JSC MFO FinAgro

Joint Stock Company (JSC) {Second update}
Gori, Georgia April 2012

Responsible Finance Rating

Visit dates: 6-10 Feb' 2012

Vision:
"To become the leading agriculture financial institution in Georgia for facilitating access to credit for farmers and rural small entrepreneurs engaged in the production, processing, sale, servicing of agricultural output as well as in other spheres related to agriculture in the country"

	Dec 2005	Sep 2008	Feb 2012
RATING	β+	β+	β+
RATING OUTLOOK*	***positive***	***positive***	***positive***
Dimensions rated	**Grade**		
Governance & strategy	β+	β+	β+
Client protection	NA	NA	β+
Management systems	β	β+	β+
Financial performance	β+	β	β+

In M-CRIL's opinion, FinAgro has the capacity to absorb funds over the next one year for on-lending to its borrowers

M-CRIL

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Institutional profile – summary [31-Dec-2011]

Vision orientation: Provide agriculture, business, mortgage and consumption loans to individuals	
Model: Individual model *(focusing on farmers and agriculture related SMEs)*	
Services: Credit and training to farmers	
Outreach: Active members	1,527
Women staff	8 (24%)
Women borrowers	401 (26%)
Loan amount to women	24.2%
Rural clients	945 (62%)
Agri clients	1,037 (68%)
Agri portfolio	81.1%
Average loan balance per borrower / GNI per capita	98.6%
Personnel expenses / Operating expenses	72.6%
Borrower retention rate	96.4%

Financial	Dec-09	Dec-10	Dec-11
Gross Portfolio (GEL, million)	3.69	5.97	6.39
Gross Portfolio (US$, million)*	2.21	3.35	3.83
Annual growth rate of portfolio	7.6%	61.8%	7.1%
Number of active borrowers	667	1,248	1,527
Annual growth rate of clients	12.3%	87.1%	22.4%
Average Loan Disbursed (GEL)	6,428	5,182	4,304
Average Loan Outstanding (GEL)	5,529	4,783	4,186
Portfolio Yield	28.5%	29.6%	28.5%
Operating Expense Ratio (OER)	20.1%	17.0%	19.0%
Portfolio at Risk (>60days)	3.4%	3.9%	5.7%
Capital Adequacy Ratio (CAR)	110.0%	75.4%	71.9%
Debt Equity Ratio	0.7%	45.7%	54.6%
Borrowers per Field Staff	83	125	127
Borrowers per Total Staff	26	39	45
Return on Assets (RoA)	0.8%	2.3%	3.4%
Return on Equity (RoE)	0.8%	2.9%	5.2%
Staff Turnover Ratio	3.7%	0.0%	10.5%

**Conversion rate: 1 US$ =1.67 GEL in 2009, 1.78 GEL in 2010 and 1.67 GEL in 2011*

Context

- Georgia is situated in Eastern Europe and shares borders with Russia in the north, Azerbaijan in the south-east, Armenia in the south and Turkey in the south-west. Georgia is divided in to nine regions and has 69 districts. Georgia's current population is around 4.5million, 53% of which is urban.
- Georgia imports nearly all its gas and oil supplies but has a strong hydropower capacity.
- Presently, Georgia maintains diplomatic relations with Azerbaijan, Armenia and Turkey; however an increasing alliance with the US and EU has strained Georgia's relations with Russia.

Indicators	2007	2008	2009	2010	2011
Population (mn)	4.39	4.38	4.38	4.43	4.46
GDP (billions) ($)	10.17	12.80	10.76	11.67	NA
Agri share in GDP %	10.7	9.4	9.4	8.4	NA
Inflation, %	9.7	10.3	5.1	8.7	9.9
GNI per capita ($)	2,324	2,882	2,428	2,542	NA

- The country conditions have improved in the last three years with impressive economic growth rate. However, the inflation rate is still high as compared to its neighboring countries. The economic collapse and increasing unemployment post-dissolution (1991) had resulted in citizens engaging increasingly in agriculture, micro and small business activities. There are more than one million farmers. This has created a market for the emerging microfinance (MF) industry
- Georgian MF sector was dominated by banks and non-profit MFOs. In July 2006, the Government of Georgia framed a special law on MFOs. The law required all existing MFOs to be formed as joint stock or limited liability companies and to be registered with the National Bank of Georgia by the end of 2007 . The country has 16 MFIs with US$780 million loan outstanding, around 172,000 active clients. Pro-credit bank is the leader having more than 43% share in terms of volume followed by DRC and Bank Constanta. Other MFIs with small share include FinAgro, Crystal, ImerCredit, Lazika Capital, GeoCredit and Alliance Group.
- The potential of the MSME sector as well as growing demand for loans has led to commercial banks pursuing a down-scaling strategy. Competition in the Georgian microfinance sector is expected to be fiercer in future.

Synopsis

- FinAgro is a Joint Stock Company (JSC) which was promoted by Georgian Rural Development Fund (GRDF) in November 2007. GRDF owns 100% shares of Finagro.
- FinAgro has long experience in the agriculture sector and has gained expertise in it. It has a competitive edge because of better understanding of sector dynamics, cash flows and risks of this segment.
- FinAgro has **standardized operational systems and policies for** loan appraisal, collection practices, loan tracking and financial planning. However, the organisation **needs to improve its internal audit & control systems and MIS**. It is in the process of implementing a new MIS. FinAgro is exchanging client information with 'Credit Info' (a Credit Bureau) to detect multiple lending and clients' credit history.
- The organisation has 5 branches, an outreach of 1,527 active borrowers with total loan portfolio is GEL 6.39 million (US$ 3.83 million) on 31 December 2011.
- The organisation has a **strong and experienced Board with stable second line** of management. Branch Directors have been associated with FinAgro since inception.
- FinAgro has good performance on **adherence to client protection principles**. The Board and the management has focus to realize its vision, however systems need to be streamlined for better reporting on social performance.
- FinAgro received external borrowings for the first time in 2010. It received GEL 2.63 million (35.3% of total source of funds) from the Ministry of Finance *(under Rural Development Project of The World Bank)* which enabled it to double its portfolio size. However, mobilizing external funds is still a key challenge. FinAgro has a significant dependence on own funds. **The capital to risk weighted assets ratio (CRAR) was at 71.9%** on 31 December 2011.
- The **profitability of FinAgro has been steadily increasing** for the last three years. The Return on Asset (RoA) was 3.4% for 2011. However, the Operating Expenses Ratio (OER) is still high at 19.0% for 2011.

Strengths

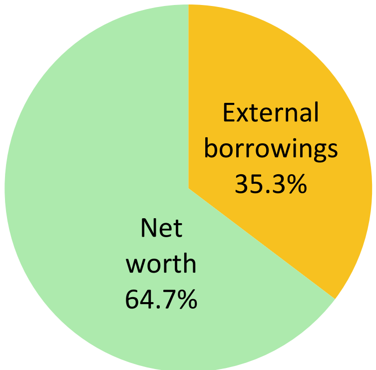
- Experienced promoters, good involvement of Board and Executive Committee in decision making
- A high capital adequacy of 71.9% as on 31 December 2011. High potential to raise debt funds.
- Stable second line of management; motivation of staff is high
- Good adherence to client protection principles. Transparency in communicating Interest rates and other product terms to the clients
- Steadily increasing profitability for the last three years
- Standardized systems and procedures
- 100% secured loans
- Good loan tracking system
- Good credit discipline and client awareness level

Issues

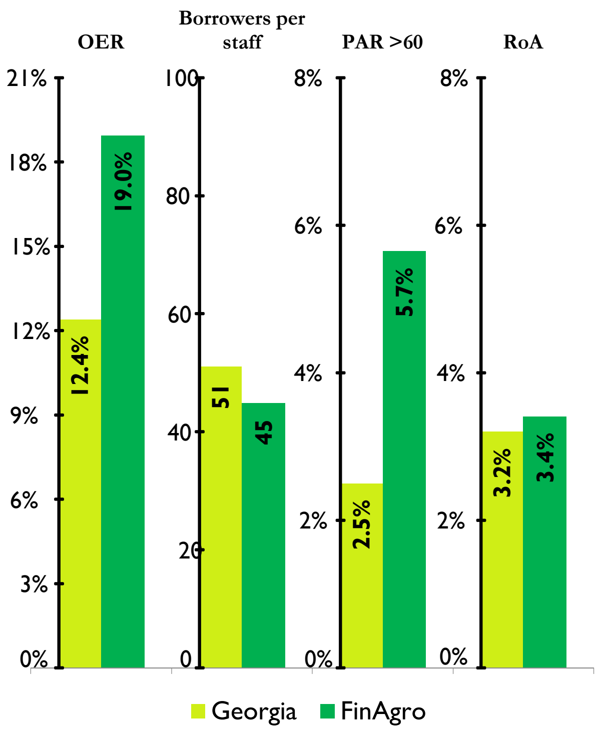
- The operating expenses ratio (OER) remains high at 19.0% for 2011
- High dependence on own funds and single external lender
- Moderate MIS. Analysis and reporting of social performance needs to be improved
- Moderate staff productivity
- Moderate internal audit
- Slippage of portfolio quality from the previous rating. Loans with bullet repayments and long grace period may hide portfolio quality problems for some loans.
- Passing on the currency risk to client by lending and collecting of loans in US$/Euro

Rating rationale

Sources of funding



Comparison of FinAgro's Performance with Georgian MFIs



Source: MIX Market

Good governing Board: FinAgro has a strong and experienced three member Supervisory Board . The Board members participate actively in the development of operation's strategy and strengthening of systems.

