

<b>PADME</b>	<b>BENIN</b>
<i>Association</i>	<i>Report as of June 2004</i>

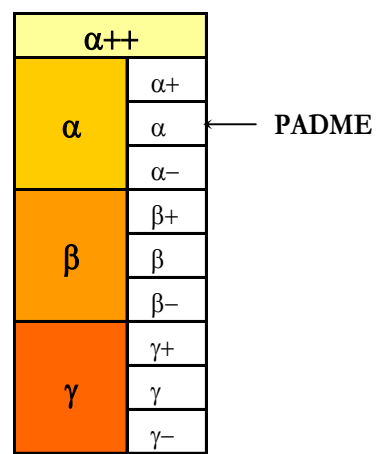
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<b>PERFORMANCE RATING</b>	<b>α</b>
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Date of visit	<b>September 2004</b>
Date of previous rating	<b>n.a.</b>
Previous rating	<b>n.a.</b>



<b>Main Performance Indicators</b>		
	Dec '03	Jun '04
Gross Portfolio ('000's)	\$27,187	\$28,587
Number of active borrowers	32,600	34,423
ROE	21.8%	28.3%
Portfolio Yield	23.9%	31.1%
Portfolio at Risk	1.1%	1.9%
Operating Expense Ratio	10.5%	9.4%
Average Loan Size	\$834	\$828
Borrowers per staff	247	238

**Synopsis**

Initially set up in 1993, the Project for the Promotion and Support of the Development of Micro-Enterprises (“PADME”) transformed into an “Association” (effectively a NGO) in 1997. Since then, the institution has developed into one of the most successful African microfinance institutions (MFIs). As a result of sound financial performance, PADME has been able to grow its portfolio by accessing a wide variety of local and international funding sources. The institution remains concentrated in urban areas and at June 2004, its loan portfolio grew to \$28.6 million. PADME offers mainly individual loans to over 40,000 active borrowers through its 4 branches and 22 sub-branches. MicroRate has awarded PADME the highest rating (“alpha”) ever given to an African MFI.

**Highlights**
**POSITIVE**

- PADME has one of the lowest operating expense ratios MicroRate has seen anywhere.
- Consistently profitable, ROE approached 30% (annualized) during the first 6 months of 2004.
- Despite a noticeable deterioration in the first half of 2004, portfolio quality remains excellent.
- Built up good experience in negotiating and repaying commercial debt.
- PADME has a commanding market position and is one of the largest MFIs in Benin.

**NEGATIVE**

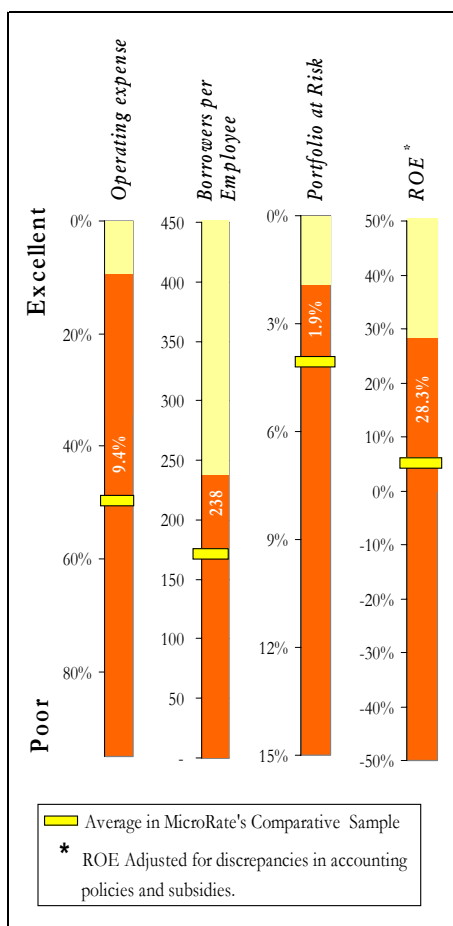
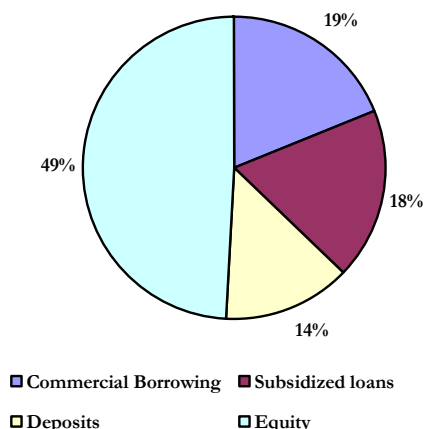
- The MIS is weak and does not meet all the needs of the institution.
- There is no comprehensive risk management framework in place.
- The governance structure is not optimal, with competitors and Government represented on PADME’s governing body.
- There is the potential for foreign exchange risk as PADME moves to secure sizeable loans from international funding sources.

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<b>PADME</b>	<b>BENIN</b>	<b>June 2004</b>
<b>Sources of Funding</b>	<b>Rating Rationale</b>	



The operating expense ratio and ROE compared to all African MFIs rated by MicroRate with average loans < US\$500.

**PADME continues to generate healthy profits** – Management’s effective control on operating expenses has resulted in a remarkably low operating expense ratio. This has greatly contributed to the healthy profits reported since 2000.

**Good portfolio quality** – Despite a steady increase in portfolio at risk (over 30 days) in the first 6 months of 2004, portfolio quality remains good. This is highlighted by the fact that the loan portfolio is comprised mainly of individual loans and there were minimal write-offs.

**Good loan products** – PADME conducts client surveys which are instrumental in product adaptation and development. Despite the recent introduction of new products, there is scope to improve products further and expand the range of financial services. This is essential to ensure that the institution continues to meet client demand.

**Competent Management and Staff** – Management and Staff know their jobs well and are committed to achieving PADME’s goals and objectives.

**Lack of formal risk management framework** - Although risk management is dealt with at management level, this is done so on an ad hoc basis. At the moment there are no systematic policies and procedures to deal with risk management. Such policies are desirable in an institution the size of PADME.

**Poor governance structure** - Although the quality of governance is good, the structure of the governing body is not optimal (competitors and government are represented on the governing body). This is a notable weakness, as it could result in a conflict of interest and could jeopardise future strategy planning and information gathering.

**Inadequate MIS** - Loan tracking and accounting systems are not integrated and the lack of real time reporting makes generating monthly financial reports difficult. Although the system can be easily adapted and modified, reporting still needs to be improved (for example the system cannot produce monthly branch balance sheets).

## Country Overview

Macroeconomic Information	Dec 00	Dec 01	Dec 02	Dec 03
Annual Inflation	4.2%	4.0%	2.5%	1.5%
Exchange Rate per CFA Francs : US\$	704.9	744.3	625.5	519.4
Annual Currency Devaluation	8.0%	5.6%	-16.0%	-17.0%
Deposit Rate (Year Average)	3.5%	3.5%	3.5%	3.5%

Source: IMF

Following the collapse of the banking sector in Benin in the late 1980's (at this stage there were only 3 government owned banks), donor funds were used to rehabilitate the sector through the creation of private commercial banks. Whilst this did little to promote financial services on a large scale, as part of the restructuring, the development of microfinance institutions was encouraged. This was largely driven by Government which replaced traditional cooperatives with credit unions. Today, these comprise the majority of institutions in the microfinance industry of which FECECAM is the largest. On its own, it accounts for a sizeable 40%-50% of all loans outstanding. Credit only institutions (PADME is one of these) form the bulk of the remainder of the industry and compete directly with the credit unions. Whilst their reach is not yet as deep, the trading sector in urban areas is fast becoming saturated and accordingly, there is increasing competition between MFIs. At the moment there is little competitive pressure in rural areas. Thus, meeting rural demand will be necessary if these institutions are to ensure that their growth targets are met.

Notwithstanding the increasingly competitive environment, many of the institutions are profitable. As such, there has been much interest from commercial banks. As yet they have not begun to go downscale, with the exception of one. That exception is FINADEV, the microfinance arm of a local bank which competes directly with PADME. The other main competitors include PAPME (even though this institution was set up to support small-medium enterprises by offering larger loan sizes) and VITAL Finance.

