MicroRating International

rating of a microfinance Organisation "FinAgro"

JSC MFO "FinAgro"

Joint Stock Company, update 1

Gori, Georgia

Report, November 2008

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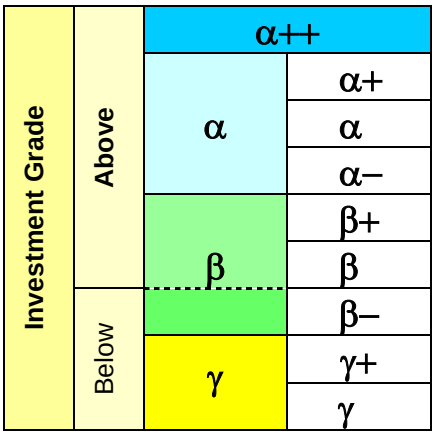
CREDIT RATING	β+
RATING OUTLOOK*	*positive*

*M-CRIL's viewpoint (positive, neutral or negative) of the future prospects of the organisation

Date of visit	3-7 November 2008
Date of previous rating	6-11 March, 2006
Previous rating grade	β+



Main Performance Indicators

	Dec-06	Dec-07	Sep-08
Gross Portfolio(GEL in mn)	4.3	3.2	3.0
(US$ in mn)	2.5	2.0	2.2
No. of active borrowers	1,131	772	726
Return on Assets	0.7%	-1.2%	-7.6%
Portfolio Yield	21.2%	22.0%	20.6%
Portfolio at $Risk_{60days}$	2.8%	2.5%	3.6%
Operating Expense Ratio	21.3%	23.3%	27.8%
Avg. Loan Disbursed(GEL)	6,442	5,762	5,569
Avg. Loan Outstanding(GEL)	3,770	4,190	4,149
Borrowers per field staff	103	70	81

Synopsis

FinAgro has recorded an improved performance on management parameters since the previous rating. The financial performance of the organisation is below moderate while the governance and overall performance of FinAgro has been constant. FinAgro's performance on management parameters has improved due to improved systems and procedures. However, the internal control system and financial planning is weak and the information system, though adequate for the present scale of operations, could be challenged by significant growth. The organisation deploys a large proportion of its loans (43.9%) in wheat production.

The bigger challenge that FinAgro faces now is the high country risk resulting from the Russian invasion which could not only have an adverse impact on its fund mobilisation plans but also affect its portfolio quality due the enormous damage to life and property in Georgia. FinAgro was able to manage the situation but its portfolio quality was affected in the one of the biggest branch.

In M-CRIL's view, on account of very high capital adequacy, strong Board, quality of human resource and quality operations with good systems, FinAgro has the capability to absorb funds over the next one year, for on-lending to its borrowers provided they show improved internal control and maintain the same level of portfolio quality coupled with improved MIS. A rating update after one year is suggested to ascertain changes in the creditworthiness and absorptive potential of the institution. This rating is valid, subject to no other substantial inflow of loan funds into the organisation beyond the limits specified here and to no other significant changes in the organisational structure and external operating environment.

Highlights

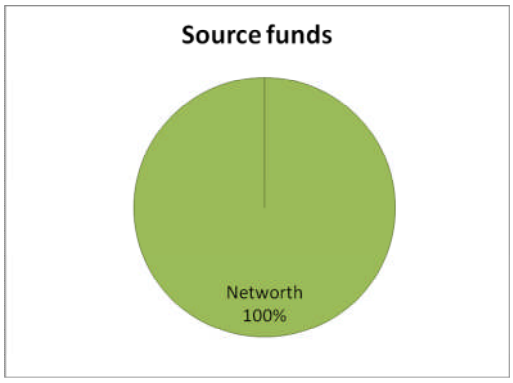
Positive

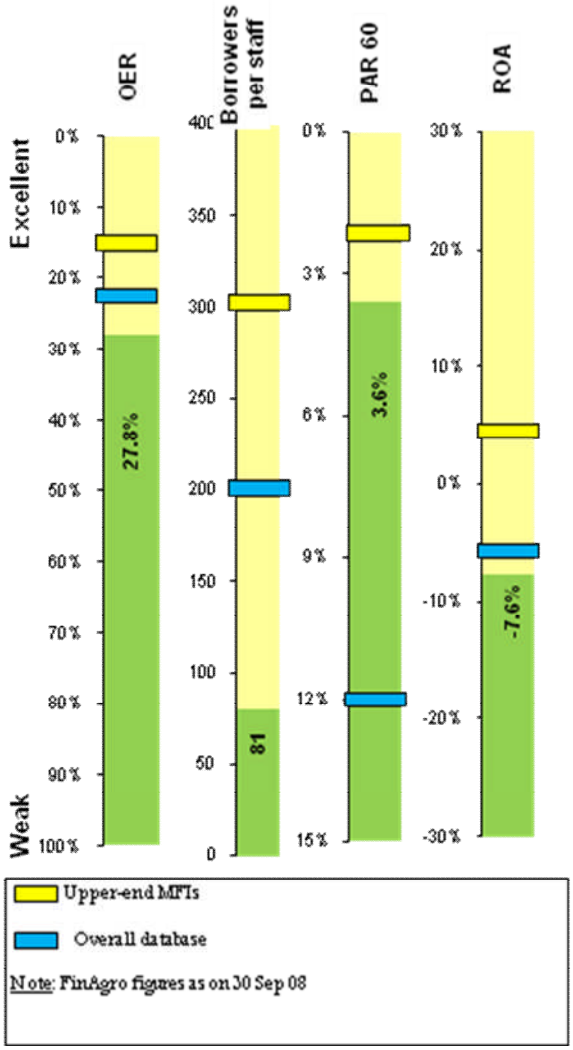
- Expertise in agriculture lending
- Very high capital adequacy
- Strong second line and quality staff
- Effective loan appraisal system with adequate collateral
- Reasonably good portfolio quality
- Standardized systems and procedures

Negative

- Unstable country environment
- No expansion and negative portfolio growth
- Lack of credit history
- Low staff productivity
- Increasing negative margins

Sources of Funding





Comparison of FinAgro's performance with MFIs rated by M-CRIL

Rating Rationale

Expertise in agriculture lending: FinAgro has a clear focus on continuing to provide loans for agriculture and allied activities building on its expertise in agriculture loans. The staff is now well experienced in handling agriculture loan products.

Very high capital adequacy: FinAgro has a very high Capital Adequacy Ratio (CAR) of 109.1% as on 30 September 2008 on account of its grant based operations. This gives comfort to external investors especially in an adverse external environment.

Strong second line and quality staff: The second line of management has a professional background with relevant experience and staff at all levels is qualified and experienced.

Effective loan appraisal system with adequate collateral: FinAgro has clearly articulated credit policy and is followed strictly. Each loan is appraised by the Loan Officer and verified by the Branch Director and approved by the Credit Committee. FinAgro has backed all its loans with adequate collateral (at least 150%), which is good strategy, considering the fact that covariant risk as lending concentrated in one activity.

Reasonable good portfolio quality: FinAgro has maintained good portfolio quality with close monitoring. The PAR_{60} is 3.6% and its Current Recovery Rate is 96.3% as on 30 September 2008. However the considerable damage to life and property during recent border dispute poses a huge risk to portfolio quality and dilutes the risk mitigating collateral requirements.

Standardized systems and procedures: FinAgro has improved systems in term of accounting, loan tracking, monitoring systems and loan procedures. The accounting process and procedures are well defined and followed strictly.

Unstable country environment: FinAgro operates in a challenging external environment. The lack of economic opportunity in the country compounded by recent dispute with Russia has affected institutional growth, quality of portfolio and increased negative margins.

No expansion and negative portfolio growth: FinAgro's operations are limited. Its's has recorded negative portfolio growth since last rating. Its portfolio reduced from GEL 4.3 mn (US$ 2.2 mn) in Dec'06 to GEL 2.5 mn (US$ 2.2 mn) in Sep'08.

Lack of credit history: FinAgro has so far operated only through grant funds and hence lacks experience in commercial borrowings. The lack of any past credit history creates a risk and calls for lenders to be cautious. The institution is operating high cost of operations with negative margins. If institution borrow from banks (cost of funds ranges 12-15%pa), it is difficult to sustain its operations with existing level of cost of operations.

Low staff productivity: Staff productivity is declining and has reached very low levels at 81 borrowers per Loan Officer and 28 borrowers per staff as on Sep'2008. These figures are well below international benchmarks even in difficult areas.

Increasing negative margins: High operating costs due to low staff productivity as well as dip in yield due to decline in portfolio quality is resulting in losses. RoA has decreased from -0.3% in previous rating to -7.6% as on Sep'08.