Strong second line of management: FinAgro has a strong and stable second line of management. Most of the managers are working with FinAgro since inception.

Fund mobilization: FinAgro started accessing external borrowing from May 2010. It mobilised both subsidised borrowings (GEL 2.63 million) and grant funds (GEL 507,540) during 2010-11. However, it still has a high dependence upon promoters' equity and has not been able to raise funds as per its expectations.

High capital adequacy: FinAgro's CAR on 31 December 2011 was high at 71.9%.

Profitable operations : Return on Assets (RoA) increased from 0.8% in 2009 to 2.3% in 2010 and further increased to 3.4% in 2011. It has a very low financial cost, RoA will reduce if it borrows more commercial loans.

Adherence to client protection principles: FinAgro targets farmers and rural households. The credit products are suitably designed. The interest rates are reasonable and product features are communicated accurately.

Moderate staff productivity and high OER: The borrowers / loan officer is 127 and borrowers/ staff ratio is 45 on 31 Dec' 11 which is low as compared to other MFOs in Georgia. The OER remains high at 19.0% during 2011.

Moderate MIS and tracking of social performance: The current software lacks adequate security features and there is scope for error. Social performance reporting needs to be systematised. It is in the process of implementing a new MIS.

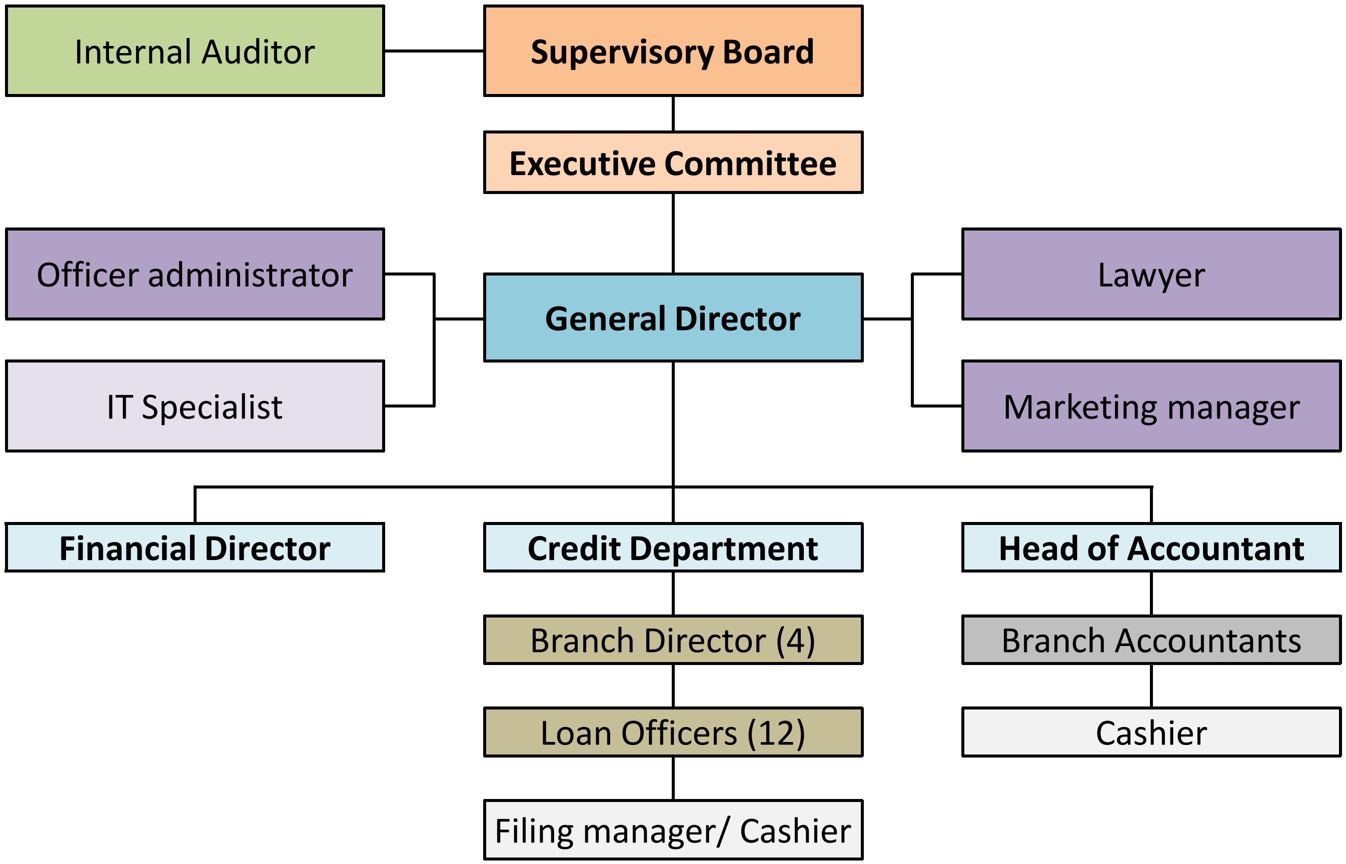
Moderate internal audit:. The Internal Auditor spends significant proportion of time on MIS. The audit is not regular and reporting is weak.

Deterioration in portfolio quality: PAR *(>60 days)* increased from 3.4% on 31 December 2009 to 5.7% on 31 December 2011. However, it has kept PAR under control despite 81% of loans in the riskier agriculture sector.

Introduction

- FinAgro was promoted by Georgian Rural Development Fund (GRDF) in November 2007 as a Joint Stock Company (JSC) and is fully owned by GRDF.
- 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 to the wheat producers. Under the project, 6 credit cooperatives were formed during 1996-2002. However, the portfolio quality of these cooperatives was weak and two of the six cooperatives had to be closed in 2002. These four agriculture credit cooperatives were merged in November 2003 to establish GRDF, and US$2.2 million of their portfolio was transferred to GRDF.
- The Georgian government's legislation on MFO and Entrepreneurs was adopted in July 2006 which prohibited Societies/ NGOs from undertaking any direct business /lending activities. In order to comply with the requirement of the Law, GRDF formed 'FinAgro' by registering it as a JSC on 16 November 2007 and transferred the entire portfolio and assets to 'FinAgro'. GRDF owns 100% of the shares of JSC FinAgro.
- FinAgro mainly operates in agricultural sector. FinAgro has five branches (incl. Gori branch) located in rural districts of the East Georgia namely Gori, Telavi, Tsnori, Marneuli, and Zestafoni. The institution gives loans to individuals and groups. The organisation had an outreach of 1,527 active borrowers in 10 districts and 124 villages, as on 31 Dec 2011. As on 31 December 2011, the organisation's total loan portfolio was GEL 6.39million (US$ 3.83 million) with staff strength of 34, including 12 Loan Officers (LOs).
- The organisation structure remains same from the previous rating. The management is headed by the General Director (GD) of FinAgro who is assisted by the Financial Director, Credit Manager, Head of Accounts and the Lawyer.