The high level of competition in urban areas has led to the increased sophistication of clients, underpinned by their increased understanding of the credit market and the products available to them. Clients are able to easily switch between a wide range of products and for this reason MFIs are having to become more dynamic in developing products which suit client demand.

PADME is licensed and supervised via an agreement<sup>1</sup> with the Minister of Finance, which stipulates the rules and regulation under which an MFI must operate.

As the applicable law was originally intended for the monitoring of credit unions, the regulatory framework for institutions like PADME is not well defined (the terms of the agreement with the Finance Minister are different for each MFI). This makes monitoring by supervisory authorities more difficult and ultimately reduces transparency in the industry. However, improvements to the law are expected in 2004, which should standardise requirements to a larger degree.

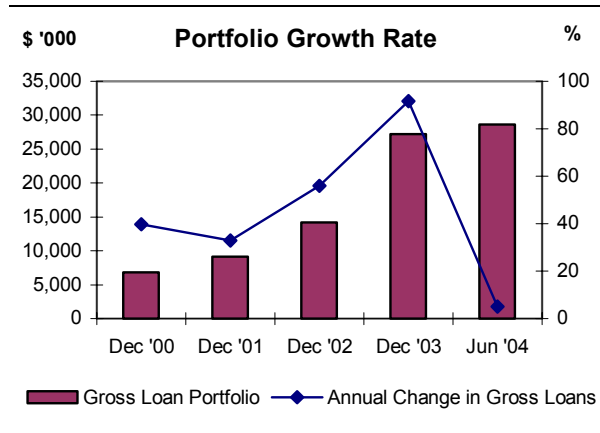
Under the current regulation, unless the institution plans to become a credit union, PADME faces having to transform into a private entity (governed either by the present, somewhat haphazard arrangement or alternatively the Banking Law). Whilst this will require much stricter supervision from regulators, transformation for PADME is desirable given the structure of their governing body. At the moment, that body includes a number of competitors, which limits its effectiveness and represents a serious conflict of interest.

## Microfinance Operations

Main Indicators	Dec-03	Jun-04*
Gross loan portfolio (\$ '000s)	27,187	28,587
Change in gross loan portfolio (%)	91.7	5.2
Average outstanding loan size (\$)	834	828
Portfolio at risk / Gross portfolio (%)	1.1	1.9
Operating exp. / Ave. gross portfolio (%)	10.5	9.4
Portfolio yield (%)	23.9	31.1
Total staff	132	145
Number of borrowers per staff	247	238
Net profit (\$ '000s)	3,046	2,577
Net Income / Average equity (ROE) (%)	21.8	28.3

In June 2004, growth in the loan portfolio slowed substantially to just 5%, following explosive growth in 2003 (92% in dollar terms). As this was largely due to significant exchange rate appreciation, in local currency terms, growth was lower at 59%.

<sup>1</sup> The agreement, known as a convention cadre is renewable every five years. PADME is due to renew its agreement shortly.



With a loan portfolio of \$28.6 million, PADME is the third largest MFI by portfolio size in Benin. The institution services over 40,000 clients through its 4 branches and 22 sub-branches.

The loan portfolio is comprised mainly of individual loans (86%). Other products include group loans and wholesale loans to NGO's. An Artisan loan (PROFIDA) and a Housing loan were introduced in 2003 and 2004 respectively.

#### Composition of the loan portfolio

	Dec 2003	Jun 2004
Individual loans	87.6%	85.8%
Group loans	10.6%	7.8%
Housing loans	-	3.8%
Wholesale loans to NGO's	1.5%	1.4%
PROFIDA	0.3%	1.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

A business must be operational for at least six months before it qualifies for an individual loan. As is the case with many MFIs offering individual loans, savings collateral of 10% is required, as well as pledged assets such as land title deeds, vehicles, a salary or equipment. In addition, a co-guarantor is also required.

#### Loan Products

	Individual	Group	Housing
Term	1-36 months	1-36 months	1-60 months
Interest rate*	2% / month	2% / month	2% / month
Interest type	Declining	Declining	Declining
Min loan	\$35	\$35	-
Max loan	\$18,500	\$920	\$18,500
	<b>Wholesale</b>	<b>PROFIDA**</b>	
Term	1-36 months	1-24 months	
Interest rate	1%	2%	
Interest type	Declining	Declining	
Min loan	\$35	-	
Max loan	\$9,250	\$1,300	

\*Loans over 24 months for individual loans are subject to a lower interest rate of 1.5%.

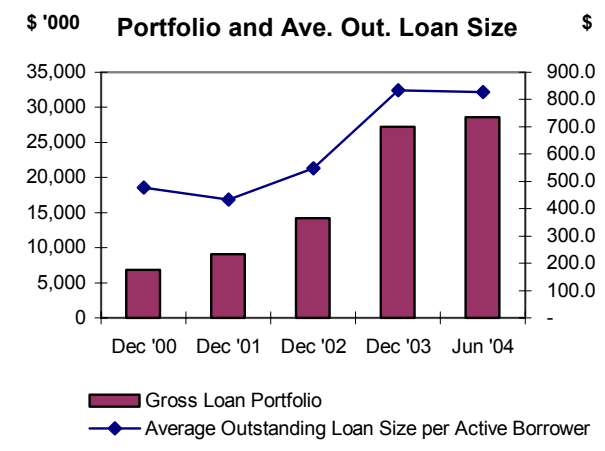
\*\*This product is also offered as a group loan, with a maximum loan size of \$370 per member.

Loan officers first verify the existence of a client's business and a business assessment is conducted. Repayment capacity calculations are performed, but this is informally done as there is no provision for this calculation on the loan application form. Despite this, it is still used to determine the loan size.

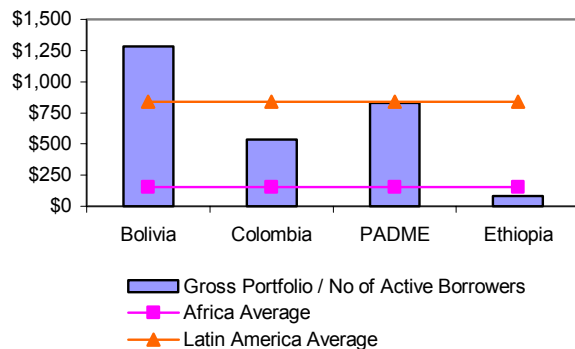
Loan application forms are short and easy to understand and there is little duplication of information. Although clients are required to complete a number of identification documents (there is no credit reference bureau), the documentation is well maintained.

Powers for a credit decision lie with the branch credit committee. Disbursement for new loans takes up to 10 days and clients are issued with a cheque. As loan officers receive ongoing training on client evaluation, there is a very low rejection rate (less than 1%) during the credit vetting process. Repayments are made monthly and there is a grace period of between 1-6 months.

Responding to demand for higher loan sizes (which in the past has increased client drop out), PADME doubled the maximum loan size for individual loans to \$18,500 in 2003. Accordingly, the average outstanding loan size remained high at \$828 in June 2004. This is well above the average MicroRate's average for African MFIs (\$156) and slightly lower than the average of MFIs in Latin America (\$837).



### Average outstanding loan size per borrower



PADME compared to some of the best MFI's MicroRate has seen: one in Bolivia, one in Colombia and one in Ethiopia.

PADME has been conducting client satisfaction surveys, which are good and have reinforced the quality of its existing loan products (however, these surveys have identified the need for the MFI to widen the product offering further). Although management does not formally track its client dropout rate (estimated to be around 6%), the reasons for client attrition are monitored.

As the institution has responded to client demand for higher loan amounts, the voluntary drop out rate is expected to decline.

Marketing has become an increasingly important function at PADME in determining the needs of clients. With demand for individual loans still high, the institution has focussed on developing individual loan products.

Following numerous market tests, two new products have been rolled out over the past two years including the Housing loan and PROFIDA (loans to artisans). Further individual products are planned (e.g. consumer loans etc), but as the MFI is conservative in its approach to product implementation, this could take time.

