SEAP - First Rating

Non Governmental Organization NGO

Nigeria

Report as of August 2007

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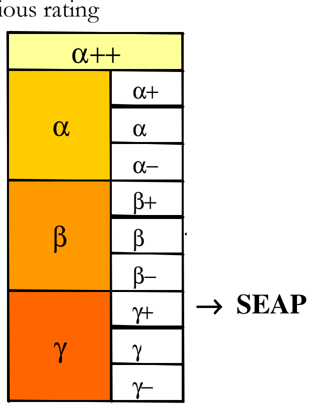
PERFORMANCE RATING γ+

Date of visit	**August 2007**
Date of previous rating	n.a.
Previous rating	n.a.



Main Performance Indicators

	Dec-05	Dec-06
Gross Portfolio (US$ '000)	301	414
Number of active borrowers	5,127	5,820
ROE	117.0%	55.2%
Portfolio Yield	61.2%	59.5%
Portfolio at Risk$_{30}$	0.9%	1.0%
Operating Expense Ratio	59.8%	61.1%
Average o/s loan size (US$)	59	71
Borrowers per staff	81	72

Synopsis

Self-Reliance Economic Advancement Programme-SEAP is a microfinance NGO established in 1998 but formally registered in 2000.

Mainly focused on a group methodology, SEAP manages a $414,000 gross portfolio and almost 6,000 clients, operating within the central-western region of Nigeria.

Decreasing margins over the years due to increasing operating costs; reduction in portfolio yield resulting from competition and decreasing capital base are major concerns. Going forward, sustainability of operations will depend on the institution's ability to finance growth and improve operational efficiency.

Highlights

POSITIVE

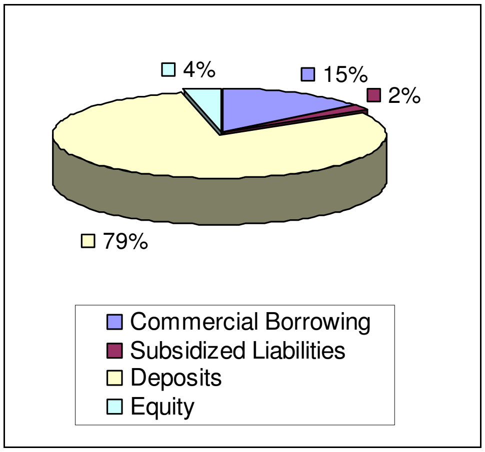
- Good portfolio quality
- Introduction of new diversified loan products

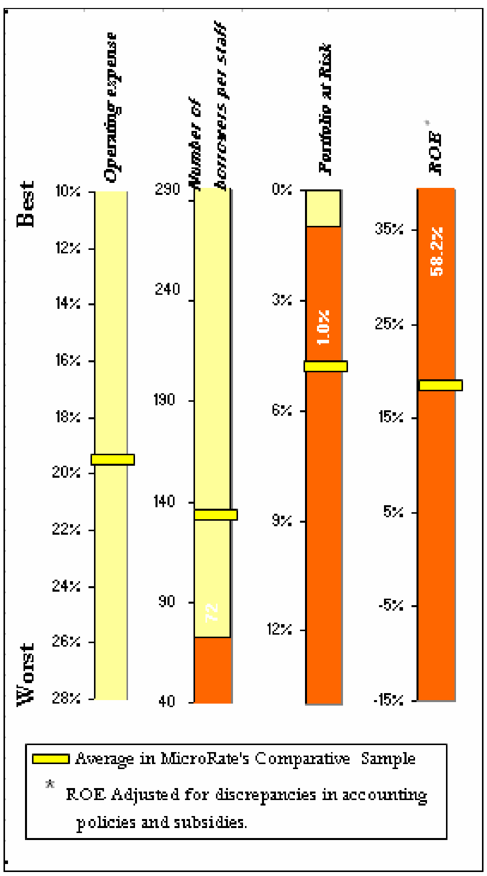
NEGATIVE

- Inappropriate legal form for saving collection
- Weak accounts and MIS
- Funding constraints
- Increasing operating costs
- Declining margins and capital base
- Limited technical support of Board Members

SEAP	NIGERIA	December 2006

Sources of Funding





The operating expense ratio and ROE compared to all African MFIs rated by MicroRate with average loan size less than US$500.

Rating Rationale

Good portfolio quality – Given that the majority of portfolio is comprised of group loans, the portfolio at risk was low at 1.0%. Even the individual loan products introduced from January 2007 had 100% recovery rate till the time of rating visit.

Legal form – The present scale of operations and high dependence on savings warrant SEAP to change its legal form to microfinance bank. However, decreasing efficiencies, margins and capital base is likely to act as a bottleneck in mobilising adequate equity for the same.

Weak accounts and MIS – The organisation has manual accounting and management information system. The system is inflexible and prone to errors. Reporting is time consuming. Tracking of historical information is tedious. The level of data analysis is basic and needs considerable improvements.

Declining Margins – The margins have decreased on account of increasing operational expense ratio. The yield on portfolio is expected to decline due to competitive pressures. Unless the trend of declining efficiencies is reversed, the organisation is likely to make negative results in the near future.

Declining capital base – The debt to equity ratio has increased over the years and was at 26 times as at 2006. This indicates decreasing capital base due to unexplained dip in retained earnings, which can be either on account of operational losses or portfolio write offs.

Funding constraint – Portfolio growth rates have been limited due to limited access to funds. Delays in disbursement to clients have resulted in client desertion.

Limited technical support of Board Directors – SEAP does not have members with experience in finance/banking/microfinance. The Board though aware of institutional vision, seemed less aware of the challenges and risks facing the organisation.