,177,869	18,360,702
<i>Evolution</i>	81.3%	29.4%	(0.8%)	268.9%	30.4%	80.4%
Average outstanding loan	147,427	214,288	276,192	441,411	1,009,465	1,487,061
Active borrowers	4,734	5,999	5,571	9,988	18,208	26,247
<i>Evolution</i>	56.2%	26.7%	(7.1%)	79.3%	82.3%	44.2%
Average outstanding loan per client	40	40	43	89	61	76
% of GDP per capita	36.9%	37.7%	40.2%	82.8%	59.2%	74.1%
Average amount disbursed per loan	75	77	83	108	80	92
% of GDP per capita	69.0%	68.2%	63.8%	70.5%	47.3%	45.1%
Rescheduled loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PAR 31-365	4.1%	1.8%	3.9%	0.4%	1.2%	1.0%
PAR > 365	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Write-off ratio	0.0%	5.6%	2.1%	1.9%	0.0%	0.0%
Risk coverage ratio	33.0%	65.2%	52.4%	49.7%	66.8%	60.0%
PAR 31 net of loan loss provision / Equity	1.9%	0.4%	0.8%	0.2%	0.4%	0.8%
<b>Savings</b>	<b>usd , unless otherwise stated</b>					
Outstanding deposits	N/A	52,015	84,604	136,322	260,261	368,505
Outstanding deposits (ETB)	N/A	458,880	749,178	1,195,132	2,375,425	3,379,006
<i>Evolution</i>	N/A	N/A	63.3%	59.5%	98.8%	42.2%
Mandatory savings (%)	N/A	100.0%	100.0%	100.0%	100.0%	100.0%
Voluntary savings (%)	N/A	0.0%	0.0%	0.0%	0.0%	0.0%
Active savers	N/A	N/A	5,514	10,061	18,096	25,552
<i>Evolution</i>	N/A	N/A	N/A	82.5%	79.9%	41.2%
Average outstanding deposit per saver	N/A	N/A	15	14	14	14
<b>Staff</b>						
Total number of staff	28	37	55	76	123	137
% Credit officers	60.7%	62.2%	49.1%	51.3%	52.0%	53.3%
Turnover	?	0.0%	10.9%	4.6%	5.0%	10.0%
<b>Profitability analysis</b>						
ROE	(2.1%)	1.4%	0.1%	(6.7%)	6.8%	4.1%
Liabilities / Equity	0.12x	0.19x	0.3x	0.5x	0.5x	1.3x
ROA	(2.0%)	1.2%	0.1%	(4.7%)	4.5%	2.1%
Portfolio Yield	49.2%	48.3%	41.1%	31.4%	30.8%	29.7%
Operating expense ratio	51.1%	40.0%	35.8%	38.6%	22.2%	23.8%
Cost per borrower	16	14	18	17	12	14
Staff productivity	169	162	101	131	148	192
Loan officer productivity	278	261	206	256	285	360
Average outstanding loan per client	40	40	43	89	61	76
Funding expense ratio	0.6%	1.4%	3.3%	3.1%	2.5%	3.3%
Cost of savings	6.7%	8.6%	8.9%	5.3%	2.9%	10.6%
Cost of liabilities	0.0%	0.0%	3.6%	3.8%	5.5%	5.5%
Loan Loss Provision expense ratio	1.7%	5.8%	2.6%	1.0%	0.6%	0.8%
Outstanding Loan Portfolio / Assets	62.3%	57.4%	32.9%	75.9%	66.7%	74.9%
Revenue from investment as a % of financial revenues	0.0%	0.0%	0.0%	1.5%	0.1%	0.2%
Loans to deposits	1,181.3%	464.8%	282.5%	653.2%	428.5%	562.2%
Liquidity / Total assets (LAR)	21.2%	33.8%	61.8%	15.9%	20.4%	6.8%
Exchange rate 1 USD= xx ETB	8.7	8.8	8.9	8.8	9.1	9.2

Buusaa Gonofaa Balance sheet	ETB					USD					Evolution			
	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	2004/2003	2005/2004	2006/2005	2007/2006
<b>ASSETS</b>	<b>3,671,195</b>	<b>6,292,767</b>	<b>10,266,335</b>	<b>15,138,923</b>	<b>24,332,855</b>	<b>416,141</b>	<b>710,638</b>	<b>1,171,020</b>	<b>1,658,678</b>	<b>2,653,673</b>	<b>71.4%</b>	<b>63.1%</b>	<b>47.5%</b>	<b>60.7%</b>
<b>Short Term Assets</b>	<b>3,442,711</b>	<b>6,121,314</b>	<b>9,656,599</b>	<b>14,111,346</b>	<b>23,271,078</b>	<b>390,242</b>	<b>691,276</b>	<b>1,101,471</b>	<b>1,546,093</b>	<b>2,537,879</b>	<b>77.8%</b>	<b>57.8%</b>	<b>46.1%</b>	<b>64.9%</b>