The group loan product is largely a solidarity group product comprising 3 individuals. However, larger groups of up to 30 members do exist. Groups are self formed and loan sizes start at \$35 per member. Clients can progress through the loan cycles to a maximum of over \$920. Like individual loans, the approval process is good (the same loan forms and evaluation techniques of individual loans are used). The maximum loan size is determined by the repayment capacity of the weakest member.

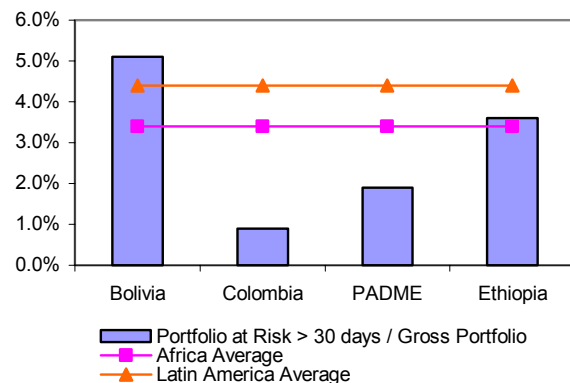
In MicroRate's experience, over-indebtedness of micro entrepreneurs is often a consequence of a highly competitive microfinance sector. This is particularly the case when – as in Benin – there is no credit bureau. MFIs try to defend themselves against this danger by sharing client information and loan officers often liaise informally with each other. Both practices have recently become common in Benin, but they usually are not completely effective. Multiple borrowing from different MFIs appears to be fairly widespread and it is estimated that approximately 5% of clients cannot repay their loans because of this practice.

Overall, products suit client demand. However, it is apparent that there is a strong need for new products, particularly voluntary savings products, which is a potential source of new credit business.

### Portfolio Quality

In June 2004, Portfolio at risk (over 30 days) was 1.9%, which is excellent considering that the majority of the loan portfolio is made up of individual loans<sup>2</sup>. Furthermore, this is well below the average of both African and Latin American MFIs rated by MicroRate of 3.4% and 4.4% respectively.

### Portfolio at Risk



PADME compared to some of the best MFI's MicroRate has seen: one in Bolivia, one in Colombia and one in Ethiopia.

The quality of the loan portfolio is supported by the fact that there were minimal write-offs (0.3%) in June 2004.

<sup>2</sup> To maintain portfolio quality, loan officers are not allowed to continue disbursing loans if their repayment rate falls below 95%. Only when it reaches 98% can they resume.

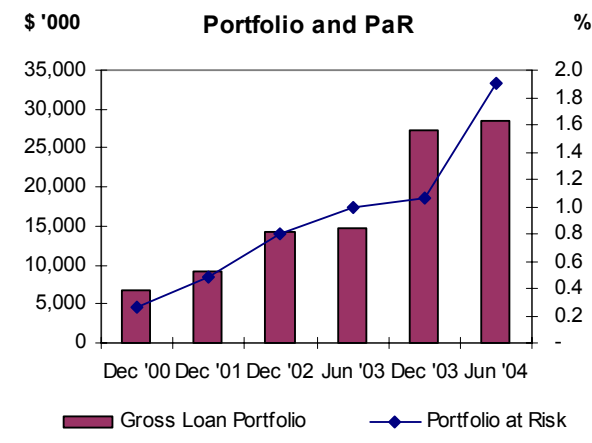


These write-offs have been kept low as a result of PADME's strong loan analysis and approval techniques (loan officer receive on going training).

Even when write-offs are added to PaR, portfolio quality is still good. PADME also does not refinance any of its loans.

Portfolio Quality	2003	June 2004
Gross loan portfolio	\$27.2 million	\$28.6 million
Portfolio at risk	1.1%	1.9%
Write-offs/ Portfolio	0.4%	0.3%
PaR plus write-offs	1.5%	2.2%

Furthermore, PADME does not track individual client repayments within groups. As group loans account for less than 10% of the portfolio, this is not a major concern. It should be noted though that in MicroRate's experience, the PaR for groups normally translates into double or more at the individual level.



PADME applies its loan loss provisioning in accordance with the law. However, provision coverage at June 2004 was low at 34% of portfolio at risk (over 30 days). This is well below MicroRate's average for African MFIs of 85%. MicroRate considers it prudent to provide for 100% of portfolio at risk.

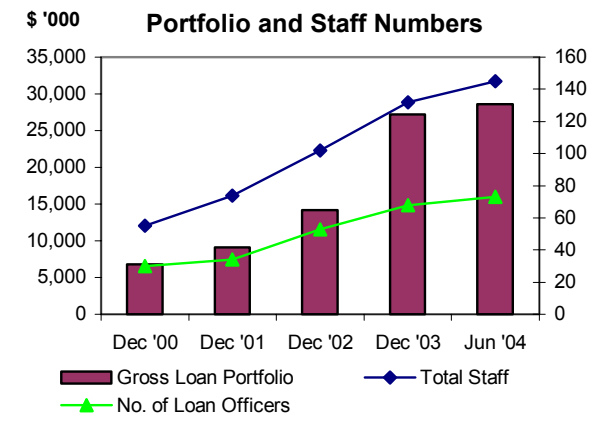
PADME has applied to the regulatory authorities for permission to increase this reserve. However, this has been unsuccessful and hence provision coverage of PaR will most likely remain low.

## Organization and Management

The majority of senior management have been with the institution since inception and demonstrate a high level of competence.

The General Manager is supported by a deputy GM (who is also in charge of marketing), an Operations Manager, a Financial Manager, the Chief Internal Auditor, a Human Resources Manager, a MIS Manager and a Manager in charge of Administration.

Overall the institution displays good depth in management. Management is transparent and the good company culture is indicative of effective communication within the organisation.



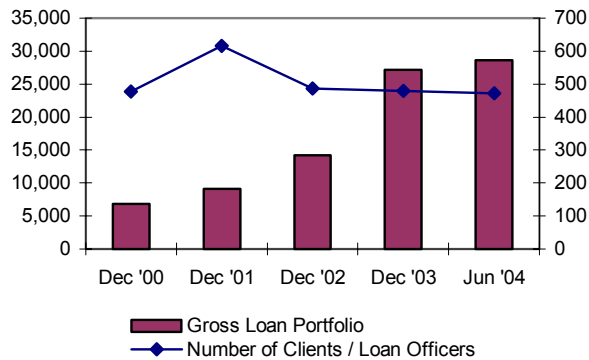
Staff are well trained (they receive both internal and external training at least once a year) and they know their jobs well. Loan officers are recruited from a pool of interns<sup>3</sup> and dispatched to the branches based on branch needs.

There is a good incentive scheme in place, which is simple to understand. Incentives are paid out monthly and are not capped. There is also a discretionary profit share for all staff at the end of each year. On the whole, staff morale is high and this is demonstrated by a strong work ethic (staff work very long hours).

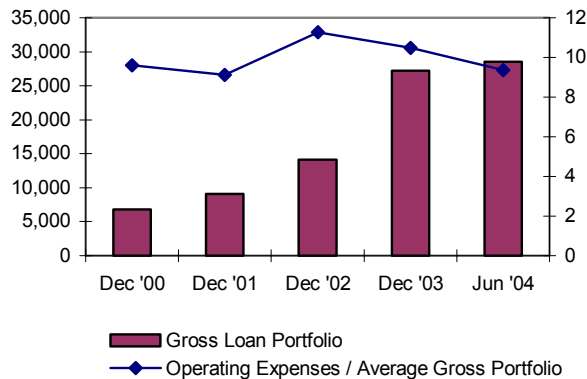
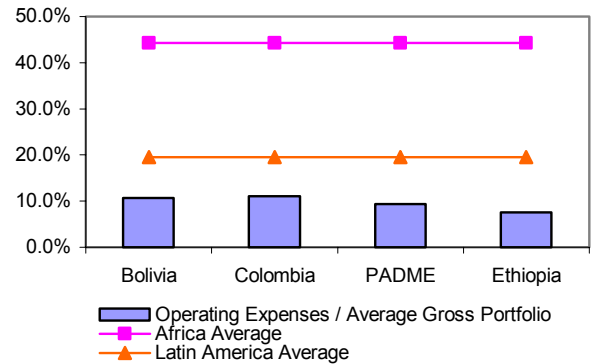
Staff are dedicated to achieving the institutions goals and objectives. Staff turnover is low and this is indicative of a good working environment.