Performance Highlights

Rating Grades

Category	Rating grade	
	Dec 2005	Sep 2008
Governance & strategic positioning	β+	β+
Organisation & Management	β	β+
Financial performance	β+	β
Overall	**β+**	**β+**

Select indicators/ratios

Main Indicators	31-Dec-05	31-Dec-06	31-Dec-07	30-Sep-08*
1 Growth indicators				
Loans outstanding (GEL)	4,456,427	4,421,858	3,234,410	3,011,837
(US$)	2,475,793	2,601,093	2,021,507	2,151,312
Active borrowers	1,372	1,131	772	726
Average loan outstanding size (GEL)	3,248	3,910	4,190	4,149
(US$)	1,805	2,300	2,619	2,963
Average Loan Disbursed (GEL)	6,547	6,442	5,762	5,569
(US$)	3,637	3,790	3,601	3,978
2 Credit performance indicators				
Current repayment rate	95.9%	96.0%	96.7%	96.3%
Portfolio at risk (>=60 days)	3.3%	2.8%	2.5%	3.6%
3 Efficiency and profitability indicators				
Active clients per staff	40	32	28	28
Loans to total assets	90.0%	81.1%	89.6%	88.4%
Operating expense ratio	18.3%	21.3%	23.3%	27.8%
Annual return on assets	-0.3%	0.7%	-1.2%	-7.6%
Operating self-sufficiency	98.3%	103.9%	94.1%	64.4%
Capital adequacy ratio	107.6%	117.5%	107.5%	109.1%
Exchange rate US$1=	1.8 GEL	1.6 GEL	1.6 GEL	1.4 GEL

* annualised where applicable

Country overview

Georgia is a small transition economy sharing borders with Russia, Azerbaijan, Armenia and Turkey. Georgia is divided into 9 regions and has 69 districts. Georgians form 83.8% of the current population of which 51% is urban.

Indicators	2004	2005	2006	2007	2008
Population (in million)	4.31	4.32	4.40	4.37	4.33
GDP growth, %	5.8	9.6	9.3	12.4	9.0
Inflation, % (year end)	4.8	5.5	8.2	10.0	11.0
Current account balance, % GDP	-8.9	-11.9	-15.9	-19.7	-16.6
Balance of trade (US$ billion)	-1.2	-1.6	-2.7	-3.9	N.A
Exchange rate (US$/GEL)	1.9	1.8	1.7	1.6	1.4

Georgia has a history of wars, invasions and political instability. Shortly before the collapse of USSR, Georgia declared independence and elected its first president who was deposed within a year. This was followed by civil unrest until 1995. At the same time, two regions of Georgia, Abkhazia and South Ossetia, quickly became embroiled in disputes with local separatists. Georgian politics has always witnessed political upheavals including allegations of ballot fraud on the Parliament in 2003, the unnatural death of the Prime Minister due to apparent gas leak in 2005, resignation of the President on charges of corruption and of the Prime Minister due to poor health conditions in 2007. The country had both Parliament and Presidential elections in 2008.

Presently Georgia maintains diplomatic relations with Azerbaijan, Armenia and Turkey; however an increasing alliance of Georgia with the US and EU in its effort to become a full member of NATO has strained Georgia's relations with Russia. The tension escalated well beyond the dispute over South Ossetia leading to invasion by Russia in August 2008 resulting in widespread loss of life and property in Georgia. A NATO meeting in September 2008 will be seen as a crucial test of the West's resolve to confront Russia's drive to extend its influence in the former Soviet Republics including Georgia.

Since the fall of the USSR, Georgia embarked on a major structural reform designed to transition to a free market economy. However, under the impact of civil wars and the loss of both preferential access to former Soviet Union markets and large budget transfers, output fell by 70% and exports by 90%. The World Bank and the International Monetary Fund were the first ones to offer financial help by granting a credit of US$206 million in 1995.

Since the early 2000s some visible positive developments have been observed in the Georgian economy. In 2006, real GDP growth rate reached 9.3%, making it one of the fastest growing economies in Eastern Europe. Georgia's ranking improved from 112th to 18th in 2008 in terms of ease of doing business. However, the country is still battling with a high unemployment rate and has fairly low median income compared to European countries.

Due to the country's climate and topography, agriculture and tourism have been the principal sectors of the economy. However agriculture is now replaced by services which form 54.8% of GDP, while the share of agriculture is currently 17.7% of GDP. Its imports and exports accounted for 10% and 18% of GDP respectively in 2006. Georgia is developing into an international transport and oil pipeline corridor on account of its strategic location. However tensions with Russia have led to an economic embargo and simultaneous discontinuation of financial links which acts as a major external impediment for Georgia's economy.

The economic collapse and increasing unemployment post-dissolution has resulted in citizens engaging increasingly in micro and small business activities. In 2006, the micro business sector grew by 55%. This subsequently created a market for the emerging microfinance (MF) industry. Until recently the Georgian MF sector was dominated by several non-profit MFOs (Microfinance Organisation). In September 2007, the Georgian commercial banking sector had 19 banks with total assets of GEL6.7 billion (US$4.7 billion).

The potential of the MSME sector as well as growing demand led to commercial banks pursuing a downscaling strategy. ProCredit Bank, especially established to serve this sector, leads the MF market with a share of 45% followed by the Bank of Georgia (26%). Other players include TBC Bank, VTB and Bank Republic.

In July 2006, the Government of Georgia framed a special law on MFOs which provided the NGO MFOs a much needed legal framework. The law required all existing MFOs to be registered at the National Bank of Georgia to transform either into a joint stock or a limited liability company until the end of 2007.

Competition in the Georgian microfinance sector is expected to be fiercer in future. However, the latest events, the Russian invasion as well as the worsening situation in world financial markets could result in higher risks for the Georgian financial sector as well as limited resources for Georgian banks which would slow down current market growth despite huge demand.

Sources
www.worldbank.org, www.indexmundi.com/georgia
CIA World Fact book
World Economic Outlook Database 2008

Organisation background and profile

JSC Microfinance Organization 'FinAgro' (henceforth called FinAgro) was promoted by Georgian Rural Development Fund (GRDF) in November 2007 as a a joint stock company (JSC) owned fully by GRDF. It has been established for providing financial and technical assistance primarily to the farmers in the rural areas of Georgia, small and medium-size business entities engaged in production, processing, sale, servicing of agricultural inputs as well as in other spheres related to agriculture. JSC Microfinance Organization "FinAgro" grants loans only to resident individuals and legal entities.

The origin of GRDF lies in the Agricultural Cooperative Development International (ACDI) and Volunteers in Overseas Cooperative Assistance's (ACDI/VOCA) 'Farmer to Farmer' project, which operated in Georgia from 1996-2002, to provide credit services to farmers, mainly the wheat producers. Six credit cooperatives were formed during project period (1996 to 2002). However, on account of poor portfolio quality of these cooperatives, two of the six cooperatives closed down by 2002. The remaining four agriculture credit cooperatives were merged in November 2003 to establish the GRDF. During the course of this project, ACDI/VOCA also received grants from United States Agency for International Development (USAID), Save the Children, United States Department for Agriculture (USDA) and Mercy Corps for rural infrastructure building, irrigation etc. The project of ACDI/VOCA ended in 2003. GRDF was conceptualised and registered in November 2003 by merging the the four credit cooperatives located in Gori, Tsnori, Telavi and Zestafoni to ensure continuity of financial services. The portfolio of these four cooperatives amounting to US$2.2 million and the staff and assets created during ACDI/VOCA project were also transferred to GRDF. GRDF subsequently received further grant support from USDA and Georgia Microfinance Stabilization & Enhancement (GMSE). GRDF focuses on servicing the agriculture sector, by providing credit facility to individual as well as group of farmers. The majority of GRDF loans are for financing the working capital requirements of farmers, agricultural processors and aders in agricultural inputs and outputs.

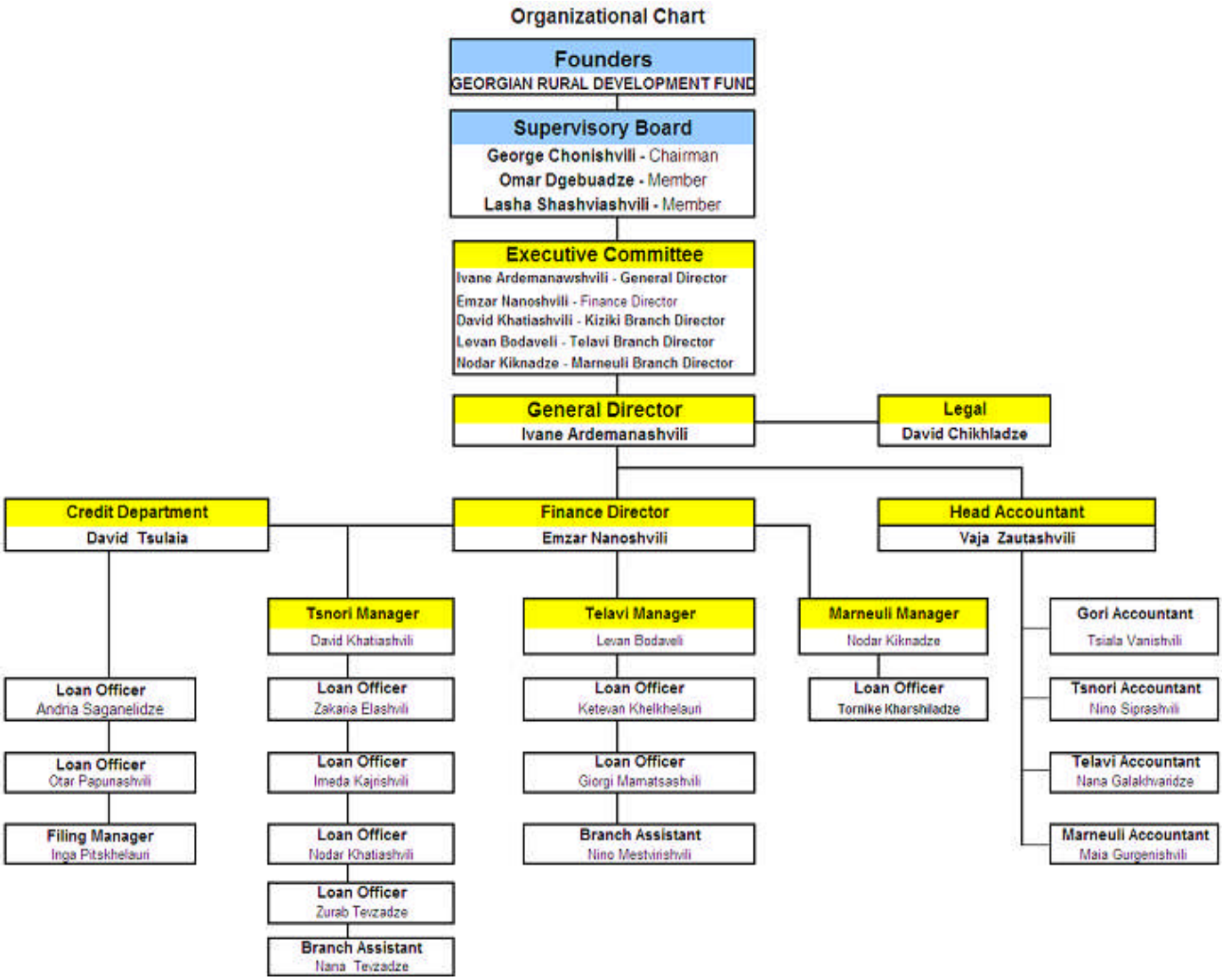
The Georgian government legislation on Microfinance Organisations and Entrepreneurs adopted in July 2006 and amended in July 2007 prohibited Societies/NGOs from undertaking any direct business /lending activities. In order to comply with the requirement of the Law, GRDF formed 'FinAgro' by registering it as a Joint Stock Company (JSC) on 16 November 2007 and transferred the entire portfolio and assets to 'FinAgro'. GRDF owns 100% of the shares of JSC FinAgro. The organization can work as bank in future after receiving the banking license from the National Bank of Georgia.