Cash and Due from Banks	1,239,203	3,888,954	1,627,367	3,092,656	1,648,615	140,467	439,177	185,624	338,843	179,793	213.8%	(58.2%)	90.0%	(46.7%)
Short Term Investments	25,745	18,914	12,091	306,100	2,586,865	2,918	2,136	1,379	33,538	282,116	(26.5%)	(36.1%)	2,431.6%	745.1%
Short Term Net Loan Portfolio	2,107,514	2,073,161	7,791,344	10,097,529	18,229,322	238,893	234,121	888,713	1,106,324	1,988,039	(1.6%)	275.8%	29.6%	80.5%
<i>Short Term Gross Loan Portfolio</i>	<i>2,133,046</i>	<i>2,116,415</i>	<i>7,806,587</i>	<i>10,177,869</i>	<i>18,360,702</i>	<i>241,787</i>	<i>239,005</i>	<i>890,451</i>	<i>1,115,126</i>	<i>2,002,367</i>	<i>(0.8%)</i>	<i>268.9%</i>	<i>30.4%</i>	<i>80.4%</i>
<i>(Loan Loss Reserve)</i>	<i>25,531</i>	<i>43,254</i>	<i>15,244</i>	<i>80,340</i>	<i>131,380</i>	<i>2,894</i>	<i>4,885</i>	<i>1,739</i>	<i>8,802</i>	<i>14,328</i>	<i>69.4%</i>	<i>(64.8%)</i>	<i>427.0%</i>	<i>63.5%</i>
Interest Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>On loan portfolio</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>On investments</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts receivable and other assets	70,248	140,284	225,796	615,060	806,276	7,963	15,842	25,755	67,388	87,930	99.7%	61.0%	172.4%	31.1%
<b>Long term assets</b>	<b>228,485</b>	<b>171,454</b>	<b>609,737</b>	<b>1,027,577</b>	<b>1,061,777</b>	<b>25,899</b>	<b>19,362</b>	<b>69,549</b>	<b>112,585</b>	<b>115,794</b>	<b>(25.0%)</b>	<b>255.6%</b>	<b>68.5%</b>	<b>3.3%</b>
Long Term Net Investments	5,000	5,000	5,000	5,000	5,000	567	565	570	548	545	0.0%	0.0%	0.0%	0.0%
Long Term Gross Loan Portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Fixed Assets	223,485	166,454	604,737	1,022,577	1,056,777	25,333	18,798	68,979	112,037	115,249	(25.5%)	263.3%	69.1%	3.3%
Other Long Term Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>LIABILITIES AND EQUITY</b>	<b>3,671,195</b>	<b>6,292,767</b>	<b>10,266,335</b>	<b>15,138,923</b>	<b>24,332,855</b>	<b>416,141</b>	<b>710,638</b>	<b>1,171,020</b>	<b>1,658,678</b>	<b>2,653,673</b>	<b>71.4%</b>	<b>63.1%</b>	<b>47.5%</b>	<b>60.7%</b>
<b>Liabilities</b>	<b>589,596</b>	<b>1,463,550</b>	<b>3,478,900</b>	<b>5,085,976</b>	<b>13,958,415</b>	<b>66,833</b>	<b>165,278</b>	<b>396,818</b>	<b>557,239</b>	<b>1,522,266</b>	<b>148.2%</b>	<b>137.7%</b>	<b>46.2%</b>	<b>174.4%</b>
<b>Short term liabilities</b>	<b>589,596</b>	<b>963,550</b>	<b>1,303,870</b>	<b>2,910,946</b>	<b>4,816,385</b>	<b>66,833</b>	<b>108,813</b>	<b>148,725</b>	<b>318,934</b>	<b>525,261</b>	<b>63.4%</b>	<b>35.3%</b>	<b>123.3%</b>	<b>65.5%</b>
Demand Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compulsory Deposits	458,880	749,178	1,195,132	2,375,425	3,265,668	52,015	84,604	136,322	260,261	356,145	63.3%	59.5%	98.8%	37.5%
Short Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short Term Borrowings	118,516	185,768	-	400,000	1,200,000	13,434	20,979	-	43,826	130,869	56.7%	(100.0%)	-	200.0%
Interest payable	6,559	14,590	37,332	54,703	164,359	743	1,648	4,258	5,994	17,924	122.4%	155.9%	46.5%	200.5%
Accounts Payable and Other Short Term Liabilities	5,642	14,014	71,406	80,818	186,359	640	1,583	8,145	8,855	20,324	148.4%	409.5%	13.2%	130.6%