In line with portfolio growth, the staff complement grew to 145 in June 2004, 50% of whom were loan officers. The loan officers are highly efficient and on average managed over 470 borrowers. This is well above the average of 360 for African MFIs rated by MicroRate and roughly in line with some of the best performing MFIs in Latin America.

<sup>3</sup> PADME hires interns and dispatches them within the organisation on a needs basis. They spend 6 months training following which they can apply for a position (if available) with the MFI.

**\$ '000 Portfolio and Loan Officer Efficiency**


This high level of staff productivity no doubt contributed to the remarkably low operating expense ratio of 9.4% in June 2004. However, this was greatly supported by efficiencies arising from the high average outstanding loan size and economies of scale from the large portfolio. This level of operating efficiency far surpasses MicroRate's African average (44%) and is one of the best levels that MicroRate has seen anywhere.

**\$ '000 Operating Expense Ratio %**

**Operating Expense Ratio**


PADME compared to some of the best MF's MicroRate has seen, one in Bolivia, one in Colombia and one in Ethiopia.

Although PADME's salaries are competitive, they are low by international comparison. Whilst this has played an important role in keeping operating expenses down, good management and procedures have also been effective.

In June 2004 the cost per borrower declined to \$67, from \$74 in 2003. This is slightly below MicroRate's average of \$60 for African MFIs.

The internal audit programme is managed by the senior internal auditor (he reports to the General Manager monthly), whilst the External Auditor also performs a number of internal audit functions and reports to the Board quarterly.

Whilst this is sufficient in identifying risks, MicroRate believes that the Internal Auditor would be more effective if there was a direct line of contact with the Board of Directors.

Currently the department comprises 3 individuals and there are plans to increase this to 5. Despite this, the internal audit department is still too small. With a portfolio of over \$28 million, PADME needs to increase the number of internal audit staff in order to be effective. Furthermore, although PADME's policies and procedures are sound, it will be necessary for the institution to formalise these (by producing a written manual), such that they can be effectively implemented.

Overall, the institution's internal controls have been effective in controlling fraud.

### ***Management Information and Accounting Systems***

The institution uses two software packages, which are not integrated. SoftBank tracks loan information, whilst CIEL manages the accounting function (However, PADME is in the process of transferring to a new system called PERFECTO).

The loan tracking software is easy to use and staff are well trained on using it. There is also a good level of security, with different user levels and password protection in place.

There is no connectivity between branches and head office and accordingly, managing branch liquidity requires much paperwork and time. Furthermore, not all the sub branches are computerised, which can result in a delay in capturing repayment information.

A key constraint of the MIS is that it is difficult to automatically generate financial statements (data must be exported to Excel), which for an institution the size of PADME, is undesirable. For this reason (amongst others), the institution is planning to implement a new MIS. Whilst this will be expensive (the World Bank is expected to fund this), the institution will benefit from more reliable accounting information (at the moment it requires multiple data entries, which raises the risk of error), increased efficiencies and stronger internal controls.

The accounting function is centralised. Reports on credit operations are sent to head office monthly for consolidation (with little support documentation). Reports are generally available by the 15<sup>th</sup> of each month. This includes a monthly income statement for each branch, but not a balance sheet, which highlights the need for PADME to make the change to the new accounting software as soon as possible.

### **Governance and Strategic Positioning**

PADME operates as an Association<sup>4</sup>, and is governed by a General Assembly ("GA"), which includes a number of representatives from competing organisations, commercial banks, micro entrepreneurs and the Government of Benin. The Board of Directors is appointed by the GA and comprises of 5 individuals (including PADME's General Manager).

<sup>4</sup> An Association is defined as a not for profit institution, which has no capital or shareholders. Any capital provided by an individual or institution is regarded as a grant.

Whilst the quality of governance is good, the structure of the General Assembly is not optimal, especially since PADME's main competitor is represented. This together with the representation by Government is a notable weakness in the MFI's governance structure.

MicroRate believes that this is a risk, which has to be managed effectively. For if not, it could have serious implications to PADME's future strategy planning and information gathering.

Furthermore, given the increasing competition in the microfinance industry, it is essential that PADME accelerate its plans to change its legal structure (and hence its board of directors), which is otherwise a potential threat to the integrity and sustainability of the organisation.

At the board level there are no systematic risk policies & procedures in place. For example there are no board level committees for Audit, Asset & Liability matching, Counter-party risk and Portfolio concentration. Whilst it is noted that being an Association is a constraining factor in developing formal risk management procedures (and although risk is dealt with at management level), this is a concern. MicroRate believes that for an institution the size of PADME, a more formal risk management framework is essential.

Aside from the issue of transforming into a new legal entity, one of PADME's greatest strategic challenges is its low appetite for credit risk. Whilst this is good and has proven to be successful for PADME, MicroRate also believes that this attitude is constraining the implementation of new products. With the trade sector for micro loans becoming increasingly saturated, developing and implementing new products will be essential if growth targets are to be met. There is considerable scope for growth in the rural areas, but to be competitive the institution will have to design products which suit demand (for example, agricultural loans, consumer loans, loans to acquire land etc).

At the moment, PADME holds a dominant position within the microfinance industry, which is supported by its ability to introduce products which work (the result of much market testing). Although this is an integral part of its product strategy, it does delay the full rollout of new products. Whilst it is noted that the institution is quick to respond to client demand, this conservative attitude (towards credit risk) could reduce its competitiveness in the long term.



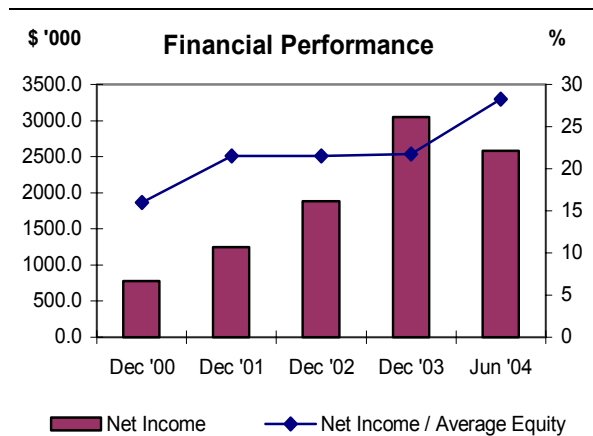
## Financial Profile

PADME has been profitable since 2000 and in 2003 the institution reported its highest net profit of over \$3 million. The strong performance continued during the first six months of 2004, with a net profit of \$2.6 million and an annualised ROE of 28%.

Financial Ratios	Dec-03	Jun-04*
<b>Asset Quality</b>		
Portfolio at risk / Gross portfolio (%)	1.1	1.9
Provision exp. / Ave. gross portfolio (%)	0.2	0.8
Loan loss reserves / Portfolio at risk (%)	32.1	33.8
Write-offs / Ave. gross portfolio (%)	0.4	0.3
<b>Management</b>		
Operating exp. / Ave. gross portfolio (%)	10.5	9.4
Number clients per credit officer	479	473
Number of borrowers per staff	247	238
Cost per borrower (\$)	74	67
<b>Profitability</b>		
Net Income / Average equity (ROE) (%)	21.8	28.3
Portfolio yield (%)	23.9	31.1
<b>Financial Management</b>		
Debt / Equity	1.2	1.1

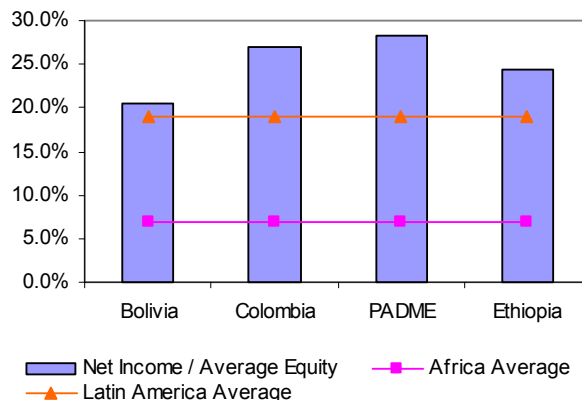
\*Represents a six month period. All relevant ratios have been annualised.