JSC Microfinance Organization "FinAgro" operates under the legal framework of "entrepreneurs and microfinance organizations" and other normative acts in Georgian Legislation. FinAgro is eligible to:

- provide mortgage, consumption, secured/non-secured, agriculture, business and other types of loans to groups and individuals;
- provide consulting services related to microfinance;
- receive loans from resident and non-resident individuals and legal entities; and
- provide other financial services and operations governed by Georgian legislation (*for example:* micro leasing, factoring, currency exchange, securities, issuing and realizing bonds and other related operations)

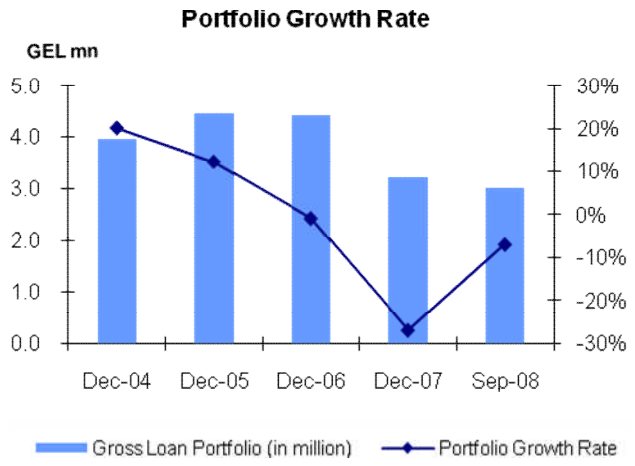
For its governance, the organisation has a three member Supervisory Board consisting of George Chonishvili, also Executive Director of GRDF and Ex-general Director of GRDF, Omar Dgebuadze, leading Lawyer in Georgia and Lasha Shashviashvili, one of the biggest farmers in the country. The Board meets quarterly, but since some of the members are from the same region , the members meet more often as and when required on request of the Chairmen.

Apart from the Supervisory Board, FinAgro has an Executive Board for operational decision-making. The Branch Managers (Tsnori, Telavi and Marneuli- 3 branches), the General Director and the Finance Director comprise the Executive Board, which meets once in a month. The management is headed by the General Director of FinAgro who joined as Assistant Manager in 2000 in ACDI/VOCA and became Gori Branch Manager in 2006.

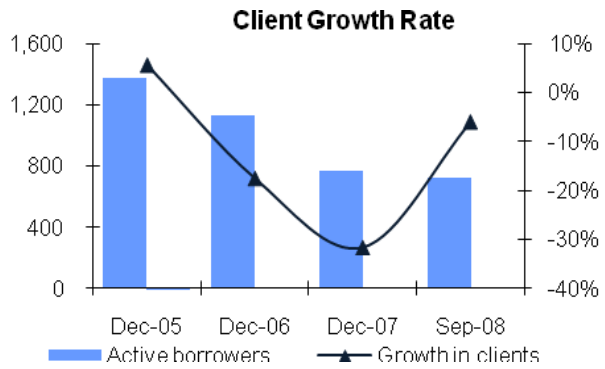


For its lending operations, FinAgro (earlier GRDF) has so far not obtained any loan funds. The organisation did not explore external borrowings to on lend to their clients. The organisation has been operating through the initial support from ACDI/VOCA project in the form of portfolio transfer of four cooperatives and subsequent grants received from USDA and GMSE.

FinAgro's has recorded negative portfolio growth since last rating. FinAgro's portfolio has shown a decline of 32% from GEL 4.5 million (US$ 2.5 million) as on 31 December 2005 to GEL 3.0 million (US$ 2.2 million). The main reasons for negative growth is sole reliance on existing grant support with no efforts at mobilisation of commercial funds and stagnant coverage area. Its area of operation has lot of potential demand and FINAGRO can enhance its portfolio through active fund mobilisation.



Similarly FinAgro's client numbers has also been decreasing since 2005. The no of active borrowers has come down from 1,372 as on 31 December 2005 to 726 as on 30 September 2008, a substantial fall of 47%.



Microfinance policies

FinAgrohas four branches (incl. Gori branch) located in rural districts of the East Georgia namely Gori, Telavi, Tsnori, and Marneuli focusing on agriculture sector and the Head Office located in Gori. The organisation has an outreach of 726 borrowers covering of 9 districts and 83 villages as on September 2008. The institution gives loans to individuals and group. The borrowers including individual and group clients, while the number of active loans was 609, as one group loan is counted as one loan. As on 30 September 2008, the organisation's total loan portfolio is GEL3.0 million (US$ 2.2 million) with staff strength of 26, including 9 Loan Officers.

●Head office ●Branch offices

The organisation is headed by a General Director (GD), who supervises the functioning of the key departments including Credit, Finance, Legal and Accounting and Management Support. The GD is supported by the Financial Director, Head of Credit, Head of Accounts and the Lawyer. The Finance Director also monitors branches and the Head of Accountant who is also working as the Internal Auditor for branch audit.

Each branch is staffed by Loan Officers (LO) and Branch Assistant and headed by a Branch Director who reports to the Executive Board. The Loan Officers report to the Branch Director. However, Branch Managers also work as Loan Officers and directly handle clients, although the case-load on them is generally less than that of Loan Officer. Apart from the operations staff, branches also have an Accountant and a File Keeper.

FinAgro offers only loan products and has no saving, insurance or any other financial product. In line with it's operational focus, entire portfolio is accounted for by agriculture related activities. The organisation has a clearly laid out credit policy, describingvarious loan products, eligibility and loan approval procedures. FinAgro offers group loans as well as individual loans. Any Group Loan is treated as a single loan. All loans have collateral requirement, which is generally over 150% of the loan availed. The collateral can be movable and immovable assets such as house, land, machines, vehicles and house hold appliances

The appraisal process of any loan includes a site visit, assessment of client's business, experience, collateral valuation, cash flow analysis of business, estimate of income/expenditure, assets/liabilities and past credit history. The organisation also uses an internally developed MS Excel based tool called 'Technological Map' to estimate the capital requirement for different agriculture and animal breeding purposes. The tool based on basic data entry about a client's land holding, proposed crop and various other variables calculates the estimated cost of production in that area and thereby helps in loan appraisal. For other agriculture allied activities loans, the staff personally visits and appraise the business. After the appraisal of loans, the loan is approved by the Branch Director. Branches can approve loans only up to GEL5,000. Loans beyond this and special loans (like agri-busness, food processing which required bigger loan size) are referred to the Head Office, where the decision is taken by the Credit Committee, comprising of Finance Director, the Head of Credit Department and the Lawyer.

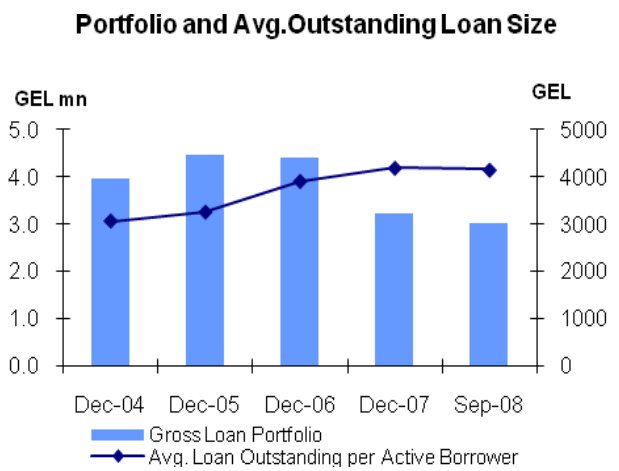
<u>Loan products</u>

FinAgro has only agriculture, animal husbandry and agriculture business loans. However, it has well developed agriculture products to meet specific agriculture loan requirement of the clients. The loan amount, term of repayment and interest rate depends on the purpose of loan and size of the client's land. However, under no case can the loan amount be more than 70% of the total project cost. The loan products can be broadly classified into two categories – agriculture loans for production and agri-allied loans for agricultural business & trade. The interest rate on most of products ranges between 24-36%and the

repayment term on all products ranges between 6-24 months. The FinAgro agriculture loans cover production of wheat, fruits, cereal, vegetable, sunflower, and citrus plants, growing of new gardens and vine plantations, repairing of agriculture equipments, , purchase of milch animals, poultry, pigs, sheep, fish and bee-keeping. The agro-business and trade loans are given for processing of cereals, fruits and sunflower sale of agriculture output, shipment service, trading inchemical weed killers and pesticides and fertilizers. The disbursements are made in cash at the branch. The process of loan application to disbursement takes one week.