Organisational structure



Microfinance policies

- Branch Directors (BDs) and Loan Officers (LOs) acquaint the population in the area about the loan terms and conditions, motivate the eligible candidates to apply for loans. Most of the new clients are referred by existing clients.
- Once client approaches the branch for loan, the LO visits the site and assesses client's business, value of the collateral, does cash flow analysis of business and estimates income/expenditure. Repeat borrower can submit his/her loan application when the previous loan is nearing completion.
- Loan application and appraisal documents include the following:
  - Identification and address proof
  - Cash flow details – income and expenses of the borrower and business
  - Registered documents for collateral (personal guarantor in case of non-registered collateral), these documents are verified with the government's collateral registration details available online.
  - Loan agreement with terms and conditions
- In order to understand the prospective borrowers' credit worthiness, financial behavior and multiple lending, FinAgro exchanges information with 'Credit Info' (a Credit Bureau). Based on the report of Credit Bureau, the loan is not approved to the applicant if s/he has:

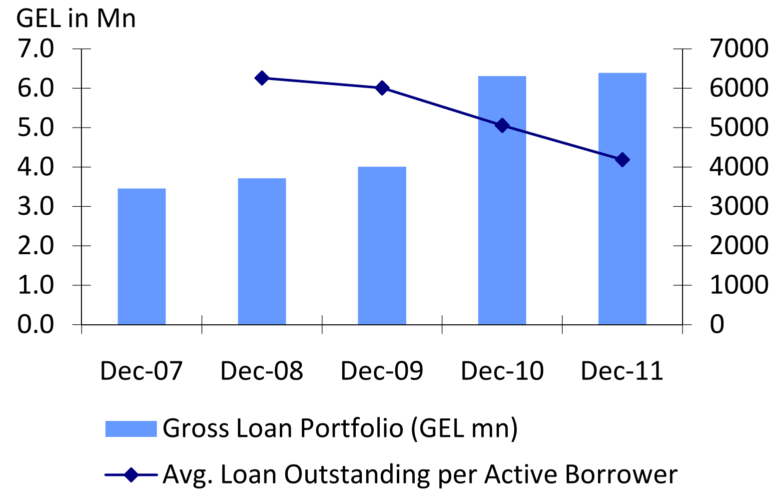
  a. Active loan accounts with more than one MFO or bank,

  b. Defaulted to other MFOs and banks
- After the appraisal of loan, the loan is approved by the BD. In case of own funds, the Branch level Credit Committee (consists of BD and LOs) can approve loans up to GEL20,000. Loans beyond GEL20,000 of own funds and all external funded loans are referred to the Head Office (HO), where the decision is taken by the HO Credit Committee, comprising of GD, Finance Director (FD), the Credit Manager and the Lawyer.
- Each branch is staffed by 1-4 LOs and one filing manager/cashier and headed by a BD who reports to the GD.

Loan products

- FinAgro offers three loan products: **agro loan** (aimed at farmers)**, micro-business loan** (aimed at small entrepreneurs) and **consumer loan** (for consumption). All branches offer all these products. Agro loans constitute more than 80% of the total loans.
- The loan amount and terms of repayment depend on the purpose of loan and value of collateral. However, under no case can the loan amount be more than 70% of the total project cost or 40% of value of client's total assets.
- The interest rate ranges from 18% to 36% and the repayment term ranges from 3 months to 36 months. The LO/BD fixes the interest rate based on the quality of collateral, credit history, competition and risk parameters. The average annual yield for 2011 was 25.9%

Portfolio and Average Outstanding Size



- Agriculture loans cover production of wheat, fruits, vegetable, fish production, livestock, poultry, and repair of agriculture equipments. Majority of FinAgro's agriculture loans are for one year with bullet principal repayment.
- The average loan size and loan outstanding size have been decreasing for the last four years. It decreased from GEL5,772 (US$3,874) in December 2008 to GEL 4,186 (US$2,507) in December 2011.

Loan products...

Product Name	Agro-loans	Micro-business	Consumer loans
Target	Farmers	SMEs	Any individuals
Amount (Min-Max)	GEL 500-50,000; US$ 300-26,000	GEL 500 - 50,000* US$ 300-26,000	GEL 500 - 12,000 US$ 300-7,000
Term (months)	3-36 (mostly one year)		3-24
Repayment Frequency	**Principle:** Monthly/ Quarterly/ Half yearly/ Bullet *(mostly bullet payment);* **Interest:** Monthly	**Principle & interest:** Monthly	
Grace period (months)	Up to 11	Up to 11	No
Rate of Interest % (pa) (Declining)	20%-36% (for GEL loans) 18%-36% (for US$ loans)		28%-36% (GEL loans) 24%-36% (US$ loans)
Commission fee	1.5%-2.5% on loan amount		2.0%-2.5%
Penalty on overdues	0.05% per day on overdue instalment amount		
Guarantee/collateral	At least 150% collateral (land, house, shop or any fixed assets)		
Prepayment & foreclosure	Allowed without any charges		
Share in portfolio on 31-Dec- 2011	81.1%	11.5%	7.4% (incl.0.3% of other loan)

* In 2011, Finagro disbursed only 8 loans of size more than GEL30,000 upto a maximum of GEL40,000

- As per present legal structure, FinAgro is not eligible to collect savings from members or legal entities.
- None of the insurance companies offer agri-insurance

Governance and strategy: β+

Governing Board
Vision definition
Operational growth and strategy
Competition & Second line management
Fund mobilisation & Type of outreach

Governance and strategy

FinAgro has a reasonable performance on governance with a grade of **β+.** There is no change in the Governing Board since the previous rating. The Board participates actively in the formulation of strategies, monitoring and controlling. FinAgro is well experienced in agriculture lending and now has a good knowledge base about the cash flow and risks of various crops and activities.

Governing Board

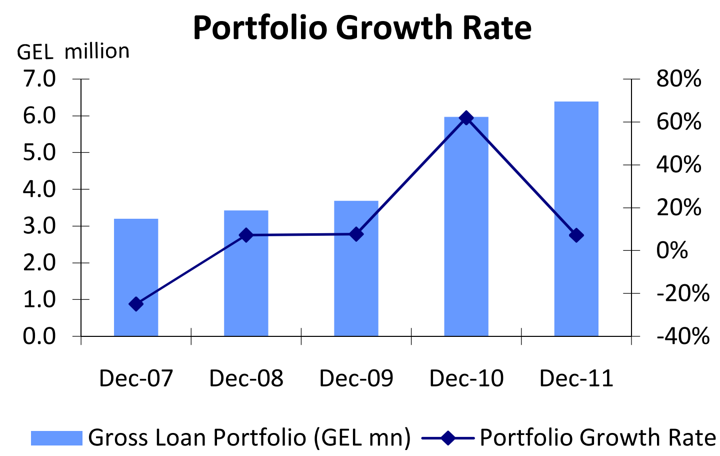
- FinAgro was registered as a Joint Stock Company (JSC) in November 2007. The Supervisory Board (SB) consists of three members, Mr George Chonishvili, the Chairman and Ex-General Director of GRDF, Mr Omar Dgebuadze, a leading Lawyer in Georgia and Mr Lasha Shashviashvili, one of the biggest farmers in the country. Chairman is an executive Director while the other two are independent directors.
- The members are well qualified and are highly experienced. The Chairman has experience of more than 28 years in the top management positions in various organizations. Addition of independent Director(s) with microfinance or banking sector experience in the SB will strengthen the Board further.
- GRDF owns 100% shares of Finagro. FinAgro is planning to mobilise equity from International donors/venture capitalists in the current year.
- Apart from the SB, FinAgro has a six member Executive Board (EB) for operational decision-making. The EB comprises of General Director, Financial Director and Branch Directors. A new branch in Zestafoni started in 2010 and so there was an addition to the EB members. The EB meets once in a month to review the performance of branches.
- The SB meets at least once in every quarter to discuss and review FinAgro's performance, policy issues, financial planning and fund mobilisation. For monitoring branches, SB is assisted by Internal Auditor and Head of Credit.
- FinAgro's vision remains focused on agriculture sector and more than 80% of loans are to farmers.