Since portfolio yield is only 31%, PADME's high profitability is entirely due to exceptionally low operating expenses and excellent portfolio quality.



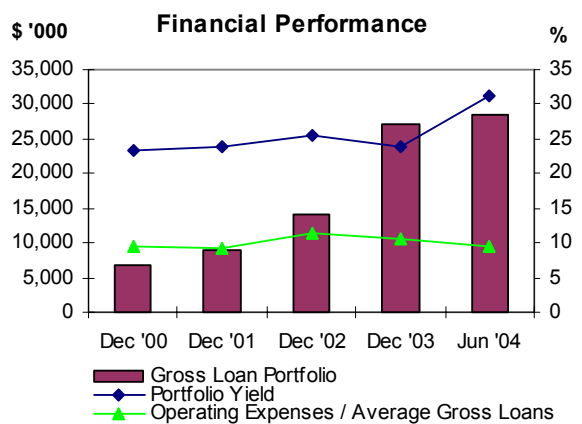
Benin's Usury Laws impose a maximum effective rate of 27%. PADME exceeds this limit slightly. However, few microfinance institutions anywhere could operate profitably if they charged rates equivalent to those prescribed by law in Benin. The average portfolio yield of all African MFIs rated by MicroRate is 58%. In Latin America, where average loan sizes tend to be much larger, it is 39%.

## Financial Performance



PADME compared to some of the best MFI's MicroRate has seen, one in Bolivia, one in Colombia and one in Ethiopia.

Unrealistically low interest rate limits also discourage MFIs from making small loans or from operating in high-cost environments such as rural areas. It is hoped that Benin's usury laws are intended more as political statements than as actual rules, which MFIs must follow.



Over the past two years, PADME has relied heavily on debt to grow its loan portfolio. As a result, commercial borrowings increased significantly to almost \$12.5 million in June 2004. Although this is equivalent to 44% of the loan portfolio and 37% of the capital structure, the institution has demonstrated that it can effectively manage its debt burden. PADME's debt to equity ratio of 1.1 is still very low, even for an MFI. Furthermore, despite the higher funding costs the net interest margin rose to 33% (annualised), from 24% previously.

The bulk of PADME's debt comprises a ten year loan facility from the World Bank. The facility of around \$6 million is fully drawn down and priced at 3.25%. The loan is channelled through the government and it is denominated in local currency.

The remaining debt is largely made up of loans from a number of local banks and 2 lines of credit from Société Générale totalling \$2.9 million and \$2.6 million respectively. All the commercial loans are also denominated in local currency and hence there is so far no currency risk.

#### Composition of Debt

	World Bank	Société Générale	Local Banks
<b>Loan (US\$)</b>	\$6.1 million	\$2.6 million	\$2.9 million
<b>Term</b>	10 years	1 year	1-2 years
<b>Interest rate</b>	3.3%	7%-7.5%	4.5%-7%
<b>Guarantee</b>	Nil	Portfolio	Portfolio

Note: This excludes attached debt amounting to around \$980,000.

In addition, PADME has secured Euro 1.5 million from the Triodos Fair Share Fund (Dutch). This is priced at 7.5% per annum and PADME will have to repay in equal biannual instalments over 3 years. This loan has not yet been drawn down.

PADME has also tentatively secured Euro 2 million from a Belgian Investment Company and is in the process of negotiating a Euro 4 million loan from a Switzerland based commercial microfinance fund. Although these loans have not yet been finalised, it should be noted that this (together with the Triodos loan) will expose PADME to significant foreign exchange risk.

Relative to its African peers, PADME is not highly liquid, with cash and liquid assets comprising 11% of total assets and covering 83% of total deposits in June 2004. Although the institution is legally able to intermediate funds, MicroRate would be more comfortable with higher liquidity levels, particularly given the lack of adequate formal risk management procedures (particularly in matching assets and liabilities). Only 3% of the outstanding loan portfolio is funded with clients' savings.

Overall, PADME has a healthy balance sheet and profits continue to strengthen the equity base. This has resulted in PADME being able to successfully diversify away from local banks as a potential funding source. With a number of international loans expected to be secured in 2004, there should be sufficient liquidity to manage future growth.

#### Future Prospects

PADME has a five year business plan, which projects significant growth (a loan portfolio of almost \$50 million by 2007). Given the high growth rates in 2002 and 2003, there is scope to achieve this target, particularly given the lack of real competition in rural areas. However, to realise growth rates of this magnitude, will require much effort on management's behalf.

First and foremost, developing new products will be critical, if loan growth targets are to be met. At the moment there is a need to broaden the range of financial services offered, which not only will allow the institution to grow in the already competitive urban markets, but will be an important tool by which it can expand into the rural areas.

Whilst it will be imperative that products are adapted and designed to suit client demand, it will be necessary to ensure that the products are brought to market sooner rather than later.

In addition, with MFIs in Benin generating healthy returns, the risk of commercial banks moving downscale is high. Although only one local commercial bank has entered the microfinance market so far, these institutions will be able to leverage off their critical mass and a cost effective savings base. This will make it difficult for MFIs, to compete effectively.

Another major challenge will be managing the transformation process from an Association into a new legal entity. Whilst the best option is yet to be decided, management should make this a priority. Having competitors and government representatives on the governing body, in MicroRate's opinion is counter productive and in the long term could jeopardise PADME's ability to effectively achieve its objectives.

Overall, PADME remains a leading MFI in the Benin microfinance industry and one of the strongest microfinance institutions in Sub-Saharan Africa. Provided it meets the challenges of new product development, expanding its geographic coverage and managing a successful transformation process, the outlook remains positive and PADME should continue to enjoy a strong market position.