Loan type →	Agriculture Credit	Agro business & Trade
Target clients	Agriculture farmers: owned/leasing	Agri-businessmen /traders
Loan Size (GEL)	1000-50,000 *(650 GEL per hectare)*	5,000-50,000
Term	6-18 months	12-24 months
Repayment frequency	Principle: Monthly/Quarterly/ Half yearly/ Bullet Interest: Monthly	Principle and interest : monthly
Interest rate	24%-36% pa declining	30%-36% pa declining
Upfront fee	2.5% on loan amount	2.5% on loan amount
Penalty on overdue loans	0.05% per day on installment amount	
Guarantee/ collateral	At least 150% collateral *(land, house, shop or any fixed assets)*	
Prepayment	Allowed without any charges	

There has been a sustained increase in the average outstanding loan size primarily due to a decrease in the number of clients. The average outstanding loan size increased from GEL3,057 (US$1,699) in December 2004 to GEL 4,149 (US$2,963) in September 2008 with an average growth of 9% per annum.



Savings products

FinAgro does not yet have a deposit product. The organisation is prohibited from accepting term and demand deposits from individuals unless the Finance Supervisory Agency of Georgia specifically permits it.

The organisation does not offer any insurance products to their clients.

Governance and strategic positioning

FinAgro continues to shows reasonable performance on governance with a grade of **β+.** There is no significant change expect transforming into JSC. A highly experienced and professional Board (incl. Executive committee), strong second line, good vision and strategy for focusing on agriculture loans to cope with competition have resulted in this performance. However, high country risks, unclear expansion strategy and is not explore commercial borrowings are constrains for growth.

Governance structure

FinAgro has a highly experienced and professional Board. However, the size of the Supervisory Board is small consisting of three members. Mr. George Chonishvili, the Chairmen cum General Manager of GRDF heads the Supervisory Board. Other members of the Board are Mr Omar Dgebuadze, leading Lawyer in Georgia and Mr. Lasha Shashviashvili, one of the biggest farmers in the country. The current Board was constituted in November 2007. The Board is required to meet quarterly. On an average the Board meets once in a month to discuss strategic as well as operational issues. The members of the Board are from diverse professions and have rich experience of their respective fields. However, the Board could benefit by adding more members from diverse professional backgrounds.

Apart from the Supervisory Board, FinAgro has an Executive Board for operational decision-making. The Branch Managers (Tsnori, Telavi and Marneuli), the General Director and the Finance Director comprise the Executive Board, which meets once in a month. It has a Credit Committee at Head Office consisting of the Financial Director, the Head of Credit department and the Lawyer to approval higher size and special loans. The Executive Board will make strategic decision making more varied and democratic and ensure the strengthening of systems and processes of the organisation.

Operational and growth strategy

FinAgro has a clear focus on continuing to provide

only agriculture and agri-allied loans. The organisation has developed expertise in agriculture loans, as it was created with the aim of supporting the agriculture sector and the staff is now well experienced in handling agriculture/allied laon products. The organisation's strategy of continuing with agriculture and related loans and capitalising on its strength is a reasonable one. The portfolio composition, on account of concentration of loans for wheat production is still far from desirable (90.6% of total loans accounted for by agriculture production loans, of which 48.5% (43.9% of total portfolio) is for wheat production). But the organisation does not offer any crop and weather insurance to their clients which might have risk in future. The organisation is aware of this and plans to diversify its portfolio and bring down the share of wheat loans to less than 25% in the next two-year period. FinAgro also wants to increase the share of loans related to trade and processing of agriculture produce. The diversification plan will reduce portfolio's concentration risk as well as increased yield on account of higher return on investment under these loans.

The organisation has customised loan products (with different loans based on activity) for different agriculture needs and it has backed all its loans with adequate collateral, which is good strategy, considering the fact that agriculture loans generally bear more risk. Majority of FinAgro's agriculture loans are for short term, with most loans getting repaid within one year. However, the organisation has given limited loans to agriculture allied activities like agri-processing, agri-business, trading agriculture products and agriculture service loans, which have two year term.

Due to funds constraint, some good clients of FinAgro have to wait for loan disbursement, while new borrowers could not avail of credit. The organisation has policy of giving priority to the old clients to maintain good client relations and also as the cost of appraisal for old clients is lesser.

Low staff efficiency of 28 borrowers /staff is an area of serious concern. This is on account of continuous declining in no of active borrowers and retention of all the staff from GRDF. FinAgro has been trying to streamline its staff structure and the management feels the current staff strength has the capacity of handling double of existing level of operations. FinAgro does not plan to expand until it has considerably improved its productivity. However in the short term, it plans to expand geographically and, after some time, would go for vertical expansion by adding more branches in a region. In order to support its portfolio growth FinAgro plans to mobilise commercial and grant funds.

Competition:

At present, FinAgro does not face much competition. The organisation is perhaps the only MFI in the country, which provides 100% agriculture/allied loans and hence has a completely different client base than the other MFIs. At present the organisation has a high demand for loans, much beyond its financing capacity. As a result the organisation does not need to make much effort to get new clients; most of the clients approach the organisation on their own. FinAgro values its old clients and has maintained good relations with them, which is one of its strengths. Within the limited financial resources, FinAgro tries to prioritise loan disbursement first to its old clients, though this wait for old clients also results in idle cash on occasions. FinAgro's core competence lies in its understanding of agriculture lending. Additionally promptness of services, client friendly approach, flexible and convenient terms and conditions are its strengths. Strong marketing and niche positioning also helps the organisation to deal with the competition. Network of four branches will be a good advantage for the organisation in scaling up its operations. Although at present, having four branches for client base of 726 clients may not be considered a good expansion strategy. FinAgro is strategically located in eastern part of Georgia covering Kekheti and Kvemo Kartli regions, which are dominant agriculture production regions.

Second line of leadership

The second line of leadership of FinAgro is very strong. The organisation has four branches headed by a Branch Director and experienced functional heads and supervised by the General Director. The Directors of various branches and departments have years of relevant experience, well qualified and have the skills to carry out their jobs efficiently and effectively. Each Director has more than 15 years of experience. The second line has adequate expertise to manage operations.

Fund mobilisation:

FinAgro has so far depended on own fund (or GRDF received grants) and has not yet borrowed funds. The supervisory board do not encourage external borrowings and the management also do not explore the possible external commercial borrowings. However, the organisation is now making efforts to avail loan funds and also trying to obtain loans and grants through various International funding agencies trying to support agriculture sector in the country. The organisation has already submitted proposals to a few agencies (like USAID, OSCE etc). FinAgro also plans

to borrow funds from foreign sources as the interest rates on loans from domestic sources are still very high (12%-15%pa). FinAgro has the policy of indexing loans (Indexed loan – the loans that are disbursed and repaid in Lari but everything including repayment is accounted in US$/Euro value, meaning that a client has to return the US$/Euro equivalent of Lari loan received by him/her with interest) to manage the currency fluctuations in the country. This has resulted in exchange losses for FinAgro, as the GEL has been appreciating during the last three years. However, indexing loans is still a good strategy, as the organisation is planning to borrow from overseas. If the local currency was to depreciate against the US$, indexing would ensure that the client bears the exchange loss risk, and there is no exchange losses on the loan repayment by FinAgro.

Organisation and management

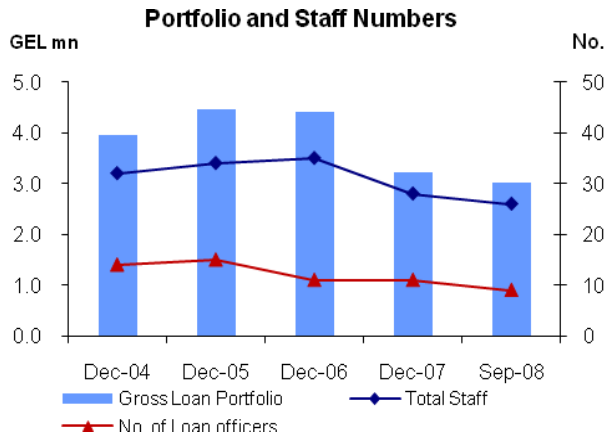
FinAgro has reasonable performance on management factors with a grade of **β+.** This is one level higher than the previous rating on account of an improvement in systems and procedures. The reasonable grade of FinAgro is due to inadequate use of MIS and low productivity of staff.

Human resource quality & management

FinAgro has well-qualified and experienced managerial staff. Commitment and motivation at all staff levels is high. Management cadre at FinAgro are qualified and the top management holds highly significant operational experience in economic and microfinance sphere, particularly expertise in handling agricultural loan products. The functional heads, namely, the Financial Director, Credit Department Head, Head of Accountant and the Lawyer have highly relevant experience and expertise in their domain.