<b>Long term liabilities</b>	<b>-</b>	<b>500,000</b>	<b>2,175,030</b>	<b>2,175,030</b>	<b>9,142,030</b>	<b>-</b>	<b>56,465</b>	<b>248,093</b>	<b>238,305</b>	<b>997,004</b>	<b>-</b>	<b>335.0%</b>	<b>0.0%</b>	<b>320.3%</b>
Long Term Time Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long Term Borrowings	-	500,000	2,175,030	2,175,030	9,142,030	-	56,465	248,093	238,305	997,004	-	335.0%	0.0%	320.3%
Other Long Term Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Equity</b>	<b>3,081,599</b>	<b>4,829,218</b>	<b>6,787,435</b>	<b>10,052,947</b>	<b>10,374,440</b>	<b>349,308</b>	<b>545,360</b>	<b>774,203</b>	<b>1,101,439</b>	<b>1,131,407</b>	<b>56.7%</b>	<b>40.5%</b>	<b>48.1%</b>	<b>3.2%</b>
Paid-In Capital	213,000	213,000	213,000	213,000	213,000	24,144	24,054	24,296	23,337	23,229	0.0%	0.0%	0.0%	0.0%
Donated equity	1,977,098	3,720,698	6,064,306	8,772,450	8,878,850	224,110	420,176	691,720	961,143	968,303	88.2%	63.0%	44.7%	1.2%
Retained earnings without donations and reserves	(472,139)	(468,120)	(853,511)	(296,143)	(84,981)	(53,518)	(52,864)	(97,355)	(32,447)	(9,268)	(0.9%)	82.3%	(65.3%)	(71.3%)
<i>of which Current year</i>	<i>36,750</i>	<i>4,006</i>	<i>(387,932)</i>	<i>555,608</i>	<i>211,163</i>	<i>4,166</i>	<i>452</i>	<i>(44,249)</i>	<i>60,875</i>	<i>23,029</i>	<i>(89.1%)</i>	<i>(9,784.8%)</i>	<i>(243.2%)</i>	<i>(62.0%)</i>
Other equity accounts	1,363,640	1,363,640	1,363,640	1,363,640	1,367,570	154,573	153,995	155,542	149,406	149,143	0.0%	0.0%	0.0%	0.3%

Buusaa Gonofaa Income Statement	ETB					USD					Evolution				
	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006	Jun. 2007	2003/2002	2004/2003	2005/2004	2006/2005	2007/2006
<b>Financial Revenue (a)</b>	<b>928,961</b>	<b>1,023,219</b>	<b>1,262,110</b>	<b>2,900,170</b>	<b>2,116,620</b>	<b>105,301</b>	<b>115,551</b>	<b>143,961</b>	<b>317,754</b>	<b>230,833</b>	<b>45.0%</b>	<b>10.1%</b>	<b>23.3%</b>	<b>129.8%</b>	<b>(27.0%)</b>
Financial Revenue from Loan Portfolio	914,017	1,005,120	1,216,001	2,838,944	2,028,040	103,607	113,507	138,702	311,046	221,172	45.4%	10.0%	21.0%	133.5%	(28.6%)
Interest on Loan Portfolio	887,160	958,853	1,082,243	2,718,982	1,916,229	100,562	108,283	123,445	297,902	208,979	47.4%	8.1%	12.9%	151.2%	(29.5%)
Fees and Commissions on Loan Portfolio	26,857	21,425	133,447	118,856	111,812	3,044	2,419	15,221	13,022	12,194	0.9%	(20.2%)	522.9%	(10.9%)	(5.9%)
Penalty Revenue on Loan Portfolio	-	24,842	312	1,107	-	-	2,805	36	121	-	-	-	(98.7%)	254.9%	(100.0%)
Financial Revenue from Investments	-	-	18,837	1,762	4,004	-	-	2,149	193	437	-	-	-	(90.6%)	127.2%
Other Operating Revenue	14,944	18,100	27,272	59,463	84,576	1,694	2,044	3,111	6,515	9,224	20.0%	21.1%	50.7%	118.0%	42.2%
<b>Financial Expense (b)</b>	<b>25,680</b>	<b>80,367</b>	<b>118,730</b>	<b>230,481</b>	<b>225,901</b>	<b>2,911</b>	<b>9,076</b>	<b>13,543</b>	<b>25,252</b>	<b>24,636</b>	<b>246.0%</b>	<b>213.0%</b>	<b>47.7%</b>	<b>94.1%</b>	<b>(2.0%)</b>
Interest paid on borrowings	-	14,590	54,757	130,779	178,769	-	1,648	6,246	14,329	19,496	-	-	275.3%	138.8%	36.7%
Interest paid on deposits	25,680	53,775	51,541	51,467	47,132	2,911	6,073	5,879	5,639	5,140	246.0%	109.4%	(4.2%)	(0.1%)	(8.4%)
Net Inflation Adjustment Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Financial Expenses	-	12,002	12,432	48,235	-	-	1,355	1,418	5,285	-	-	-	3.6%	288.0%	(100.0%)