**PADME**

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

<b>Income Statement for the year ended:</b>	<b>31-Dec-00</b>	<b>31-Dec-01</b>	<b>31-Dec-02</b>	<b>31-Dec-03</b>	<b>30-Jun-04 *</b>
Interest and Fee Income	1,415.5	1,997.4	3,157.8	5,325.6	3,931.9
Interest and Fee Expense	(78.2)	(89.7)	(343.7)	(472.7)	(302.6)
<b>Net Interest Income</b>	<b>1,337.3</b>	<b>1,907.7</b>	<b>2,814.1</b>	<b>4,852.8</b>	<b>3,629.2</b>
Provision for Loan Loss	(1.2)	(7.3)	(18.7)	(50.7)	(89.9)
<b>Net Interest Income After Provisions</b>	<b>1,336.0</b>	<b>1,900.4</b>	<b>2,795.4</b>	<b>4,802.2</b>	<b>3,539.3</b>
Operating Expense	(563.4)	(727.0)	(1,314.9)	(2,169.7)	(1,026.1)
<b>Net Operating Income</b>	<b>772.6</b>	<b>1,173.4</b>	<b>1,480.5</b>	<b>2,632.4</b>	<b>2,513.2</b>
Other Income	6.4	65.3	450.7	534.0	172.8
Other Expenses	(1.1)	(3.7)	(47.2)	(120.2)	(108.9)
Extraordinary Items	-	12.2	(0.1)	-	-
<b>Net Income Before Taxes</b>	<b>778.0</b>	<b>1,247.2</b>	<b>1,883.9</b>	<b>3,046.3</b>	<b>2,577.2</b>
Taxes	-	-	-	-	-
<b>Net Income</b>	<b>778.0</b>	<b>1,247.2</b>	<b>1,883.9</b>	<b>3,046.3</b>	<b>2,577.2</b>
<b>Balance Sheet as at:</b>					
Cash and Banks	907.2	441.3	287.8	871.4	1,551.6
Temporary Investments	-	2,380.6	2,754.0	3,766.3	2,228.2
Net Loans	6,824.2	9,070.3	14,146.0	27,093.9	28,407.5
Gross Loans	6,834.0	9,086.8	14,181.4	27,186.8	28,587.0
<i>Performing Loans</i>	<i>6,816.5</i>	<i>9,043.5</i>	<i>14,068.5</i>	<i>26,897.3</i>	<i>28,056.3</i>
<i>Portfolio at Risk</i>	<i>17.5</i>	<i>43.3</i>	<i>112.9</i>	<i>289.5</i>	<i>530.7</i>
Loan Loss Reserve	9.7	16.5	35.4	92.9	179.5
Other Current Assets	106.9	455.2	503.9	625.2	1,124.2
<b>Current Assets</b>	<b>7,838.4</b>	<b>12,347.3</b>	<b>17,691.6</b>	<b>32,356.8</b>	<b>33,311.5</b>
Long Term Investments	-	7.3	8.7	10.5	10.1
Property and Equipment	162.2	240.1	424.5	437.8	477.3
Other Long Term Assets	11.5	12.1	17.4	25.8	24.1
<b>Long Term Assets</b>	<b>173.7</b>	<b>259.6</b>	<b>450.6</b>	<b>474.2</b>	<b>511.6</b>
<b>Total Assets</b>	<b>8,012.1</b>	<b>12,606.9</b>	<b>18,142.3</b>	<b>32,830.9</b>	<b>33,823.1</b>
Demand Deposits	1,088.9	1,488.4	2,397.9	3,931.6	4,538.3
Short Term Time Deposits	-	-	-	-	-
Short Term Funding Liabilities	3.3	-	-	6,246.2	5,512.8
Other Short Term Liabilities	132.5	143.1	238.5	218.9	251.9
<b>Current Liabilities</b>	<b>1,224.7</b>	<b>1,631.6</b>	<b>2,636.4</b>	<b>10,396.7</b>	<b>10,303.0</b>
Long Term Time Deposits	-	-	-	-	-
Long Term Funding Liabilities	2,426.9	4,697.6	5,786.9	7,628.1	7,023.1
Other Long Term Liabilities	-	-	-	-	-
<b>Long Term Liabilities</b>	<b>2,426.9</b>	<b>4,697.6</b>	<b>5,786.9</b>	<b>7,628.1</b>	<b>7,023.1</b>
Capital	3,180.9	4,723.2	7,016.7	10,225.9	12,057.3
Retained Earnings	995.0	1,142.5	1,711.4	2,669.6	2,047.5
Other Capital Accounts	184.6	412.0	990.8	1,910.7	2,392.3
<b>Equity</b>	<b>4,360.5</b>	<b>6,277.7</b>	<b>9,718.9</b>	<b>14,806.2</b>	<b>16,497.1</b>
<b>Total Liabilities &amp; Equity</b>	<b>8,012.1</b>	<b>12,606.9</b>	<b>18,142.3</b>	<b>32,830.9</b>	<b>33,823.1</b>
<b>Key ratios:</b>					
<b>Asset Quality</b>					
Portfolio at Risk / Gross Loan Portfolio (%)	0.3	0.5	0.8	1.1	1.9
Loan Loss Provision exp. / Average Gross Portfolio (%)	0.0	0.1	0.2	0.2	0.8
Loan Loss Reserves / Portfolio at Risk (%)	55.7	38.2	31.4	32.1	33.8
Write-offs / Average gross portfolio (%)	0.3	0.1	0.3	0.4	0.3
<b>Efficiency and Productivity</b>					
Operating Expenses / Average Gross Loan Portfolio (%)	9.6	9.1	11.3	10.5	9.4
Cost per borrower	45.7	41.2	56.2	74.3	67.0
Average outstanding loan size	476.9	433.6	548.9	833.9	828.1
Number of Borrowers per Staff (no.)	260.5	283.2	250.8	247.0	238.1
Number of Borrowers / Credit Officer (no.)	477.7	616.3	487.5	479.4	472.9
Operating Expenses / Net Interest and Other Income (%)	41.9	36.8	40.3	40.3	27.0
<b>Profitability</b>					
Net Income / Average Equity (%) (ROE)	16.0	21.5	21.5	21.8	28.3
Net Income / Average Assets (%) (ROA)	8.7	11.1	11.1	10.5	14.6
Portfolio Yield (%)	23.2	23.8	25.6	23.9	31.1
Net Interest Income / Average Gross Loan Portfolio (%)	22.8	24.0	24.1	23.5	33.1
Non Interest Income / Total Operating Income (%)	0.5	3.2	12.5	9.1	4.2
<b>Financial Management</b>					
Interest and Fee Expenses / Average Gross Portfolio (%)	1.3	1.1	2.9	2.3	2.8
Interest and Fee Expenses / Average Funding Liabilities (%)	3.2	1.8	4.8	3.6	4.5
Debt / Equity (1)	0.8	1.0	0.9	1.2	1.1
Total Capital / Risk Weighted Assets (%)	95.5	107.0	99.1	77.5	77.1
<i>Tier One Capital / Risk Weighted Assets (%)</i>	<i>61.4</i>	<i>61.2</i>	<i>62.1</i>	<i>51.2</i>	<i>54.1</i>
<i>Tier Two Capital / Risk Weighted Assets (%)</i>	<i>34.2</i>	<i>45.8</i>	<i>37.0</i>	<i>26.4</i>	<i>23.0</i>
Cash and Liquid Assets / Total Deposits (%)	83.3	189.6	126.8	118.0	83.3
Cash and Liquid Assets / Liabilities to the Public (%)	74.1	173.0	115.4	44.6	36.7
<b>Nominal Growth indicators</b>					
Assets (%)	-	57.3	43.9	81.0	3.0
Loan Portfolio (%)	-	33.0	56.1	91.7	5.2
Shareholders Equity (%)	-	44.0	54.8	52.3	11.4
Deposits (%)	-	36.7	61.1	64.0	15.4
Net income (%)	-	60.3	51.1	61.7	69.2

\*Represents a 6 month period. All relevant ratios have been annualised.

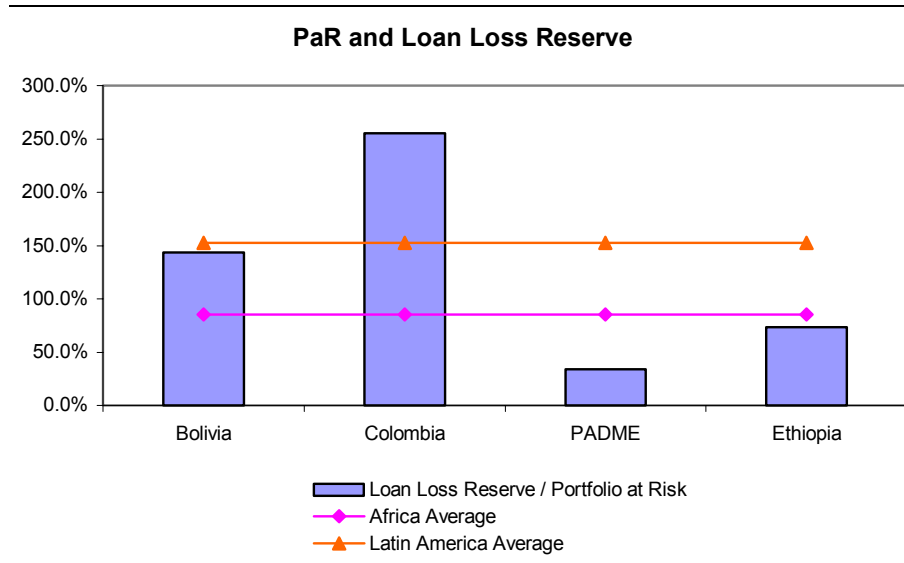
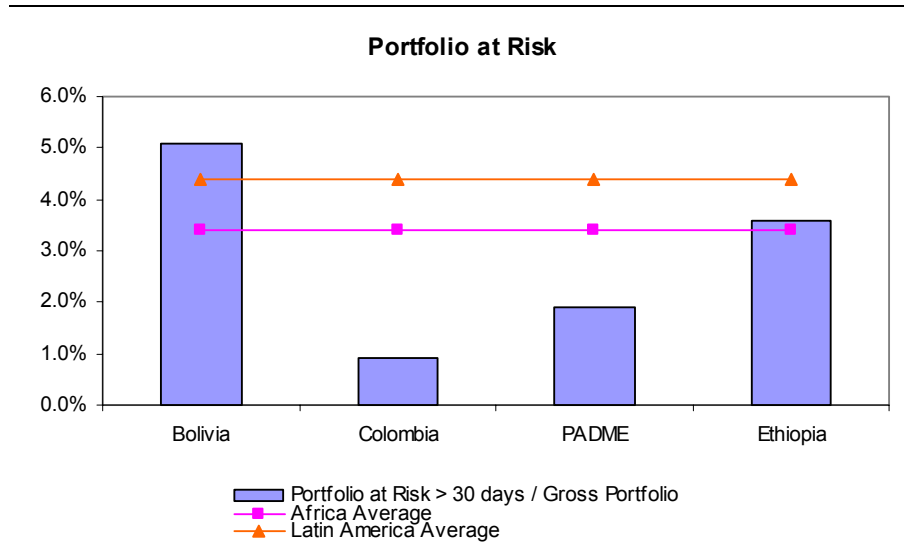
## 1. Excellence in Microfinance Rating Definitions