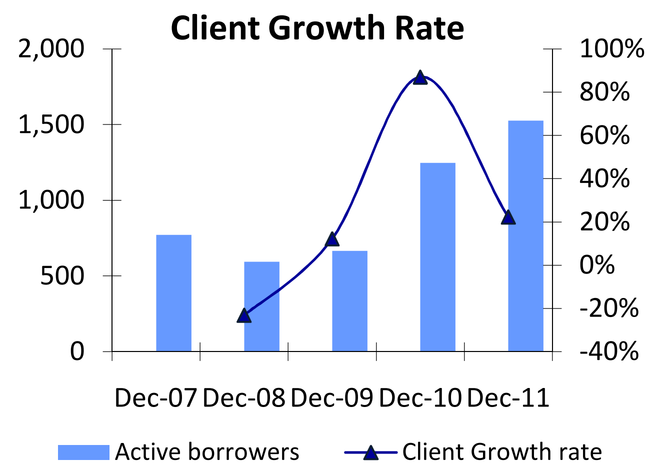
Vision definition

Goals	Practice	Monitoring
Target area - rural and semi urban	▪ Mainly concentrated in Rural areas for agri- loans. ▪ 62% of clients in rural areas ▪ In the short and medium term, FinAgro will remain focused on existing operational areas	➢ MIS tracks geographical coverage and classifies areas into rural, urban and semi-urban
Target clients - farmers and SMEs (both men and women)	▪ FinAgro has a clear focus on continuing to provide loans for agriculture and allied activities. ▪ Lends to both men and women (26.3% of active clients are women) ▪ No special focus on low income segment group but loan sizes are relatively small ▪ 68% of clients are farmers with 81% portfolio in agriculture sector	➢ MIS captures clients' income generating activities ➢ MIS does not provide information on gender, clients' income and socio-economic details
Services - credit and trainings to farmers	▪ No other financial service except credit ▪ The present legal form does not allow savings mobilisation ▪ FinAgro is keen to provide insurance services to its clients, but insurance companies have not developed suitable agri insurance products ▪ FinAgro provides training programs to farmers	➢ Usual loan portfolio tracking with certain limitations (details in MIS section) ➢ Also track details of trainings provided to farmers

Operational growth and strategy

- There is no change in operational growth strategy of FinAgro. Since the last rating, it has added one product (consumer loan) and one branch (Zestafoni). FinAgro continues to target farmers and small entrepreneurs. FinAgro has gained expertise in agriculture sector. Staff is well experienced in handling agriculture/ allied loan products. It has competitive advantage since banks/other MFOs do not focus on this sector and consider it risky.
- FinAgro has doubled its portfolio since the last rating. FinAgro's portfolio increased by 62% in 2010 with the funding support from the Ministry of Finance *(Rural Development Project of the World Bank).* Similarly, client outreach increased by 87% in the same period. However, with no further funding support, the portfolio increased by only 7.1% in 2011.
- FinAgro has been consciously diversifying it portfolio within the agriculture sector. The portfolio share for wheat production reduced from 43.9% of total portfolio in 2008 to 22.5% in 2011.
- FinAgro has the policy of indexing loans *(Indexed loan – the loans that are disbursed and repaid in Lari (GEL) but repayment is accounted in US$/Euro value)* to hedge itself from the risk of currency depreciation due to high inflation in the country. FinAgro is passing the exchange rate risk to its clients.





Competition –*limited*

- Georgia has a small financial sector. Banks are increasingly involved in the provision of microfinance which they view as a means to reach out to large number of customers.
- The competitors offer loans for SMEs and consumption where as FinAgro offers loans mainly for agriculture. FinAgro's strengths are a good understanding of agriculture sector, relationship with clients, promptness of services, client friendly approach and convenient loan terms.
- ProCredit Bank, Bank Constanta and FINCA are other institutions working in the operational area of FinAgro and are of much larger size. So far, the institution has not faced problems since its growth targets are modest.
- Competition in the Georgian microfinance sector is expected to increase in the future. However, the market still has significant unmet credit demand; the largest gap is in the agriculture sector.

Fund mobilisation – *single funder*

- FinAgro managed with its own equity funds till April 2010. In May 2010, FinAgro received debt funds from the Ministry of Finance *(under Rural Development Project of the World Bank)* worth of GEL 2.63 million for 10 years at a subsidised rate of Libor+2% interest rate. It also received grant funds of GEL 507,540 from UNDP and GEL 30,642 from GIZ during 2009-11.
- FinAgro has been making efforts to avail loan funds and trying to obtain grants through various International funding agencies interested to support agriculture sector in the country. The organisation has already submitted proposals to Symbiotics, Oikocredit and Kiva. FinAgro plans to borrow only from foreign sources as the interest rates on loans from domestic sources are still very high (12%-15%pa) and it feels that it can avoid currency risk by lending of indexed loans to its clients.

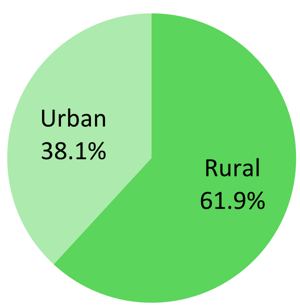
Second line of management *–experienced and stable*

- FinAgro has a strong and stable second line of management. The second line of management includes Financial Director, Credit Manager and Branch Directors. The Directors are experienced and well qualified. All Directors have more than 12 years of experience. The second line of management has adequate expertise to manage the operations.
- The General Director has 35 years of experience in senior management. The BDs have been associated with FinAgro since inception and exhibit excellent field knowledge.

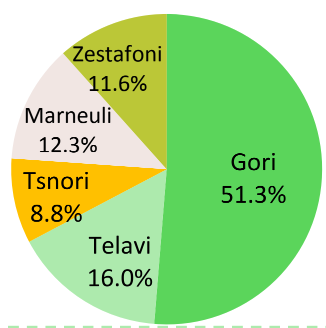
Client outreach

- Existing clients play a major role in identification of new clients.
- The LOs collect household income and socio-economic details but this data is not collated to monitor achievement of social goals.
- More than 50% clients are in Gori district/branch which is the first branch of Finagro.
- Finagro has 62% of clients (80% of portfolio) in rural area and remaining 38% clients in semi-urban/urban areas.
- 68% of clients (81% of portfolio) are farmers , 16% are small entrepreneurs (12% of portfolio) and remaining 16% are other clients (with 7% of portfolio)
- 70.9% of clients (with 77.4% loan portfolio) have loans in US$ while 28.8% of client have loans in GEL

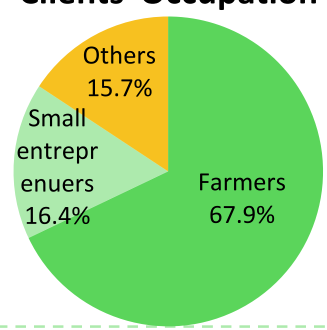
Clients: Rural & Urban



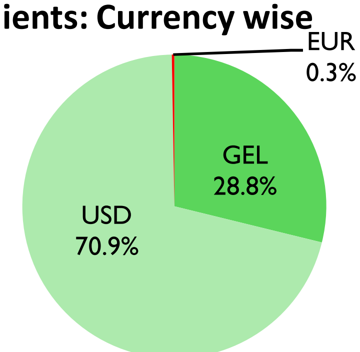
Clients: Brach wise



Clients' Occupation



Clients: Currency wise



Client Protection: β+

Appropriate product design and delivery
Prevention of over-indebtedness
Responsible Pricing
Transparency
Fair and respectful treatment of clients
Mechanism for compliant resolution
Privacy of client data

Client protection – adherence to the client protection principles

FinAgro is part of “The Association of Development and Support of Microfinance Organizations of Georgia”. FinAgro sends the data (financial and limited social) to the MIX Market which has given it five stars (highest score) for the level of disclosure of financial data.

1 Appropriate product design and delivery:

- FinAgro provides short and medium term loans for the development of agriculture and entrepreneurship.
- FinAgro is the only MFI in the country with most of its portfolio (81%) in agriculture and agri-allied activities.
- FinAgro designed micro-business loan product *(focusing on agri-business)* for working capital requirements of SMEs. The loan product has a share of 11.5% as on 31 December 2011.
- FinAgro introduced consumer loans for rural households to meet their seasonal consumption and other needs, which is 7% of its portfolio.
- It offers flexible repayment schedules for agriculture loans. These are based on activity/crop cash flows.
- Most of the Agri and micro-business loans have bullet principal repayment. FinAgro allows prepayments and foreclosure of loans without any charges.
- The present legal form does not allow it to offer saving services; there is no insurance company in the country to provide agriculture insurance services to its clients.
- In terms of non financial services, FinAgro conducted 5 trainings in 2011 for farmers on fruit growing, fish production, modern technology on agriculture, economics and marketing.

