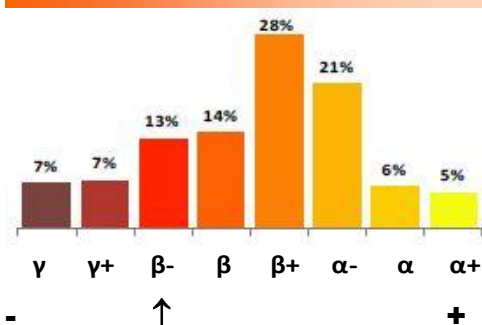


β-

Good microcredit methodology except for individual lending. Very good portfolio quality. Weak internal controls.

Financial Sub-Rating¹
 Future Rating Outlook
 Social Rating

β-
 Uncertain
 ★★★★★²



Date of Visit	Feb-09
Previous Rating	n.a
Date of Previous Rating	n.a.
Number of MicroRate Ratings	1 st

Principal Performance Indicators

	Dec-06	Dec-07	Dec-08
Gross Loan Portfolio*	\$1,474	\$2,744	\$5,565
Number of Borrowers	21,267	31,705	69,237
Number of Savers	25,378	35,553	74,722
ROE**	-31%	-25%	-9%
Portfolio Yield	40%	43.7%	47.1%
Portfolio at Risk	n.a.	n.a.	1.1%
Operating Expenses	63.2%	54.2%	37.4%
Average Loan Size	\$70	\$87	\$80
Borrowers per Staff	174	198	306

*(‘000\$) / ** Adjusted

¹ See Annex

² See Social Report May-09

Summary Description

The Development Exchange Center - a Nigerian NGO - started Microfinance Operations in 1990. Based in Northern Nigeria, DEC now serves close to 70,000 borrowers with an average loan of \$80 (December 2008), through a large network of 42 branches throughout 10 of the 36 Nigerian States.

Rating Rationale

DEC is a fast growing MFI in northern Nigeria, operating in a mostly rural environment. With a satisfactory group methodology, DEC is facing little competition from other financial institutions. The MFI recently started individual lending but in our opinion, the methodology is weak. Portfolio monitoring was found to be good, which is reflected in the good portfolio quality reported by Management. MicroRate however notes that the loan tracking system is manual and hence prone to errors.

Growth, combined with the decentralization of operations, has helped diluting operating expenses. In 2008, the MFI reported a positive net income, allowing the MFI to break-even for the first time. In real terms, and after adjustments, the MFI's net operating margin was positive. Liquidity levels have been shrinking quite rapidly and the MFI is faced with the challenge to contract further funding should it wish to sustain its very high growth rate.

At the organizational level there are gaps at both top and middle management. Although senior managers are very committed, the weak organizational structure risks being overwhelmed by fast growth. Whilst improvements have been made, MicroRate notes there is further room to improve training; nobly for field staff. Controls are weak and the MIS system is not yet operational.

At the Board level there are no systematic risk management policies in place. For an unregulated institution which on-lends client's savings on a large scale, a more sophisticated board structure and comprehensive risk management framework would be desirable.

Strengths

- + Strong growth with significant savings mobilization
- + Committed management team
- + Huge potential market, low competition
- + Good portfolio quality

Risk Factors

- DEC, a non-supervised NGO, uses client deposits to fund its operations
- Weak organizational structure that risks being overwhelmed by fast growth
- Weak Internal Controls and Accounting Capacity
- Gaps remain at Senior Management level

ANNEX

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

Financial Sub-rating

- Using the same rating scale described above, Microrate's Financial Sub-rating measures the MFIs financial health based on its financial structure, profitability, operating margins and financial risk management.
- Whereas the MFIs Performance Rating indicates the overall excellence of its microfinance operations, the Financial Sub-rating is only concerned with the financial condition of [the MFI. As such, the latter allows investors to differentiate MFIs along purely financial criteria.
- The Financial Sub-rating is an integral consideration of the Rating Committee's assignment of the Performance Rating.

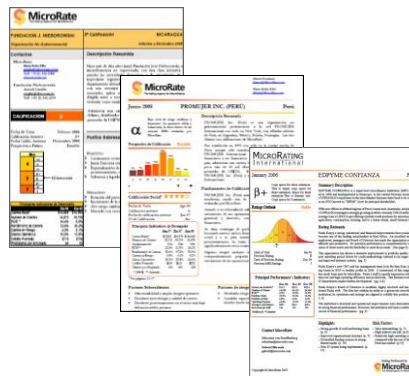
Interested in the full report?

The full Performance Rating includes detailed information on the following:

- Context
- Financial Situation
- Microcredit Operations
- Portfolio Quality
- Organization and Management
- Governance and Strategic Positioning

This performance report is available for purchase. If you are interested in purchasing a report, please contact MicroRate at 1-703-243-5340 or email info@microrate.com.

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