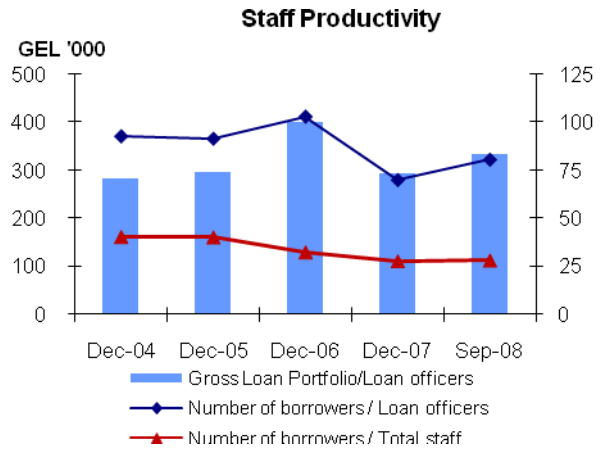
The staff at the branch offices also has significant years of experience, as almost all the staff is from the ACDI/VOCA project days and are well versed with routine operational procedures. The staff has adequate experience and capacity to undertake required financial analysis for the loan appraisal of agriculture loans. The orientation and training system at FinAgro are driven by experienced field and managerial cadre. The trainings are class room as well as on the job. The new recruit remains on probation for three months and is made permanent after confirmation from immediate supervisor. The standardise training system has improved from last rating. However, the organisation has not yet linked the salary or staff incentives to performance of the employee, as is generally the case with most of the professionals MFIs.

The field (loan officers) and total staff of FinAgro decreased with its portfolio. The loan officers considerably decrease from 15 in Dec'2005 to 9 in Sep'2008. Field staff to total staff ratio declined from 44% in Dec'2005 to 35% in Sep'2008, partly as a result of the high administrative and support staff in the branches and partly due to the large numbers based at HO.



Staff productivity

The staff productivity of FinAgro is very low and is on a decreasing trend in terms of number of borrowers. The number of borrowers per staff reduced from 41 in December 2004 to 28 in September 2008. The field staff productivity in September 2008 was 81. Similarly average portfolio outstanding per field staff, decreased from GEL 401,987 (US$ 236,463) in December 2006 to GEL294,037 (US$183,773) in December 2007 and slightly increased to GEL 334,649 (US$239,035) in September 2008.

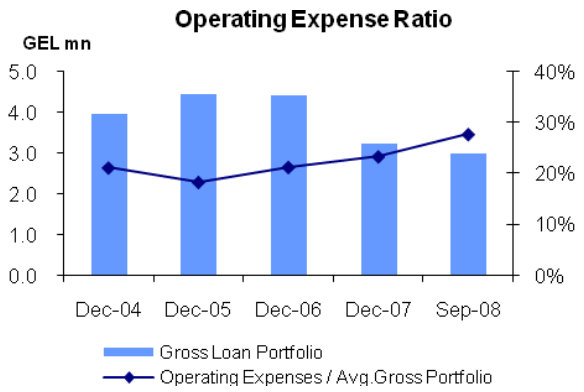


Operating efficiency

The operational expenses ratio (OER) is r high at 27.8% as on September 2008. The OER has been increasing since 2005. It increased from 18.3% in December 2005 to 27.8% in September 2008 due to

decreasing average loan portfolio. But operating expenses in absolute terms have not increased.

The OER can improve sharply with increase of loan portfolio as the existing staff can manage double of existing portfolio.



Accounting and MIS

FinAgro uses Oris software for accounting. The software is equipped to generate basic reports such as income statements and balance sheets. Presently, monthly statements are prepared by downloading data from the software and transferring it to MS-Excel. This allows scope for human error and is a time taking process. The accounting of the organisation is decentralised. The branches send the required reports and information and cash flow once a month to the Head Office. in Head Office gets portfolio information on a daily basis through email or mobile phone. The accounts of individual branches are consolidated at the Head Office and the trial balance, balance sheet and income statement are generated on a monthly basis.

All income and expenses are recorded on cash basis. Loan loss reserve is created on the basis of ageing analysis. Depreciation is accounted on a monthly basis on the written down value method. Loans are written off at branches when unpaid for more than 180 days. The branches are treated as profit centres and daily accounting of branches is done. However till the time of the rating visit, branch-wise income and expenditure statements were prepared without accounting for the HO administrative costs. Consequently the branches show profits whereas they are actually making losses. Performance of the branches is carefully analysed in quarterly management reports.

FinAgro uses MS Access based software for MIS. The software has been internally designed by the organisation. Although the software is working fine, it will not be an adequate platform for the future. The software lacks advanced security features and also requires improvement in terms of different reports it can generate. As the MIS and Accounting is not integrated, it results in some amount of discrepancy.

Tracking system for overdues

The organisation has good systems for tracking overdues. The focus loan tracking system has improved from last rating. The Loan Officers are responsible for monitoring any overdue. A day before loan repayment, the Loan Officer calls the client to remind about payment of installment. The client directly pays his/her instalment amount directly into FinAgro bank account. Each day, the Loan Officer and the Branch Director monitor client payments. In case of an overdue, the Loan Officers have to follow up on telephone to know the reason for delay. With The organisation's portfolio being predominantly accounted for by agricultural loans, delay of around one month is not considered serious, as this can happen due to variety of reasons such as delay in crop harvest or bad weather conditions. However, in cases of wilful default, the Branch Director has to take up the issue. The bad loans are also verified and followed up by the Monitoring Officer. In case the problem escalates beyond the level of mutual negotiations, legal option is resorted to. Presently, FinAgro does not have very old loans dues. When transfer the assets from GRDF to FinAgro, the long pending over due loans are not transferred to FinAgro. In the recent past, conflict with Russia affected Gori branch portfolio, as a result, the organisation's overall portfolio at risk has increased.

Internal control systems

The control systems of FinAgro are moderate. The organisation has a combined position wherein the Financial Director is also the Monitoring Officer and the Head of Accountant is also Internal Auditor. The Monitoring Officer has to visit all the four branches every month and is responsible mainly to follow up with delinquent clients and also make surprise visits to other clients. Based on his observations, the Monitoring Officer has to prepare a report on the status of delinquent loans or any other discrepancy and submit it to the General Director.

The Head of Accountant monitors the Branch Accountants and does internal audit of branches. The internal audit system is not formalized. The Internal Audit function of FinAgro has not stabilised so far and the manual has yet not been prepared. The monitoring done by the Monitoring Officer is also restricted mainly to tracking of bad loans. As such, the organisation still does not have in place a comprehensive control system to take care of all operational aspects .

Financial planning

Financial planning system of FinAgro is also moderate. The organisation lacks formal cash planning system. Although the Head Office does receive the cash position of the branches, the inter-branch cash transfers or transfers from Branch to HO are rarely made. It was observed that some of the branches had constantly reasonable high cash balances for months while there was dearth of funds in other branches, reflecting weak cash planning. Cash retention at branches is also partly attributable to the organisation's policy of waiting for the old clients. FinAgro is planning to prepare 3-5 year strategic Business Plan which explicitly states deliverables for each year.

Quality of clients/member groups

Based on the client visits, the quality of clients seemed to be good in terms of awareness of loan conditions and repayment performance. The organisation has clients having well-established businesses, orchards and animal farms. On visiting some of the delinquent clients, it was found that recent border skirmishes has destroyed crops, plantation and warehouses, diminishing trade and business. Adverse weather conditions such as hailstorms or sudden migration of the client were other reasons for delinquency. The level of satisfaction amongst the client seems to be high mainly due to the quality of service and personal approach of the staff.

Infrastructure

FinAgro has adequate infrastructure for its operations. Fixed assets mainly include, computers, office equipment, furniture and fixtures, vehicle, automobiles. The HO as well as all the branches operates from their rented premises. As on 30 September 2008, FinAgro's total net fixed assets stood at GEL217,630 (US$155,450). The current level of infrastructure of the organisation is adequate and is being employed effectively. However, FinAgro will need to make investments to upgrade its MIS for the future.

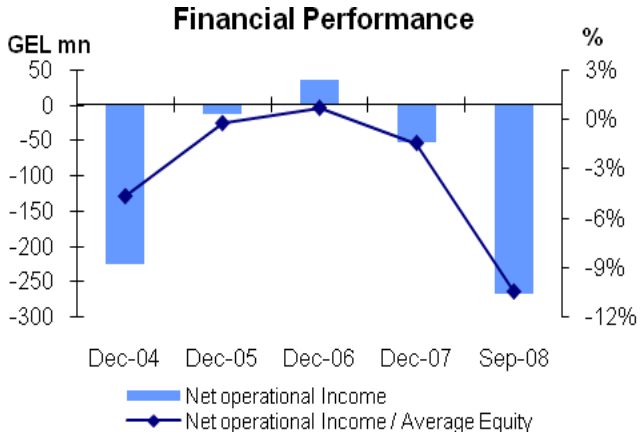
GRDF has transferred following assets to FinAgro

Assets	GEL	US$
Buildings	45,100	28,188
Furniture	19,110	11,944
Office inventory	15,885	9,928
Computer & software	6,400	4,000
Vehicles	80,600	50,375
Intangible assets	1,850	1,156
Total fixed assets	168,945	105,591

Financial profile

The financial performance grade of FinAgro is moderate at β. This is one notch down as compared to previous rating on account of weakened portfolio quality due to war, decreased operating efficiency, profitability and sustainability. However, it has very high capital adequacy and stable yield.