2 Prevention of over-indebtedness:

- FinAgro focuses on agriculture sector which has least credit exposure in the country. The institution's policy restricts it from being the third lender to any client.
- Both the application form and loan appraisal address the issue of over-indebtedness of clients. FinAgro tries to ensure that the loan size does not exceed 40% of total market value of client's assets or 70% of the total project cost. Though the LO collects details on activity and cash flows during the verification visit, Finagro does not analyse the cash flow of the client to assess his/her repayment capacity.
- In order to understand the prospective borrowers' over-indebtedness and financial behavior, FinAgro exchanges information with 'Credit Info' (a Credit Bureau) and disburses loans based on the report.
- FinAgro provides loans to clients who can afford collateral (150% of loan size). Collaterals are registered. This policy avoid multiple lending to a great extent.

3 Responsible Pricing:

- FinAgro charges daily declining rate of interest ranging from 18% to 36% per annum. The interest rates are decided by the LO/BD based on competition, size of loan, type of collateral, credit history and other risks parameters. The interest rates for agriculture and micro-business loans are 2%-4% lower than consumer loans. FinAgro charges 1.5%-2.5% commission fee for agriculture and micro-business loans and 2.0%-2.5% commission fee for consumer loans based on loan size. The average annual interest rate is 25.9%
- The interest rates charged by FinAgro are slightly lower than other MFOs/banks in their operational area.
- FinAgro charges 0.05% per day penalty on overdue installments which is lower than its competitors.
- FinAgro lends majority of its loans in US$/Euro which increases the risk for the clients, especially in the current environment of high inflation in Georgia.

4 Transparency:

- All clients are educated and are reasonably aware of features of FinAgro's loan products, as well as, that available from other financial institutions. Communication to new clients regarding policies and products is mainly done during field visit and loan disbursement. After loan disbursement, interaction between clients and staff is not regular since the majority of clients directly deposit their monthly instalments at the bank.
- All documents are printed in Georgian language, the product terms and conditions are also written on the loan documents. A repayment schedule is printed and given to the clients at the time of loan disbursement. Besides, staff makes telephone call to each client a day before the due date to remind them about their monthly instalments and penalty in case of delayed payment. During the rating team's interaction with clients, it was observed that the clients were well aware of interest rate, penalty and total number of installments.
- Majority of clients are repeat loan clients, around one third of clients have been associated with FinAgro for more than five years and have excellent credit discipline and are satisfied with loan terms and conditions.
- The level of transparency in setting of interest is not satisfactory. BD/LO decides rate of interest based on competition, size of loan, type of collateral, credit history and other risk parameters, but the parameter(s) is/are not disclosed to the clients.

5 Fair and respectful treatment of clients:

- FinAgro values the references given by its existing clients in the selection of new clients.
- The procedures for issuing the loans are simple and fast, requires 2-3 days.
- FinAgro gives importance to moral and ethical values. Good staff behaviour is part of the orientation and training of the staff.
- As per the policy, the institution can approach the Court to dispose the collateral in case the overdue exceeds more than six months. However, in most cases, the institution waits for more than one year before filing a case in the Court. It often does not liquidate assets in case of default due to crop failures.
- FinAgro has a policy on rescheduling of loans in exceptional cases such as bad weather and war. The only precondition for loan restructuring is the existence of the external factors that heavily affect the main economic activities of the borrowers.

6 Mechanism for complaint resolution:

- There is no formal complaints' desk/box at branch and HO. The clients can make a complaint at the branch office at any time.
- In case of any compliant, the branch staff immediately respond to the client. The repayment schedule contains branch and HO contact numbers; the client may contact on any working day during the office hours.
- HO does not maintain any database of complaints received at the branches. Also, there are no checks to ensure proper redressal of client grievances by the branches.
- The internal auditor visits 1-2 sample clients during his visit and reports client feedback.

7 Privacy of client data

- FinAgro exchanges information with 'Credit Info' (a Credit Bureau) for multiple lending/over-indebtedness and credit history, which is confidential.
- FinAgro has taken written permission from clients for data sharing with the credit bureau, this is normal practice in the country.

Management Systems: β+

Human resource quality and management
Staff productivity & Operating efficiency
Accounts and MIS
Social data and reporting & Loan tracking
Internal audit and control
Financial planning and cash management
Infrastructure and quality of clients

Management systems

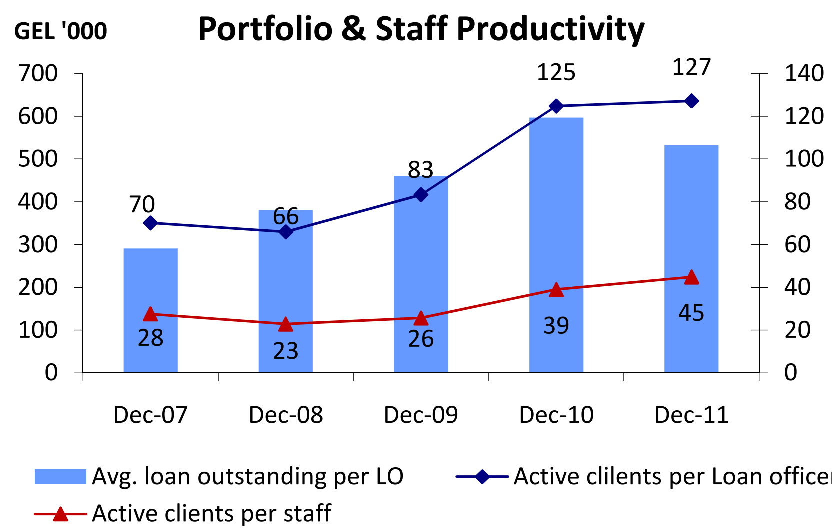
FinAgro has a reasonable performance on management parameters with a grade of β+. As compared to the last rating, FinAgro has recruited an Internal auditor and is in the process of putting in place a new MIS. FinAgro has good quality human resources, a strong loan appraisal and loan tracking system. The performance is restricted on account of moderate internal audit and weak social performance tracking.

Human resource quality and management – *reasonable*

- The organisation is small, there is no separate HR department and major HR functions are managed by the General Director.
- The quality of staff at FinAgro is good. The total number of staff on 31 December 2011 was 34 which included 8 (24%) women staff.
- FinAgro conducts regular training for its staff, both in house and external. All field staff and 13 managerial staff participated in external trainings in 2011. The new recruits remain on probation for three months and are made permanent after confirmation from the immediate supervisor.
- FinAgro's staff is well motivated. Staff share good rapport with the borrowers. The field staff have adequate understanding of organisational processes and microfinance operations. All BDs have been working with FinAgro since inception.
- Remuneration of staff at FinAgro is reasonable compared to other MFOs/banks. FinAgro has fixed salary scales. It does not have performance based incentive system. FinAgro provides annual bonuses and increments based on company's overall performance.
- Finagro does not have a formal staff performance appraisal system.
- The staff attrition rate for 2011 was 10.5% and 0% during 2010.

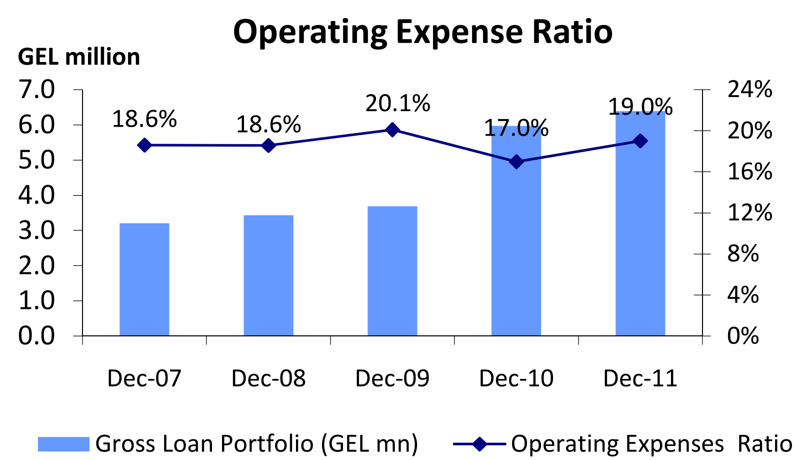
Staff productivity – *moderate*

- The active borrowers/loan officer is 127 and borrower/total staff is 45 on 31 December 2011. The ratios are much lower as compared to other MFOs operating in the region. This is primarily due to insufficient funds and low scale of operations. However, the staff productivity has been steadily increasing for the last 4 years.
- The average portfolio outstanding per loan officer increased from GEL 460,986 (US$ 276,039) in 2009 to GEL 596,878 (US$ 335,325) in 2010, but decreased to GEL 532,684(US$ 318,973) in 2011.