<b>Financial income [c=a-b]</b>	<b>903,281</b>	<b>942,852</b>	<b>1,143,380</b>	<b>2,669,689</b>	<b>1,890,720</b>	<b>102,390</b>	<b>106,476</b>	<b>130,419</b>	<b>292,501</b>	<b>206,197</b>	<b>42.6%</b>	<b>4.4%</b>	<b>21.3%</b>	<b>133.5%</b>	<b>(29.2%)</b>
<b>Net Loan Loss provision expense (d)</b>	<b>109,785</b>	<b>63,044</b>	<b>37,309</b>	<b>56,188</b>	<b>54,970</b>	<b>12,444</b>	<b>7,120</b>	<b>4,256</b>	<b>6,156</b>	<b>5,995</b>	<b>395.3%</b>	<b>(42.6%)</b>	<b>(40.8%)</b>	<b>50.6%</b>	<b>(2.2%)</b>
Loan loss provision expense and write-off	109,785	63,044	37,309	56,188	54,970	12,444	7,120	4,256	6,156	5,995	395.3%	(42.6%)	(40.8%)	50.6%	(2.2%)
Recovery from Loans written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Operating expense (e)</b>	<b>756,747</b>	<b>875,802</b>	<b>1,494,003</b>	<b>2,043,168</b>	<b>1,624,587</b>	<b>85,780</b>	<b>98,904</b>	<b>170,412</b>	<b>223,857</b>	<b>177,173</b>	<b>15.7%</b>	<b>15.7%</b>	<b>70.6%</b>	<b>36.8%</b>	<b>(20.5%)</b>
Personnel Expense (includes fringe)	423,557	485,340	799,732	1,175,577	919,306.5	48,011	54,809	91,221	128,801	100,257	17.7%	14.6%	64.8%	47.0%	(21.8%)
Administrative Expense (non-staff operating expenses)	333,190	390,462	694,271	867,591	705,280	37,768	44,095	79,191	95,057	76,916	13.4%	17.2%	77.8%	25.0%	(18.7%)
<i>Depreciation and amortization</i>	90,477	94,934	107,557	140,211	-	10,256	10,721	12,268	15,362	-	2.5%	4.9%	13.3%	30.4%	(100.0%)
<i>Consulting fees</i>	5,000	5,000	6,500	6,500	-	567	565	741	712	-	0.0%	0.0%	30.0%	0.0%	(100.0%)
<i>Rental costs</i>	67,905	76,615	126,764	159,613	-	7,697	8,652	14,459	17,488	-	23.6%	12.8%	65.5%	25.9%	(100.0%)
<i>Travel costs</i>	58,308	76,784	130,341	227,566	-	6,609	8,671	14,867	24,933	-	14.1%	31.7%	69.8%	74.6%	(100.0%)
<i>Bank fee</i>	1,722	4,740	9,142	10,957	-	195	535	1,043	1,201	-	12.1%	175.3%	92.9%	19.9%	(100.0%)
<i>BOD fees</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Accrued interest written off</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Others</i>	109,779	132,390	313,967	322,744	705,280	12,444	14,951	35,812	35,361	76,916	18.1%	20.6%	137.2%	2.8%	118.5%
<b>Net Operating Income Before Taxes and Donations [f=c-d-e]</b>	<b>36,750</b>	<b>4,006</b>	<b>(387,932)</b>	<b>570,333</b>	<b>211,163</b>	<b>4,166</b>	<b>452</b>	<b>(44,249)</b>	<b>62,488</b>	<b>23,029</b>	<b>(186.3%)</b>	<b>(89.1%)</b>	<b>(9,784.8%)</b>	<b>(247.0%)</b>	<b>(63.0%)</b>
Income Taxes (g)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Operating Income Before Donations [h=f-g]</b>	<b>36,750</b>	<b>4,006</b>	<b>(387,932)</b>	<b>570,333</b>	<b>211,163</b>	<b>4,166</b>	<b>452</b>	<b>(44,249)</b>	<b>62,488</b>	<b>23,029</b>	<b>(186.3%)</b>	<b>(89.1%)</b>	<b>(9,784.8%)</b>	<b>(247.0%)</b>	<b>(63.0%)</b>
Non Operating Revenue (i)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non Operating Expense (including related taxes) (j)	-	-	-	14,724	-	-	-	-	1,613	-	-	-	-	-	(100.0%)
<b>Net Income Before Donations [k=h+i-j]</b>	<b>36,750</b>	<b>4,006</b>	<b>(387,932)</b>	<b>555,608</b>	<b>211,163</b>	<b>4,166</b>	<b>452</b>	<b>(44,249)</b>	<b>60,875</b>	<b>23,029</b>	<b>(186.3%)</b>	<b>(89.1%)</b>	<b>(9,784.8%)</b>	<b>(243.2%)</b>	<b>(62.0%)</b>