Grade	Definitions	
$\alpha++$	Those MFIs consistently exhibiting a clear, rational and balanced relationship among the social, financial and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry. Optimal efficiency and effectiveness. Very low risk. Excellent future prospects.	1 <b>Optimal</b>
$\alpha+$ $\alpha$ $\alpha-$	Those MFIs striving to balance a clear and rational relationship among the social, financial and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry. Good efficiency and effectiveness. Low risk. Good future prospects.	2 <b>Good</b>
$\beta+$ $\beta$ $\beta-$	Those MFIs working to define a clear and rational relationship among the social, financial and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry. Satisfactory efficiency and effectiveness. Acceptable risk. Satisfactory future prospects	3 <b>Satisfactory</b>
$\gamma+$ $\gamma$ $\gamma-$	Those MFIs without a clear and rational relationship among the social, financial and operational considerations of sound microfinance practice as compared to an international set of similar companies and emerging standards of the microfinance industry. Poor efficiency and effectiveness. Very risky. Poor future prospects.	4 <b>Poor</b>

	<b>Scoring key:</b>	
$++$	Optimal	1
$\alpha$	Good	2
$\beta$	Satisfactory	3
$\gamma$	Poor	4

## Appendix A

### Asset Quality



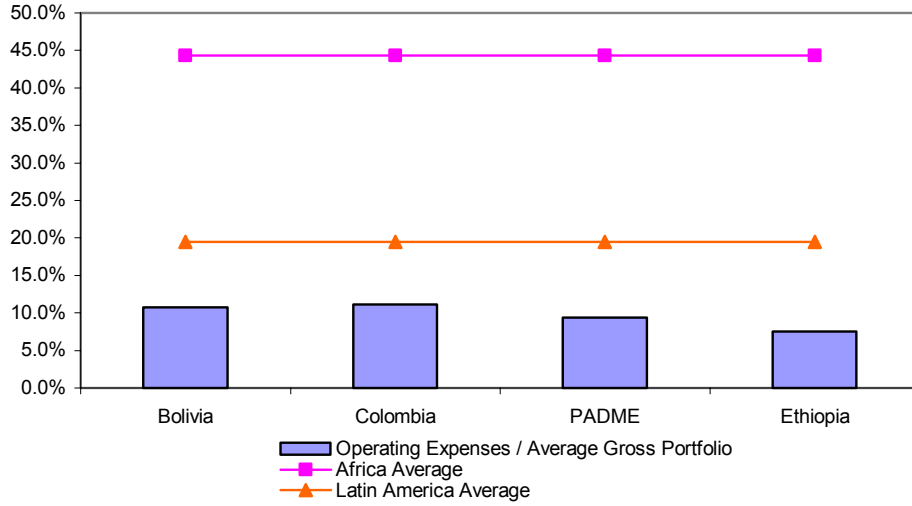
Note: These graphs provide a comparison between PADME and an institution in Bolivia, Colombia and Ethiopia. Moreover, it compares the MFI to MicroRate's averages in both Africa and Latin America.