The organisation has reported continual losses except in 2005 since inception. Its negative income on equity has increased substantially during last three years, providing negative indication of its ability to reach financial sustainability. FinAgro registered a net operational deficit of GEL53,262 (US$33,289) in December 2007 and GEL267,908 (US$ 191,363) for the period of nine months in 2008. The reason for the loss can be attributed to declining interest income due to decreasing portfolio and increase in cost of operations.



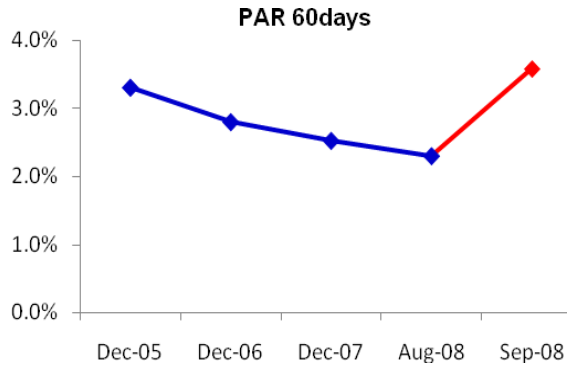
The OER has increased from 18.3% in December 2005 to 27.8% in September 2008 due to reduction in average portfolio without any corresponding increase in the yield, which remains stagnant at 21% during last three years.

Financial Ratios	31-Dec-05	31-Dec-06	31-Dec-07	30-Sep-08
Capital Adequacy				
CAR	107.6%	117.5%	107.5%	109.1%
Asset Quality				
Current repayment rate	95.9%	96.0%	96.7%	96.3%
Portfolio at Risk / Gross Loan Portfolio	3.3%	2.8%	2.5%	3.6%
Loan Loss Provision / Avg. Gross Portfolio	1.6%	0.0%	0.0%	3.3%
Management				
Operating Expenses / Avg. Gross Loan Portfolio	18.3%	21.3%	23.3%	27.8%
Number of Borrowers / Field Staff	91	103	70	81
Number of Borrowers / total Staff	40	32	28	28
Earnings				
Net operational income / Average Equity (ROE)	-0.3%	0.6%	-1.5%	-10.5%
Net operational income / Average Assets (ROA)	-0.3%	0.7%	-1.2%	-7.6%
Portfolio Yield	19.7%	21.2%	22.0%	20.6%
Interest and Fee paid/Avg. Gross Loan Portfolio	0.0%	0.0%	0.0%	0.0%
Liquidity				
Cash & Liquid Assets / Total Assets	7.3%	13.9%	8.6%	8.1%
Exchange rate US$1 =	1.8 GEL	1.6 GEL	1.6 GEL	1.4 GEL

Note: Ratios for September 2008 is calculated on the basis of unaudited statements and annualised where ever required

Credit performance and portfolio quality

The portfolio quality of FinAgro is reasonably good with PAR_{60} at 3.6% on 30 September 2008. The portfolio quality before the recent war was good at 2.3% in August 2008 (shown in graph below) and trends indicate that it can increase further. The impact has been more severe on Gori branch portfolio, which accounts for 46.4% of FINAGRO's total portfolio. FinAgro is making good efforts in pursuing old overdue cases. After 2005, FinAgro has maintained very good portfolio quality due to close monitoring.



In terms of diversification, FinAgro had 43.9% of the total loan outstanding in Wheat production as on 30 Sep'08. FinAgro has managed to bring it down from the 100% level in 2004. The organisation has plans to diversify its portfolio and bring down the share of wheat production loans to less than 25% in the next couple of years. The current composition of FinAgro's portfolio is shown in below table.

Amount as on 30 Sep 2008

S. No.	Activity	Loan outstanding		%
		GEL	US$	
1	Trade & service	186,487	133,205	6.2%
2	Agriculture *(90.6%)*			
	Wheat	*1,322,977*	*944,984*	*43.9%*
	Fruits	*488,086*	*348,633*	*16.2%*
	Livestock	*638,913*	*456,366*	*21.2%*
	Grape	*229,696*	*164,069*	*7.6%*
	Vegetable & Mushrooms	*50,177*	*35,841*	*1.7%*
3	Processing	49,798	35,570	1.7%
4	Consumer	35,631	25,451	1.2%
5	Others	10,059	7,185	0.3%
	Total	**3,011,824**	**2,151,303**	**100.0%**

Mobilisation of funds, asset and liability composition

FinAgro started its operations by transfer of assets and liabilities of the GRDF. The share capital of FinAgro (or grant funds) were originally of ACDI/VOCA and other funding agencies including USAID, USDA, Save the Children and Mercy Corp. So far FinAgro has been completely dependent on grants and has never borrowed from any commercial source. As a result,

the organisation has a very high capital adequacy of 109.1%. However, the organisation now plans to avail commercial funds (borrowings) mainly from international sources.

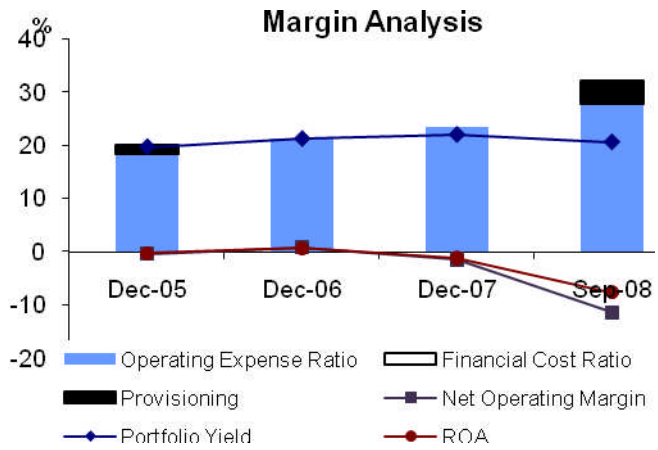
FinAgro had reasonable to good asset composition with 85.5% of its assets deployed in loans, 6.4% in fixed assets and 8.1% in cash in hand and bank as on 30 September 2008. Although the cash on the mentioned date was not very high level, it was observed that some branches had significant cash balances.

Profitability and sustainability

FinAgro has shown below moderate performance on profitability and sustainability. In terms of profitability, the organisation had a negative RoA of –7.6% as on 30 September 2008. RoA has decreased from -0.3% in previous rating to -7.6% as on Sep'08. The main reasons for low profitability are decline in portfolio which reduced interest income weak ening portfolio quality leading to increase in operational cost and foreign exchange losses due to indexing of loans. As the Lari has been appreciating during the last three years, it has resulted in FinAgro– like other financial institutions in the country – losing on Lari (GEL). The policy of indexing loans still makes sense, as the financial market in the country has still not gained full confidence on local currency. For FinAgro, indexing is a prudent policy as it has plans to borrow funds from foreign agencies, in which case indexed loans will protect the organisation from any fluctuations in the local currency.

The Operational Self Sufficiency (OSS) is 64.4% as on 30 September 2008. The OSS has decreased from 103.9% in Dec'2006 to 94.1% in Dec'2007 and further decreased to 64.4% in Sep'08. FinAgrohas a high operating expenses ratio of 27.8% and staff efficiency at 28 borrowers/staff is very low. FinAgro needs to scale up its operations, particularly when it already has a branch network of four branches serving just 726 clients.

The margin analysis below shows that the portfolio yield has remained stable over the last three years; around 21%. The OER has been increasing since 2005 which resulted in negative net operating margin.



Future plans and prospects

There is no expansion of operations from last three years. In the medium term, FinAgro plans to expand geographically and then undertake vertical expansion by adding more branches in a region. In order to support its portfolio growth FinAgro plans to mobilise funds through external borrowing and grant funds. In a couple of years, the institution plans to become a financially sustainable institution.

Overall, FinAgro has good prospects, provided it improves its internal control systems, improves staff productivity to control the increasing operating expense ratio and increases portfolio size by accessing commercial/grant funds.