Operating efficiency – *moderate*

- The operating expenses ratio (OER) remains high at 19.0% during 2011. The OER decreased from 20.1% in 2009 to 17.0% in 2010 and increased to 19.0% in 2011. The main reason for high OER is a small scale of loan portfolio and less than expected growth in 2011.
- The OER can improve with an increase in loan portfolio size as the existing staff can manage higher case load.



Accounting and MIS – *moderate*

- At present, FinAgro uses Oris software for accounting and MS-Access for MIS. FinAgro is piloting a web-based software funded by GIZ. The new MIS is a web based software with integrated portfolio tracker and accounting modules. FinAgro has planned to migrate the data in to the new software in 2012.
- The present MS-Access software has been internally designed. MS-Access lacks security features and does not allow integration of accounting transactions.
- The accounting and MIS in FinAgro are decentralised. Repayments are recorded in the loan ledgers. Accounting entries are made by the LO/filing manager daily, after tallying cash against the collection sheets. The BD verifies entries in the cash book with the software by end of the day. The BD sends required data/reports once in a month to the HO. Data verification is also done at the HO. HO also gets portfolio information on a daily basis through email.
- The Internal Auditor checks the quality of data and reconciles the accounts with the cash and bank statement of the branches on a monthly basis.
- All income and expenses are recorded on accrual basis. Monthly consolidated statements are prepared by importing data from the software to MS-Excel. There is scope for human error and is also time consuming.
- The consolidated financial and portfolio reports are submitted to the GD and Supervisory Board.
- FinAgro submits consolidated quarterly financial report to National Bank of Georgia.
- Finagro creates loan loss provisions (LLP) based on portfolio aging on a monthly basis. LLP rates have been changed with the approval of the Board during 2011 .
- Provision on current loans has decreased from 1.5% to 0.5% while on restructured current loan it has decreased from 25% to 20%.

Loan Loss Provision (overdues days)	%
Current	0.5%
1-30	15%
31-60	30%
61-90	50%
91-180	75%
>180	100%
Restructured current	20%

Social data and reporting – *not effective and needs to be systematized*

- LO collects socio-economic profile of the member at the time of loan appraisal, but this is not entered into the computerised MIS. This limits the ability to use this information purposefully.
- Analysis and reporting of client profile data needs to be systematised.
- At present, FinAgro reports a limited client social data related to gender and geography to MIX market.

MIS	Tracking
Client profile (income, gender, etc)	Data collected; partial entry in MIS
Client satisfaction survey	Not conducted
Drop-out numbers	✓
Client exit survey	NA
Client feedback/quality data	X
Client trainings/seminars	✓

Overdue tracking system – *good and no change from the previous rating*

- FinAgro has good systems for tracking of overdues. Branch staff gives orientation to clients during loan disbursement on the importance of on-time recovery and penalty.
- The follow up mechanism of overdue loans is formalised. The LOs are responsible for monitoring of overdue loans. A day before monthly due date, the LOs call each client to remind about payment of instalment. In case of delay in payment, the LO follows it up by visiting clients' houses.
- With the organisation's portfolio being predominantly in agricultural loans, delay of around one or two month is not considered serious, as this can happen due to delay in crop harvest or bad weather conditions.
- In case the overdue exceeds 180 days, the branch sends the overdue list to HO along with reasons. The HO serves legal notices to the individuals and files the case in the Court to dispose the collateral.
- Most of the loans being with bullet repayment, Finagro may get to know of the quality of loan only at the loan maturity. This can lead to delay in recognition of portfolio loss and appropriate action. The organisation thus tries to remain in touch with the borrower to evaluate his/her financial condition

Internal audit and control – *moderate*

- FinAgro recruited an Internal Auditor in 2009 after the previous rating. He is supposed to audit each branch at least once in a quarter. However, at present he is also responsible for MIS and audit frequency is irregular.
- The auditor sends monthly audit format to each branch and gets the filled forms by the first week of each month. He compiles the information; prepares consolidated audit report and submits to the Supervisory Board.
- He also visits the branches once or twice in a year and spends few hours in each branch. Visits to branches cover verification of loan agreements, collateral and 1-2 client visits. But, the auditor has prepared only one internal audit report of one branch till now. The management feels that being a small institutions, the information can be shared without preparing formal audit reports.
- The Internal Audit function of FinAgro has not stabilised so far and the manual has not yet been prepared. However, the internal auditor has prepared a new internal audit reporting format and has circulated that to all the branches recently.

Financial planning and cash management– *reasonable*

- The organisation has prepared a three year business plan covering all the operational and financial parameters. The HO holds quarterly review meetings, wherein the team discusses the achievement and next quarter's plan for each branch.
- FinAgro has a three year business plan (2010-12) and the actual progress is monitored against the targets.
- All branches have bank accounts in VTB bank. Collections are deposited by the clients at the bank or at the branch. The HO accesses the cash position of the branches on daily basis.
- Each branch sends fund request once in a month (in special cases branches send fund request daily)
- Cash planning and liquidity management is the responsibility of the Finance Director and is done on the basis of monthly forecasts. He estimates monthly loan demands and allocates funds, either by transferring from the HO or inter-branch cash transfers.
- Repayments to the lender have not yet started.

Infrastructure – *adequate*

- FinAgro has good infrastructure at HO and at branches offices. All its offices are in rented premises. The book value of its net fixed assets was GEL 225,493, which is 3% of the total assets on 31 December 2011.
- Fixed assets mainly include computer, vehicles, photocopier office equipments, furniture and fixtures. The current level of infrastructure seems adequate and is employed effectively.

Quality of clients–*good credit discipline and good awareness level*

- Visited clients showed good performance on repayment of loans and overall discipline. Member awareness about the organisation's policies and products features was observed to be good. More than half of the visited clients have been associated with FinAgro for the last 5 years. Clients were happy with fast credit delivery, staff behaviour and follow up mechanism.
- Repayment schedule and account statements are provided to each client. These loan schedules are in Georgian language. In case of overdue, branch staff informs the clients about penalty.

Financial performance: β+

Portfolio quality
Portfolio diversification/analysis
Profitability and sustainability
Capital adequacy
Asset & Liability composition

Financial performance

FinAgro's financial performance is reasonable with a grade of β+ on account of increase in gross loan outstanding, good capital adequacy, increased returns and reasonable portfolio quality. However, its operating expenses ratio remains high.

Financial Ratios	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
Capital Adequacy					
Risk Weighted Capital Adequacy Ratio (Tier – I)	109.9%	107.1%	110.0%	75.4%	71.9%
Asset Quality					
Portfolio at Risk (>60 days)/ Gross Loan Portfolio	2.5%	3.6%	3.4%	3.9%	5.7%
Loan Loss Reserves/ Gross Portfolio	5.8%	5.3%	8.3%	6.3%	6.0%
Management					
Operating Expenses / Average Gross Loan Portfolio	18.6%	18.6%	20.1%	17.0%	19.0%
Number of Borrowers / Field Staff	70	66	83	125	127
Number of Borrowers / total Staff	28	23	26	39	45
Earnings					
Net operational income / Average Assets (RoA)	-1.2%	4.8%	0.8%	2.3%	3.4%
Net operational income / Average Equity (RoE)	-1.2%	4.8%	0.8%	2.9%	5.2%
Portfolio Yield	21.5%	25.2%	28.5%	29.6%	28.5%
Interest and Fee exp. / Average Gross Loan Portfolio	0.0%	0.1%	0.1%	0.6%	1.3%
Liquidity					
Cash & Liquid Assets / Total Assets	8.2%	5.1%	7.7%	9.5%	9.1%
Debt/Equity Ratio	0.7%	0.7%	0.7%	45.7%	54.6%

Portfolio quality – *reasonable, but declined since the previous rating*

- The Portfolio at Risk (>60 days) is 5.7% on 31 December 2011. It has kept PAR under control despite having majority loans (81%) for agriculture. The main reason for delayed payments is crop failure due to bad weather conditions.
- There is good credit culture among the clients, strict client selection and regular tracking of overdues by the field staff.
- Loan loss reserve is created on the basis of ageing analysis. The loan loss reserve at 6.0% for the current PAR(>60 day) of 5.7% is adequate.
- As mentioned earlier, FinAgro has a policy to reschedule loans in case of crop failure due to bad weather and abnormal circumstances like war, adverse economic conditions etc. FinAgro had rescheduled 16 loans with an amount of GEL 249,655 (3.9% of gross portfolio) – these are not included in calculating the PAR on 31 December 2011. All these loans are of war victims which were rescheduled for more than three years with bullet repayment.
- During 2011, two loans worth of GEL 19,828 *(principal, interest & penalty)* were written off due to death of clients. Written-off loans are mentioned separately in the portfolio quality report.