Donations (l)	-	-	-	-	106,400	-	-	-	-	11,604	(100.0%)	-	-	-	-
<b>Net Income (after Taxes and Donations) [m=k+l]</b>	<b>36,750</b>	<b>4,006</b>	<b>(387,932)</b>	<b>555,608</b>	<b>317,563</b>	<b>4,166</b>	<b>452</b>	<b>(44,249)</b>	<b>60,875</b>	<b>34,633</b>	<b>1,478.9%</b>	<b>(89.1%)</b>	<b>(9,784.8%)</b>	<b>(243.2%)</b>	<b>(42.8%)</b>

## ■ Formulas

Personnel productivity:	$\text{Active borrowers} / \text{Total personnel (end of period)}$
Loan officer productivity:	$\text{Active borrowers} / \text{Total Loan Officers (end of period)}$
Return on assets (ROA):	$\text{Net operating income before donations} / \text{Average assets}$
Adjusted return on assets (AROA):	$\text{Adjusted net operating income before donations} / \text{Average assets}$
Return on equity (ROE):	$\text{Net operating income before donations} / \text{Average equity}$
Adjusted return on equity (AROE):	$\text{Adjusted net operating income before donations} / \text{Average equity}$
Leverage:	$\text{Debt (savings + debts)} / \text{equity (end of period)}$
Portfolio yield:	$\text{Portfolio revenue} / \text{13-month average gross outstanding portfolio}$
Operating expense ratio:	$\text{Operating expense} / \text{13-month average gross outstanding portfolio}$
Funding expense ratio:	$\text{Interest and fees paid on funding liabilities} / \text{13-month average gross outstanding portfolio}$
Cost of savings ratio:	$\text{Interest and fees paid on deposits} / \text{Average deposits}$
Cost of borrowings ratio:	$\text{Interest and fees paid on borrowings} / \text{Average borrowing}$
Loan loss expense ratio:	$\text{Net loan loss expense} / \text{13-month average gross outstanding portfolio}$
Adjustment expense ratio:	$\text{Total adjustments} / \text{13-month average gross outstanding portfolio}$
Net portfolio as a % of assets:	$\text{Net outstanding portfolio} / \text{total assets (end of period)}$
Financial self-sufficiency:	$\text{Revenue from operations} / (\text{Expenses (financial, loan loss, operating)} + \text{Adjustments})$
Risk coverage ratio:	$\text{Loan loss reserve} / \text{Portfolio at risk (31-365 days)}$
Write-off ratio:	$\text{Loans written off} / \text{13-month average gross outstanding portfolio}$

## ■ Rating scale

Rating	Definition
A+	<b>Excellent</b>
A	The institution excels in the evaluation area and is a model for the sector. There is a long-term vision for continual improvement. There are no risks in the short and medium term for operations. Long-term risks are well managed and monitored.
A-	
B+	<b>Good</b>
B	Procedures are well developed, effective, and incorporate a long-term perspective. Some improvements could be made. Long-term risks are identified in the strategic plan.
B-	
C+	<b>Minimum required</b>
C	Procedures are functional but with certain failings. There are minor risks in the medium term for operations.
C-	
D	<b>Insufficient</b>
	Procedures are in place, but with failings, and certain problems are only partially addressed. There are medium-term risks for operations.
E	<b>Immediate risk of default or very insufficient</b>
	There are immediate or underlying risks for operations or an unacceptable under performance.