Financial statements of FinAgro

Balance sheets

Amount in '000

Dec-04		Dec-05		Dec-06			Dec-07		Sep-08	
GRDF		GRDF		GRDF			FinAgro		FinAgro	
GEL	US$	GEL	US$	GEL	US$	**ASSETS**	GEL	US$	GEL	US$
						Current assets				
652.8	362.7	361.5	200.8	756.5	445.0	Cash in hand and Bank	309.1	193.2	275.4	196.7
13.2	7.3	-	-	-	-	Other current assets	-	-	-	-
						Loans outstanding				
3,968.6	2,204.8	4,456.4	2,475.8	4,421.9	2,601.1	Gross loans outstanding	3,234.4	2,021.5	3,011.8	2,151.3
(85.3)	*(47.4)*	*(157.8)*	*(87.7)*	*(157.8)*	*(92.8)*	*(Loan loss reserve)*	*(100.7)*	*(63.0)*	*(99.3)*	*(70.9)*
3,883.3	2,157.4	4,298.6	2,388.1	4,264.0	2,508.3	Net loans outstanding	3,133.7	1,958.6	2,912.5	2,080.4
4,549.3	**2,527.4**	**4,660.1**	**2,588.9**	**5,020.6**	**2,953.3**	**Total current assets**	**3,442.8**	**2,151.7**	**3,187.9**	**2,277.1**
						Long term assets				
270.9	150.5	293.3	162.9	429.7	252.8	Net property and equipment	168.9	105.6	217.6	155.5
270.9	**150.5**	**293.3**	**162.9**	**429.7**	**252.8**	**Total long term assets**	**168.9**	**105.6**	**217.6**	**155.5**
4,820.2	**2,677.9**	**4,953.3**	**2,751.8**	**5,450.2**	**3,206.0**	**Total Assets**	**3,611.7**	**2,257.3**	**3,405.5**	**2,432.5**
						LIABILITIES & NETWORTH				
						Current liabilities				
4.5	2.5	1.1	0.6	-	-	Other current liabilities	45.0	28.1	-	-
4.5	**2.5**	**1.1**	**0.6**	**-**	**-**	**Total current liabilities**	**45.0**	**28.1**	**-**	**-**
						Networth				
-	-	-	-	3,936.0	2,315.3	Shareholder equity	3,673.4	2,295.9	3,673.4	2,623.9
5,042.7	2,801.5	5,193.4	2,885.2	1,110.5	653.2	Donated equity (GRDF)	-	-	-	-
-	-	-	-	617.2	363.0	Deferred grant amortizatio	159.9	99.9	266.7	190.5
-	-	(226.9)	(126.1)	(241.2)	(141.9)	Retained surplus/(deficit)	(213.4)	(133.4)	(266.7)	(190.5)
(226.9)	(126.1)	(14.3)	(7.9)	27.8	16.4	Cur. year surplus/(deficit)	(53.3)	(33.3)	(267.9)	(191.4)
4,815.7	**2,675.4**	**4,952.2**	**2,751.2**	**5,450.2**	**3,206.0**	**Total net worth**	**3,566.7**	**2,229.2**	**3,405.5**	**2,432.5**
4,820.2	**2,677.9**	**4,953.3**	**2,751.8**	**5,450.2**	**3,206.0**	**Total Liabilities & Networth**	**3,611.7**	**2,257.3**	**3,405.5**	**2,432.5**

Note: Balance sheet for 2004, 2005 and 2006 are of GRDF. For 16 November 2007, Balance sheet is for JSC FinAgro

Income statements

Amount in '000

Dec-04		Dec-05		Dec-06			Dec-07		Sep-08	
GRDF		GRDF		GRDF			FinAgro		FinAgro	
GEL	US$	GEL	US$	GEL	US$	**INCOME**	GEL	US$	GEL	US$
636.1	353.4	785.8	436.6	790.5	465.0	Interest received on loans	747.8	467.4	437.4	312.4
48.1	26.7	18.1	10.0	23.6	13.9	Penalty on late payments	18.3	11.4	-	-
13.5	7.5	25.0	13.9	69.0	40.6	Commission	80.7	50.4	47.1	33.6
-	-	-	-	36.7	21.6	other operating income	-	-	-	-
697.7	**387.6**	**828.9**	**460.5**	**919.8**	**541.0**	**Total income**	**846.7**	**529.2**	**484.5**	**346.1**
						Financial costs				
-	-	-	-	-	-	Interest on borrowings	-	-	-	-
-	-	-	-	-	-	Bank charges and fees paid	-	-	-	-
351.4	195.2	126.1	70.0	107.0	63.0	Foreign currency gain/loss	183.3	114.6	59.9	42.8
346.3	**192.4**	**702.8**	**390.5**	**812.7**	**478.1**	**Gross financial margin**	**663.4**	**414.6**	**424.6**	**303.3**
85.3	47.4	72.5	40.3	-	-	Provision for loan losses	-	-	99.3	70.9
					-	Write-off				
261.0	**145.0**	**630.3**	**350.2**	**812.7**	**478.1**	**Net financial margin**	**663.4**	**414.6**	**325.3**	**232.3**
						Operating expenses				
316.5	175.9	338.9	188.3	499.0	293.5	Salaries	346.7	216.7	284.5	203.2
41.1	22.8	57.8	32.1	55.6	32.7	Depreciation	58.7	36.7	8.3	5.9
130.3	72.4	247.9	137.7	207.7	122.2	Administrative expenses	297.6	186.0	232.2	165.8
-	-	-	-	15.6	9.2	Budgetary tax expenses	13.8	8.6	68.2	48.7
487.9	**271.1**	**644.6**	**358.1**	**778.0**	**457.6**	**Total Operating expenses**	**716.7**	**447.9**	**593.2**	**423.7**
(226.9)	**(126.1)**	**(14.3)**	**(7.9)**	**34.8**	**20.4**	**Net Surplus/Deficit**	**(53.3)**	**(33.3)**	**(267.9)**	**(191.4)**
						Non-operational income				
						Non-operational expenses				
-	-	-	-	7.0	4.1	Income tax				
(226.9)	**(126.1)**	**(14.3)**	**(7.9)**	**27.8**	**16.4**	**Transferred to Balance Sheet**	**(53.3)**	**(33.3)**	**(267.9)**	**(191.4)**

Note: Income statement for 2004, 2005 and 2006 are of GRDF. For 16 November 2007, Income statement is for JSC FinAgro

Validity This rating is valid till the next loan proposal made by the MFI to any financial institution or till any other significant change in the structure of the loan programme or in its external environment. A **rating update** (comprehensive repeat rating) is recommended whenever such changes take place or at the end of **one year** from the date of the initial assessment, whichever is earlier. Any substantial additional information that becomes available could also result in a rating update or a rating review (revision of rating grade based on a desk analysis).

Liability The rating assigned is a professional opinion of the assessors and M-CRIL does not guarantee the information and cannot accept any legal responsibility for actions arising out of the recommendations made.

Notes to the financial statements

1. GRDF was registered as not for profit microfinance organisation in November 2003. In November 2007, JSC microfinance organisation FinAgro was formed as a joint stock company and transferred assets and liabilities to JSC FinAgro.
2. Financial statements for 2004, 2005 and 2006 are prepared for GRDF. Statements for 2007 are consolidated financial statements for GRDF and FinAgro. All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.
3. Both income and expenses are recognised on a cash basis.
4. LLR is created on the basis of ageing analysis. M-CRIL has made in 2004 and 2005 (on previous rating) and subsequent years LLR has taken based on institution created figures.
5. Loans are written off after 180 days.
6. Amortization of intangible assets and depreciation of fixed assets are calculated on straight-line basis as per their accounting policy
7. The organisation does not have any external borrowings.
8. 'Retained surplus' includes grants/donated equity, donations and retained surplus of the year.
9. 'Equity capital' of JSC FinAgro shown in September 2008 is contributed by GRDF

Glossary

1. Current repayment rate: Ratio of principal recovered (net of pre-payments) to the principal due for the last one year.
2. Portfolio at risk (PAR_{60}): Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 60 days to the total loans outstanding on a given date.
3. Yield on portfolio: The interest income on loans divided by the average loan portfolio for the year.
4. Other income to average portfolio: Total income other than from the interest on loans divided by average portfolio.
5. Financial cost ratio: Total interest expense for the year divided by the average portfolio.
6. Loan loss provisioning ratio: Total loan loss provisioning expense for the year divided by the average portfolio.
7. Operating expense ratio: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. Net operating margin: Difference of (yield on portfolio+ yield on other income) and (financial cost ratio+ loan loss provisioning + interest loss provisioning) – also known as spread on portfolio
9. Average loan portfolio: This represents the average loan outstanding for the year computed on a monthly basis.
10. Average total assets: This represents the average total assets for the year calculated on an annual basis.
11. Operational Self-Sufficiency: Ratio of total income to total costs for the year.
12. Financial Self-Sufficiency: Ratio of total income to total adjusted expenses for the year. Adjustments have been made for subsidised cost of funds (w.r.t. market interest rate), equity (w.r.t. inflation) and in-kind donations.
13. Risk weighted capital adequacy ratio: Ratio of networth to risk weighted assets
    M-CRIL Risk weights: 100% for all assets except the following: fixed assets & interest bearing deposits: 50%; cash 0%.
14. Return on assets: Ratio of operational income/(loss) to average total assets
15. Return on equity: Ratio of operational income/(loss) to average net worth

Projected cash flow and financial statements for five years

- The following assumptions and projections - derived from the limited information available from the institution on its future financial projections – are tentative in nature. These **should not be viewed in isolation nor be regarded as a basis for investing in the future** - only the main risk rating report provides an opinion on investments.
- All assumptions are based on the data gathered and had discussion with the chief functionary and coordinators during the rating exercise and the micro credit methodology used by the institution.