Portfolio aging as on 31-Dec-11

Ageing	Amount	PAR %
Current	5,921,849	
1-30 days	73,335	1.1%
31-60 days	35,838	0.6%
61-90 days	131,744	2.1%
91-180 days	39,763	0.6%
>180 days	189,681	3.0%
Total	**6,392,210**	**7.4%**

Write-off Details

Write-off details	2009	2010	2011
Written off (Principal)	95,757	160,309	13,521
Recovery of written off Principal	17,096	10,727	12,166
Net written off (Principal)	**78,661**	**149,582**	**1,355**
Written off (Interest +Penalty)	68,354	93,544	6,307
Total Written-off	**147,015**	**243,126**	**7,662**

Portfolio diversification/analysis

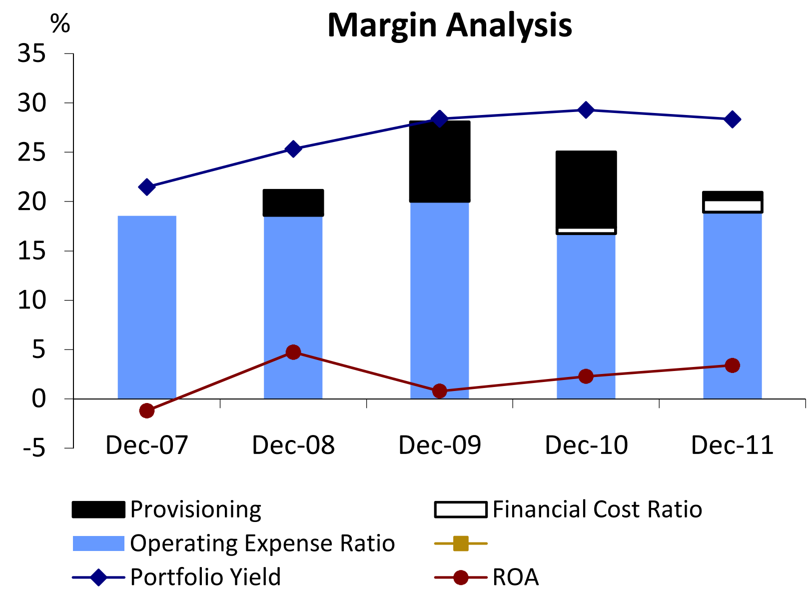
- Though 81.1% of portfolio in agriculture sector, FinAgro has been consciously diversifying portfolio within the agriculture sector. The portfolio share for wheat production reduced from 43.9% of total portfolio in 2008 to 22.5% in 2011. Micro-business loans increased from 6.2% of total portfolio to 11.5% for the same period.
- The organisation plans to diversify its portfolio further and bring down the share of wheat loans to less than 15% in the next couple of years. The current composition of FinAgro's portfolio is shown in the table.
- More than half the loans disbursed are between GEL 1,000 and GEL3,000. About 20% of clients are in their first cycle loan with around GEL 2,000 loan size.
- 43.4% of portfolio (and 51.3% of clients) is in Gori district/branch which is the first branch of FinAgro.
- FinAgro has 77.4% of portfolio in US$ and 22.1% in GEL. The remaining portfolio is in Euros.

Purpose wise portfolio	Loan outstanding on 31-Dec-2011	
	Amount	%
Micro business	736,455	11.5%
Agriculture (81.1%)		
Wheat	*1,437,164*	*22.5%*
Fruits	*1,254,469*	*19.6%*
Livestock	*1,617,895*	*25.3%*
Fish Producing	*91,149*	*1.4%*
Poultry Rising	*68,584*	*1.1%*
Vegetable	*711,642*	*11.1%*
Consumer loans	453,590	7.1%
Other loans	21,262	0.3%
Total	**6,392,210**	**100.0%**

Loan size (in GEL)	Disbursement during 2011	
	Number	%
< =2,000	667	42.2%
2,001-5,000	594	37.6%
5,001-10,000	167	10.6%
10,001-15,000	80	5.1%
15,001-20,000	46	2.9%
20,001-30,000	17	1.1%
>30,000	8	0.5%
Total loans	**1,579**	**100.0%**

Profitability and sustainability– *positive returns and steadily increasing for the last three years*

- FinAgro improved its performance on profitability and sustainability from the previous rating.
- Return on Assets (RoA) increased from 0.8% in 2009 to 2.3% in 2010 and further increased to 3.4% in 2011. The main reason for increased profitability is increase in portfolio size and very low financial costs.
- Net worth constitutes 64.7% while external borrowings represent 34.3% of the liability side as on 31 December 2011. FinAgro received borrowings at the rate of Libor+2%. Commercial funds are available at around 12% which will increase Finagro's FCR substantially. With present high OER, it may be able to have only a marginal or no profitability.
- Going ahead, for increasing the scale, FinAgro will need to mobilise more debt funds which will increase its cost of funds.



Capital Adequacy– *very high*

- FinAgro has a high capital adequacy of 71.9% with net worth of GEL 4.8 million as on 31 December 2011. A high capital adequacy may provide comfort to external lenders.
- FinAgro promoters also plan to dilute their equity share in Finagro to strategic International investors.

Asset, liability and equity composition - *reasonable*

- FinAgro had 78.4 % of its total assets in loan outstanding on 31 December 2011. Cash in hand and at bank were a reasonable 9.1% of total assets. The average cash and bank balance as a proportion of its average total assets for 2011 was also reasonable at 7.4%.
- There is some change in the sources of funds from the previous rating. External borrowings accounted for 35.3 % of total sources of funds of FinAgro as on 31 December 2011 and net worth accounted for 64.7% of the total sources of funds.

Future plans and prospects

- FinAgro has added one branch from the last rating. In the medium term, FinAgro plans to open 2 new branches in neighbouring districts. The external conditions have improved in the last three years with impressive economic growth rate. It is comparatively easier to mobilise external borrowings.
- Overall, FinAgro has good prospects, provided it improves its internal audit and control systems, staff productivity and ensures a good portfolio quality.