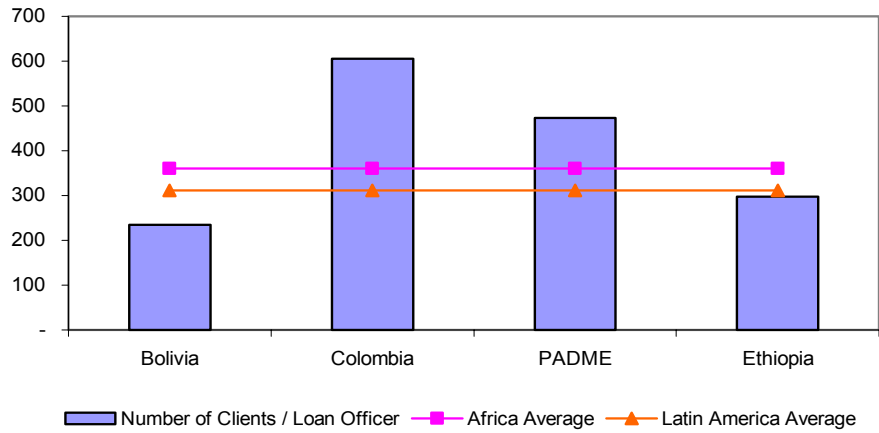
## Appendix B

### Efficiency and Productivity

**Operating Expense Ratio**

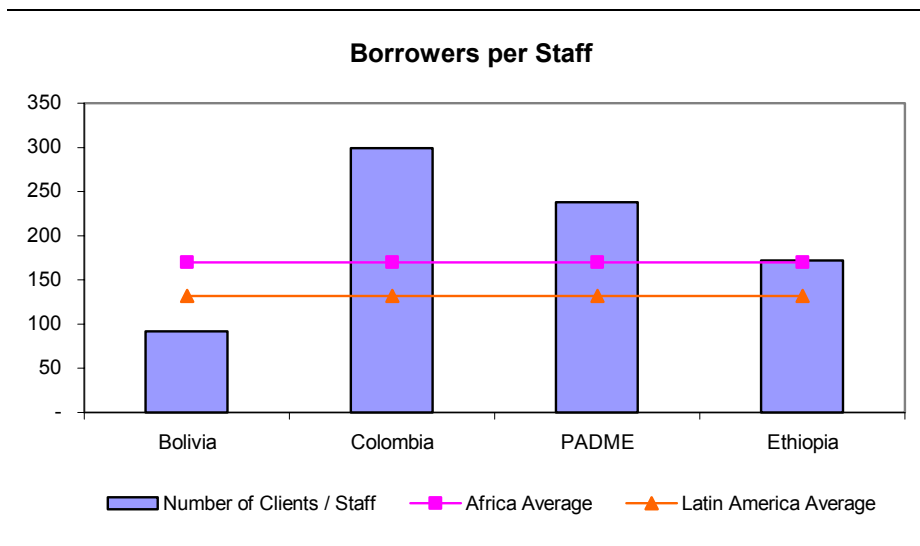


**Borrowers per Loan Officer**



## Appendix B

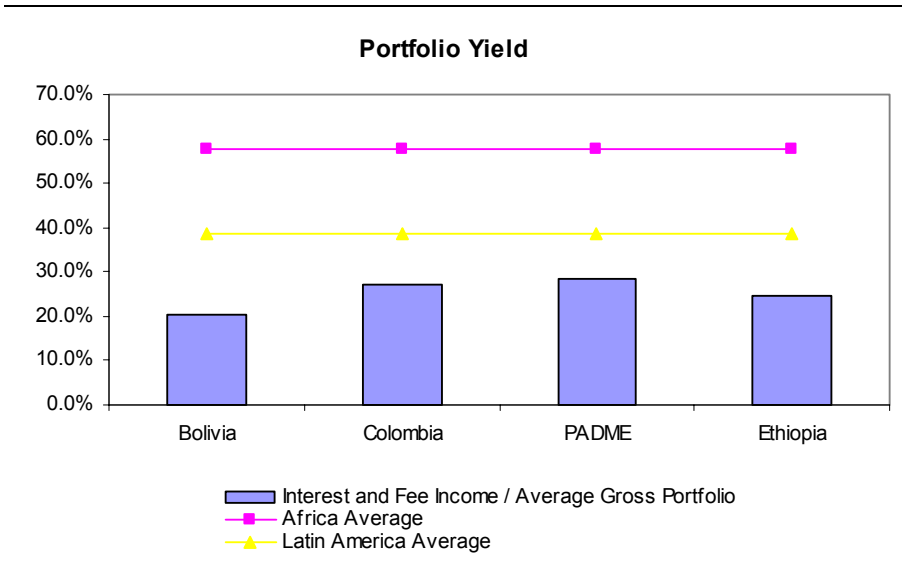
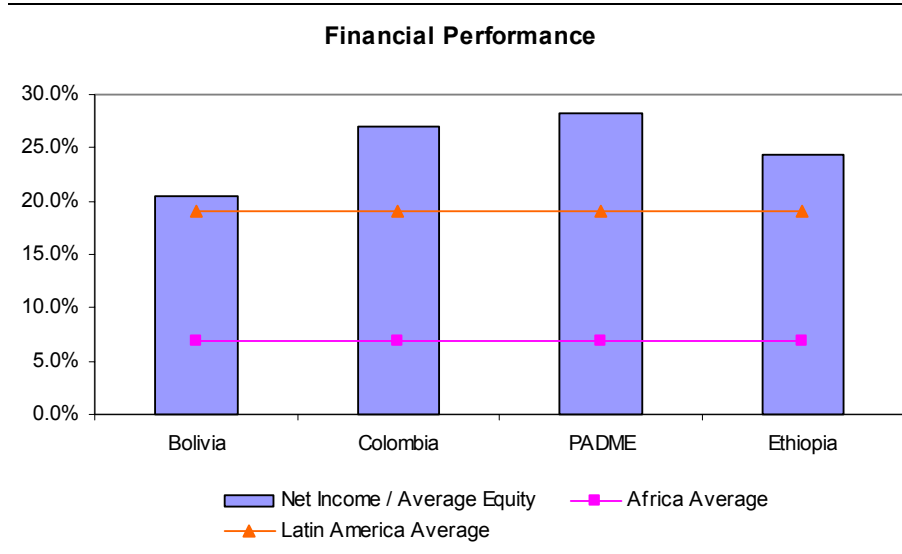
### Efficiency and Productivity



Note: These graphs provide a comparison between PADME and an institution in Bolivia, Colombia and Ethiopia. Moreover, it compares the MFI to MicroRate's averages in both Africa and Latin America.

## Appendix C

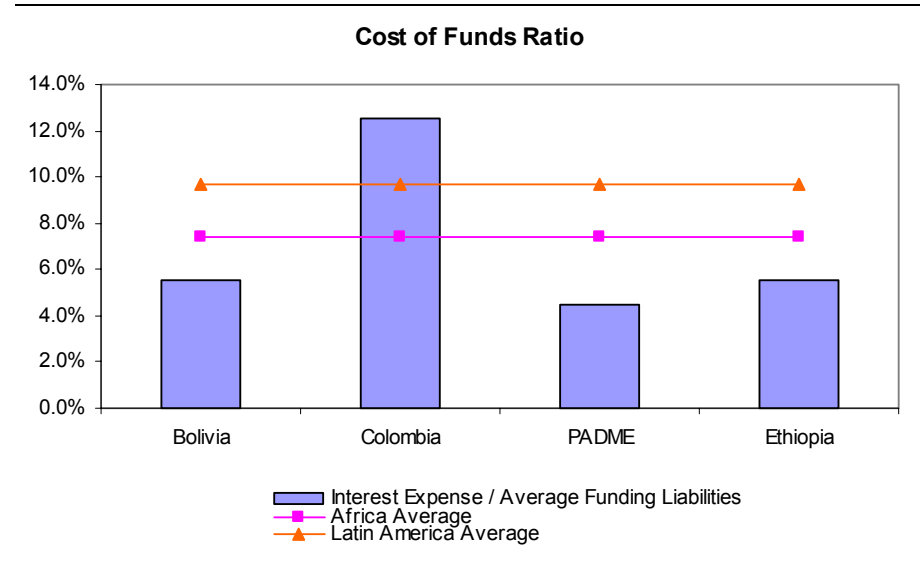
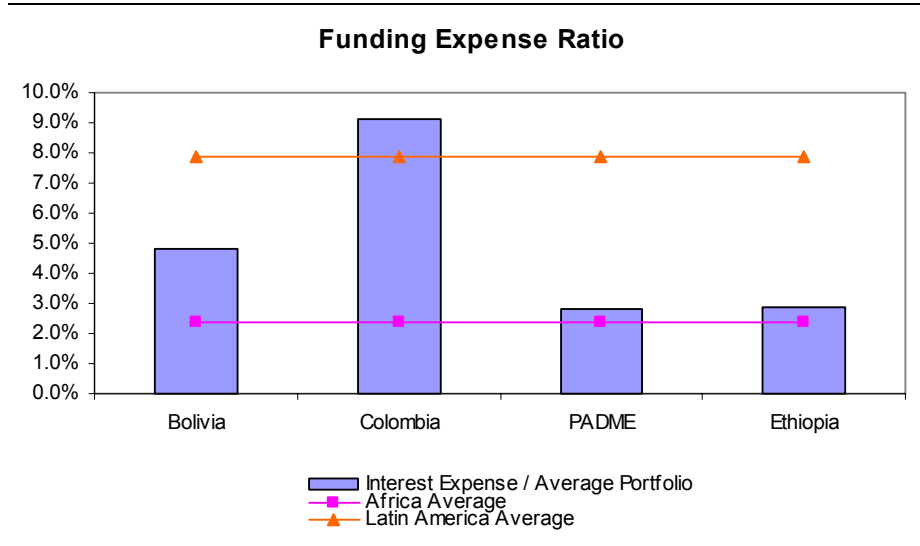
### Profitability



Note: These graphs provide a comparison between PADME and an institution in Bolivia, Colombia and Ethiopia. Moreover, it compares the MFI to MicroRate's averages in both Africa and Latin America.

## Appendix D

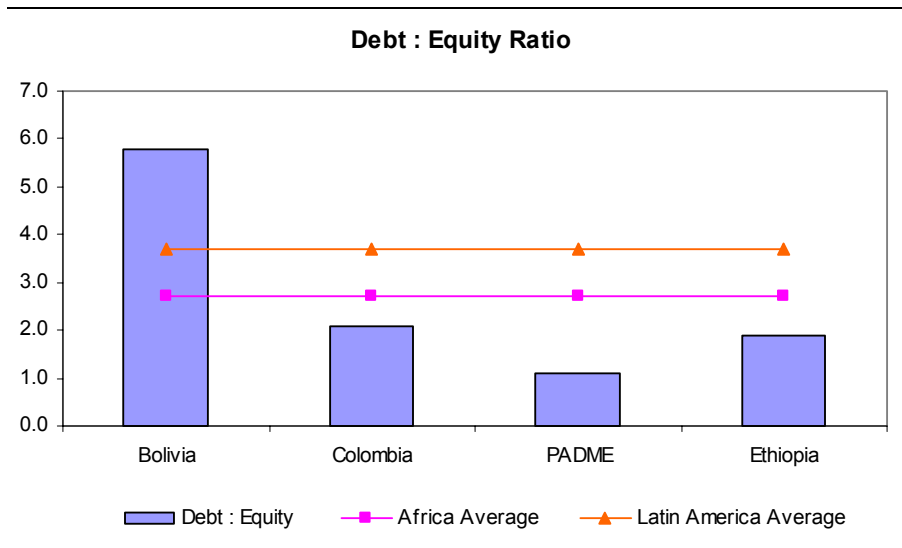
### Financial Management



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## Appendix D

### Financial Management



Note: These graphs provide a comparison between PADME and an institution in Bolivia, Colombia and Ethiopia. Moreover, it compares the MFI to MicroRate's averages in both Africa and Latin America.