Note: The projections are made in local currency (GEL) and also the amount is converted in to USD. Currency conversion rate (1 USD =1.4 GEL)

1 Basic Assumptions

(see also Notes to Cash Flow Projections below)

For the year ending:	Sep-08	Sep-09	Sep-10	Oct-11	Sep-12	Sep-13
No of Borrowers	726	1,800	2,300	2,800	3,300	3,800
No of loans disbursed	609	1,584	2,116	2,380	2,640	2,850
Yield on average portfolio	20.59%	24.0%	24.0%	24.0%	24.0%	24.0%
Cost of external funds	0.0%	12.0%	12.0%	11.5%	11.0%	10.0%
Repayment rate from groups	96.3%	97.0%	97.0%	98.0%	98.0%	98.0%
Loan loss reserve ratio	3.3%	3.2%	3.0%	2.7%	2.5%	2.5%
Average loan size to borrowers (GEL)	5,569	4,455	4,990	5,838	6,422	7,064
Average loan size to borrowers (US$)	3,978	3,182	3,564	4,170	4,587	5,046

2 Projected Balance Sheets

Amount in '000

As on:	Sep-08		Sep-09		Sep-10		Oct-11		Sep-12		Sep-13	
	GEL	US$	GEL	US$	GEL	US$	GEL	US$	GEL	US$	GEL	US$
Assets												
Cash and bank balance	275	197	245	175	338	242	339	242	490	350	132	95
Other current assets	0	0	0	0	0	0	0	0	0	0	0	0
Loans outstanding	3,012	2,151	5,883	4,202	8,083	5,773	10,221	7,300	12,371	8,836	14,619	10,442
Loan loss reserve	*-99*	*-71*	*-188*	*-134*	*-242*	*-173*	*-276*	*-197*	*-309*	*-221*	*-365*	*-261*
Net loans outstanding	2,913	2,080	5,695	4,068	7,840	5,600	9,945	7,103	12,062	8,616	14,254	10,181
Other long term assets	0	0	0	0	0	0	0	0	0	0	0	0
Net fixed assets	218	155	241	172	262	187	281	200	298	213	313	223
Total Assets	**3,406**	**2,433**	**6,181**	**4,415**	**8,440**	**6,029**	**10,564**	**7,546**	**12,850**	**9,178**	**14,699**	**10,499**
Liabilities and Net Worth												
External borrowings	0	0	1,500	1,071	3,625	2,589	5,625	4,018	7,875	5,625	9,625	6,875
Other liabilities	0	0	0	0	0	0	0	0	0	0	0	0
Share Capital	3,673	2,624	3,673	2,624	3,673	2,624	3,673	2,624	3,673	2,624	3,673	2,624
Donated Equity	267	190	267	190	267	190	267	190	267	190	267	190
Grants	0	0	1,250	893	1,250	893	1,250	893	1,250	893	1,250	893
Retained surplus/deficit	-267	-190	-535	-382	-509	-363	-375	-268	-251	-179	-215	-154
Current surplus/deficit	-268	-191	26	18	134	96	124	89	35	25	99	71
Net worth	**3,406**	**2,433**	**4,681**	**3,344**	**4,815**	**3,439**	**4,939**	**3,528**	**4,975**	**3,553**	**5,074**	**3,624**
Total Liabilities and Net Worth	**3,406**	**2,433**	**6,181**	**4,415**	**8,440**	**6,029**	**10,564**	**7,546**	**12,850**	**9,178**	**14,699**	**10,499**

3 Projected Income Statements

Amount in '000

For the year ending:	Sep-08		Sep-09		Sep-10		Oct-11		Sep-12		Sep-13	
Income	GEL	US$	GEL	US$	GEL	US$	GEL	US$	GEL	US$	GEL	US$
Interest income	437	312	1,067	762	1,676	1,197	2,196	1,569	2,711	1,936	3,239	2,313
Other income	47	34	115	82	180	129	236	169	292	208	349	249
Total Income	**485**	**346**	**1,182**	**845**	**1,856**	**1,326**	**2,433**	**1,738**	**3,003**	**2,145**	**3,588**	**2,563**
Cost												
Financial cost (incl. FX risk gain/loss)	60	43	120	86	358	255	605	432	824	588	1,001	715
Loan loss provision	99	71	89	64	54	39	33	24	33	24	56	40
Depreciation	8	6	27	19	29	21	31	22	33	24	35	25
Operating expenses	585	418	914	653	1,248	892	1,608	1,149	2,069	1,478	2,372	1,694
Total Cost	**752**	**537**	**1,150**	**821**	**1,689**	**1,206**	**2,278**	**1,627**	**2,959**	**2,113**	**3,464**	**2,474**
Surplus/Deficit	**-268**	**-191**	**32**	**23**	**167**	**120**	**155**	**111**	**44**	**32**	**124**	**89**
Income tax	0	0	6	5	33	24	31	22	9	6	25	18
Net Surplus/Deficit	**-268**	**-191**	**26**	**18**	**134**	**96**	**124**	**89**	**35**	**25**	**99**	**71**

4 Projected Cash Flow Statements

Amount in '000

For the year ending:	Sep-09		Sep-10		Oct-11		Sep-12		Sep-13	
Inflows	GEL	US$	GEL	US$	GEL	US$	GEL	US$	GEL	US$
Opening cash	275	197	245	175	338	242	339	242	490	350
External borrowings	1,500	1,071	2,500	1,786	3,000	2,143	4,000	2,857	4,500	3,214
Repayments from members	4,185	2,990	8,359	5,971	11,757	8,398	14,803	10,574	17,884	12,774
Grants	1,250	893	0	0	0	0	0	0	0	0
Interest income	1,067	762	1,676	1,197	2,196	1,569	2,711	1,936	3,239	2,313
Other income	115	82	180	129	236	169	292	208	349	249
Total Inflow	**8,393**	**5,995**	**12,961**	**9,258**	**17,528**	**12,520**	**22,145**	**15,818**	**26,462**	**18,901**
Outflows										
Disbursement	7,057	5,041	10,558	7,542	13,894	9,925	16,953	12,110	20,132	14,380
Repayments to lenders	0	0	375	268	1,000	714	1,750	1,250	2,750	1,964
Operating expenses *(excl. depr.)*	914	653	1,248	892	1,608	1,149	2,069	1,478	2,372	1,694
Interest paid on borrowings	120	86	358	255	605	432	824	588	1,001	715
Tax	6	5	33	24	31	22	9	6	25	18
Fixed assets purchase	50	36	50	36	50	36	50	36	50	36
Total Outflow	**8,148**	**5,820**	**12,622**	**9,016**	**17,189**	**12,278**	**21,654**	**15,467**	**26,330**	**18,807**
Net cash balance	**245**	**175**	**338**	**242**	**339**	**242**	**490**	**350**	**132**	**95**

5 Key Projected Performance Ratios

For the year ending:	Sep-08	Sep-09	Sep-10	Oct-11	Sep-12	Sep-13
Operational self sufficiency	64.4%	102.8%	109.9%	106.8%	101.5%	103.6%
Return on average assets pre tax	-4.5%	0.7%	2.3%	1.6%	0.4%	0.9%
Return on average assets post tax	-1.2%	0.5%	1.8%	1.3%	0.3%	0.7%
Operating expense ratio	23.3%	21.2%	18.3%	17.9%	18.6%	17.8%
Avg. outstanding/borrower (GEL)	4,149	3,269	3,514	3,650	3,749	3,847
(US$)	2,963	2,335	2,510	2,607	2,678	2,748
Portfolio growth rate	-6.9%	95.3%	37.4%	26.4%	21.0%	18.2%
Risk weighted capital adequacy ratio	107.5%	80.5%	60.4%	49.0%	40.7%	35.2%

Notes to the projections

- The following assumptions and projections – derived from the limited information available from the institution on its future financial projections – are tentative in nature. These should not be viewed in isolation nor be regarded as a basis for investing in the future – only the main risk assessment report provides an opinion on investments
- All assumptions are based on the data gathered and discussion with the Chairmen and the General Director during the assessment exercise by M-CRIL.
- Number of active clients is assumed to increase up to 3,800 over three years as shown. This assumption is based on the perceived potential for expansion of the FinAgro.
- Interest income is taken as [yield on portfolio*average portfolio for the year]. Yield movements are projected to stay the same as there is not likely to be any change in the overall interest structure. *(Yield on portfolio is taken based present increase effective rate of interest)*
- The Operating expense ratio is based on current levels and is projected based on changes in overall productivity and growth in staff, branches and portfolio.
- Estimated external borrowings are subject strictly to performance based on the findings of this microfinance capacity assessment.
- Average loan size to members increases by 10-17% every year except in Sep'09.
- Grant is taken in Sep'09 only and subsequent years no assured grants for the projection periods.
- Other income is the income that the organisation earns on commission, write off collection and bank interest.
- Disbursements are taken as the [number of loans disbursed during the year*average loan size to borrowers].
- Estimates on growth in outreach and demand for loans from the organisation have been made based on current growth levels and future expansion potential and capacity. Increase in members is taken at 148% in the first year and between 15-30% in subsequent years.
- Repayments to lenders is 25% per annum on the projected liability structure.
- Interest paid is taken as the [average cost of external funds * the average external borrowing liability figure].
- In the projections the net worth figure includes share capital, donated equity, retained surpluses and current surplus.
- Increase of 50,000GEL in fixed assets in every year.

Abbreviations

ACDI	Agricultural Cooperative Development International
BD	Branch Director
CAR	Capital Adequacy Ratio
FCR	Financial Cost Ratio
FSS	Financial Self-Sufficiency
GD	General Director
GDP	Gross Domestic Production
GEL	Georgian Lari
GRDF	Georgian Rural Development Fund
HO	Head Office
JSC	Joint Stock Company
LLP	Loan Loss Provision
LLR	Loan Loss Reserve
LO	Loan officer
M-CRIL	Micro-Credit Ratings International Ltd
MFI	Micro Finance Institutions
MFO	Micro Finance Organisations
MIS	Management Information System
MSME	Micro, Small and Medium Entreprises
NGO	Non Governmental Organisation
OER	Operating Expenses Ratio
OSCE	Organization for Security and Co-operation in Europe
OSS	Operational Self-Sufficiency
PAR_{60}	Portfolio at Risk (>=60 days)
ROA	Return on Assets
ROE	Return on Equity
US$	United States Dollar
USDA	United States Department for Agriculture
USAID	United States Agency for International Development
VOCA	Volunteers in Overseas Cooperative Assistance