Financial Statements of FinAgro

Balance Sheet as on

31-Dec-08		31-Dec-09		ASSETS	31-Dec-10		31-Dec-11 (un-audited)	
GEL	**US$**	**GEL**	**US$**	**Current assets**	**GEL**	**US$**	**GEL**	**US$**
201,584	135,291	341,445	204,458	Cash in hand and bank	643,538	361,538	679,840	407,090
		210,420	126,000	Receivables			287,200	171,976
				Accruals				
288,924	193,909	317,609	190,185	Accrued Interest & penalties	340,421	191,248	423,765	253,751
(45,164)	*(30,311)*	*(51,133)*	*(30,619)*	*Less: Reserve*	*(103,421)*	*(58,102)*	*(135,146)*	*(80,926)*
243,760	**163,597**	**266,476**	**159,566**	**Net Accrual Int. & penalties**	**237,000**	**133,146**	**288,619**	**172,826**
				Loans outstanding				
3,428,454	2,300,976	3,687,884	2,208,314	Gross loan outstanding	5,968,783	3,353,249	6,392,210	3,827,671
(180,881)	(121,397)	(306,014)	(183,242)	*Loan loss reserve*	(376,045)	(211,261)	385,419)	(230,790)
3,247,573	**2,179,579**	**3,381,870**	**2,025,072**	Net loans outstanding	**5,592,738**	**3,141,988**	**6,006,791**	**3,596,881**
3,692,917	**2,478,468**	**4,200,211**	**2,515,096**	**Total current assets**	**6,473,276**	**3,636,672**	**7,262,450**	**4,348,772**
				Long term assets				
23,799	15,972	35,580	21,305	Deferred tax	48,480	27,236		
203,493	136,572	227,285	136,099	Net property and equipment	256,630	144,174	225,493	135,026
227,292	**152,545**	**262,865**	**157,404**	**Total long term assets**	**305,110**	**171,410**	**225,493**	**135,026**
3,920,209	**2,631,013**	**4,463,076**	**2,672,501**	**Total Assets**	**6,778,386**	**3,808,082**	**7,487,943**	**4,483,798**
				LIABILITIES AND NET WORTH				
				Current liabilities				
7,201	4,833	74	523	Accounts/Interest payable	29,332	6,479	47,692	28,558
14,186	9,521	24,491	14,665	Tax payable	132,789	74,601		
21,387	**14,354**	**25,365**	**15,189**	**Total current liabilities**	**162,121**	**91,079**	**47,692**	**28,558**
				Long term liabilities				
28,190	18,919	32,821	19,653	Long term debt	2,075,937	1,166,257	2,626,473	1,572,738
28,190	**18,919**	**32,821**	**19,653**	**Total long term liabilities**	**2,075,937**	**1,166,257**	**2,626,473**	**1,572,738**
				Net worth				
3,671,370	2,464,007	3,671,370	2,198,425	Share capital	3,671,370	2,062,567	3,671,370	2,198,425
		501,000	300,000	Grants and donations	507,540	285,135	538,182	322,265
16,789	11,268	199,262	119,319	Retained net surplus/(deficit)	232,520	130,629	361,419	216,419
182,473	122,465	33,258	19,915	Current net surplus/(deficit)	128,898	72,415	242,807	145,393
3,870,632	**2,597,740**	**4,404,890**	**,637,659**	**Total net worth**	**4,540,328**	**2,550,746**	**4,813,778**	**2,882,502**
3,920,209	**2,631,013**	**4,463,076**	**2,672,501**	**Total Liabilities and Net Worth**	**6,778,386**	**3,808,082**	**7,487,943**	**4,483,798**

Income Statements for the period

31-Dec-08		31-Dec-09			31-Dec-10		31-Dec-11 (un-audited)	
GEL	**US$**	**GEL**	**US$**	**Income**	**GEL**	**US$**	**GEL**	**US$**
722,736	485,058	918,582	550,049	Interest on loans	1,248,264	701,272	1,597,619	945,336
74,684	50,123	81,069	48,544	Fees and commissions	153,324	86,137	157,404	93,139
24,169	16,221	35,308	21,143	Penalty on overdue loans	29,166	16,385	65,846	38,962
	-		-	Other income	16,168	9,083	2,757	1,631
821,589	**551,402**	**1,034,959**	**619,736**	**Total operational income**	**1,446,922**	**812,878**	**1,823,625**	**1,079,068**
				Financial costs				
3,978	2,670	4,631	2,773	Interest and fee expenses	30,277	17,010	78,421	46,403
(73,761)	(49,504)	(19,534)	(11,697)	Foreign Exchange loss/(gain)	(183,021)	(102,821)	215,366	127,436
891,372	**598,236**	**1,049,862**	**628,660**	**Gross financial margin**	**1,599,666**	**898,689**	**1,529,838**	**905,230**
74,792	50,196	278,117	166,537	Provision for loan losses	365,444	205,306	48,762	28,853
816,580	**548,040**	**771,745**	**462,123**	**Net financial margin**	**1,234,222**	**693,383**	**1,481,076**	**876,376**
				Operating expenses				
411,673	276,291	529,896	317,303	Personnel Cost	535,936	301,088	851,136	503,631
10,825	7,265	10,800	6,467	Rent	16,461	9,248		-
47,886	32,138	51,406	30,782	Fuel expenses	70,945	39,857		-
16,074	10,788	13,999	8,383	Communication expenses	16,170	9,084		-
35,819	24,040	35,061	20,995	Depreciation	51,810	29,107	59,835	35,405
64,379	43,207	64,600	38,683	Administrative expenses	111,922	62,878	261,812	154,918
586,656	**393,729**	**705,762**	**422,612**	**Total Operating expenses**	**803,244**	**451,261**	**1,172,783**	**693,955**
229,924	**154,311**	**65,983**	**39,511**	**Net Surplus/Deficit (Before tax)**	**430,978**	**242,122**	**308,293**	**182,422**
47,451	31,846	32,725	19,596	Taxes	302,080	169,708	65,486	38,749
182,473	**122,465**	**33,258**	**19,915**	**Net Surplus/Deficit (after tax)**	**128,898**	**72,415**	**242,807**	**143,673**

Annex

List of Supervisory Board &
Executive Committee
M-CRIL rating grades
Abbreviations & Glossary

Profile of the Supervisory Board and Executive Committee

S.No	Supervisory Board	Experience	Associated with FinAgro
1	George Chonishvili Chairman	Has over 28 years experience in top level management positions in different organizations. Has been associated with FinAgro since the beginning. He is the CEO of Georgian Rural Development Fund.	Since inception
2	Omar Dgebuadze Member	Has around two decades of experience in agriculture and allied activities. He is a leading Lawyer in Georgia and owns some agri-businesses.	Since Inception
3	Lasha Shashiashvili Member	Has more than 15 years experience in agriculture and small and medium enterprises. He is one of the biggest farmers in the country	Since Inception
	Executive Committee		
1	Ivane Ardemanashvili General Director	Has three and half decades of experience in managing various projects. He joined Finagro as an Assistant Manager in 2000, became Gori Branch Manager in 2006 and General Director in 2008.	Since Inception
2	Emzar Nanoshvili Financial Director	Has over 30 years experience in financial services sector. Holds a Master's Degree in Finance. He was financial manager in GRDF before FinAgro was founded.	Since Inception
3	Imeda Kajrishvili Tsnori BD	Imeda graduated from Georgian State University. Has 11 years experience in FinAgro. He worked as a Credit Officer for 4 years and became the Branch Director in 2011.	Since Inception
4	Levan Bodaveli Telavi BD	Levan Bodaveli has 20 years experience in the agricultural and micro and small enterprise sector. He is Telavi's Branch Director.	Since Inception
5	Nodar Kiknadze Marneuli BD	Nodar has more than 35 years experience of working at top and middle level management positions in different organizations. He earlier worked with GRDF.	Since Inception
6	David Chikhladze Zestafoni BD	David has more than 12 years experience as a lawyer in different organizations including GRDF.	Since Inception

M-CRIL rating grades

M-CRIL Grade	Description
α+	Strong governance, excellent systems and healthy financial position. Without a foreseeable risk ➢ Most highly recommended
α	Good governance, excellent/good systems, healthy financial position ➢ Highly recommended
α–	Good governance, good systems and good financial performance; Low risk, can handle large volumes ➢ Recommended
β+	Reasonable performance, reasonable systems. Reasonable safety but may not be able to bear an adverse external environment and much larger scale ➢ recommended, needs monitoring
β	Moderate systems. Low safety ➢ acceptable only after improvements are made on specified areas
β–	Weak governance, weak systems. Significant risk ➢ not acceptable but can be considered after significant improvements
γ+	Weak governance, poor quality systems. High risk ➢ needs considerable improvement
γ	Weak governance, poor systems, weak financial position. Highest risk ➢ not worth considering

In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution will lower its rating performance by one notch in one year period.

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
OER	Operating Expenses Ratio
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

Glossary

1. <u>Capital adequacy ratio: Total net worth divided by risk weighted assets (</u>*M-CRIL Risk weights:* 100% for all assets except the following: fixed assets: 50%; cash & bank 0%)
2. <u>Portfolio at risk (PAR (>60days)</u>: Ratio of the principal balance outstanding on all loans with overdue greater than or equal to 60 days to the total loans outstanding on a given date.
3. <u>Yield on portfolio</u>: The interest income on loans divided by the average loan portfolio for the year.
4. <u>Other income to average portfolio</u>: Total income other than from the interest on loans divided by average portfolio.
5. <u>Financial cost ratio</u>: Total interest expense for the year divided by the average portfolio.
6. <u>Loan loss provisioning ratio</u>: Total loan loss provisioning expense for the year divided by the average portfolio.
7. <u>Operating expense ratio</u>: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio.
8. <u>Net operating margin</u>: 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. <u>Staff turnover rate: </u>Total staff left/ Staff at the beginning of the year+ Staff joined during the year