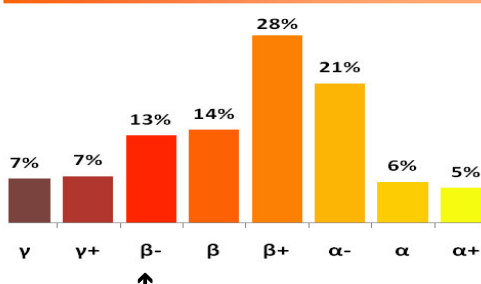


June 2008  
 3<sup>rd</sup> MicroRate Rating

**WISDOM Micro Financing s.c.**
**Ethiopia**
**β-**

Moderate level of credit and financial risk. Very good asset quality and increasing efficiency.

**Future Outlook: Stable**

**Social Perspective:**


Date of visit	September 2008
Date of Previous Rating	September 2004
Previous Rating	γ+
Number of MicroRate Ratings	3

**Principal Performance Indicators**

	Jun-07*	Sep-07	Jun-08**
Gross Portfolio (000 \$)	\$6,334	\$6,528	\$8,349
Total Deposits (000 \$)	\$1,592	\$1,649	\$2,014
Number of Borrowers	49,915	47,171	56,140
ROE***	-0.8%	-10.4%	-12.6%
Portfolio Yield	24.9%	23.6%	22.6%
Portfolio at Risk	1.9%	2.7%	3.1%
Operating Expenses	19.4%	19.4%	17.8%
Average Loan Size	\$138	\$138	\$149
Borrowers per Staff	129	125	133

\* 9 months-period: all relevant ratios were annualized.

\*\* Accumulated

\*\*\* Adjusted.

**Summary**

WISDOM Micro Financing Institution S.C (“WISDOM”) started operations in 1998 as a spin-off of World Vision. The institution is registered as a company limited by shares, the majority of which are owned by World Vision Ethiopia employees. Initially focused on Village Banking operations, which account for 82% of the portfolio in July 2008, the MFI introduced individual lending in 2004. Access to funding as well as striking inflation are WISDOM’s main challenges. The institution operates through its 37 branches and 14 special branches and services approximately 56,000 clients, of whom 64% are women.

**Rating Rationale**

Low yields, combined with increasing pressure of inflation have not allowed WISDOM to overcome its loss-making position. Whilst this requires immediate attention, MicroRate notes the MFI is also faced with the challenge to mobilize cheap funding sources. Its low level of indebtedness leaves room to increase debt funding.

The lack of funding has indeed largely limited growth in the past years. Concentration in agriculture loans has increased, which exposes the MFI to a major risk in case of natural disaster such as drought. It is however noted that the MFI has made great improvements to diversify its product offer. Methodologies are acceptable but there is room for improvement. Portfolio quality has improved. However, MicroRate is concerned about the recent negative trend as well as the very low provision level.

Senior management is strong and all have adequate professional background and experience. This will greatly contribute to strengthen various areas such as controls and operational planning. Middle management, however, is weak and needs to be strengthened.

An important weakness of WISDOM is the MIS system, which is reaching the limits of its capacity. The lack of responsiveness of the board, notably towards the inflation and the lack of funding is another area of concern. It will thus be important, in the future, to bring more specialized skills at board level to deal with such issues in a timely manner.

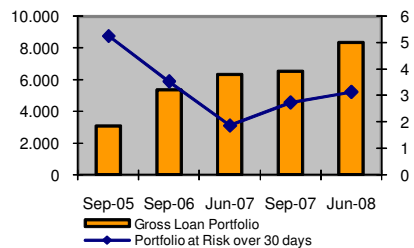
**Strengths**

- Good quality of loan portfolio
- Strong Senior Management
- High levels of efficiency
- Sustained growth levels

**Weaknesses**

- Concentration risk in agriculture loans
- Lack of funding
- Weak MIS
- Lack of responsiveness at governance level
- Weak internal controls
- No systematic risk management framework

**GENERAL SUMMARY**

WISDOM Micro Financing s.c.			MicroRate Sample		Gross Loan Portfolio vs Portfolio at Risk	
	Jun-08	Quartile	1st Quartile*	Average	Gross Loan Portfolio ('000s)	Portfolio at Risk (%)
ROE**	-12,6%	4th	n.a.	7.0%		
Portfolio at Risk (over 30 days)	3,1%	2nd	1.0%	4.3%		
Operating Expenses	17,8%	1st	21.1%	38.5%		
Number of borrowers per staff	133	1st	115	162		
	Jun-08		Average			
Gross Loan Portfolio	\$8.349		\$18.823			
Number of Borrowers	56.140		54.139			
Average Loan Balance (per borrower)	\$149		\$385			

\*Lower limit of the 1st quartile.

\*\*Adjusted.

**Financial Situation (pg. 4)**

Taking inflation into account, WISDOM is in a loss-making position. Low yields make it difficult for WISDOM to report positive margins, despite its high level of efficiency. As a result of legal constraints, affecting the MFI's ability to access international funding sources, WISDOM has much relied on donated equity, resulting in a low level of indebtedness. Liquidity levels are low and lack of funding has led the MFI to suspend the disbursements of new loans. The major challenge facing WISDOM's financial position is the inflationary situation, which is likely to put further pressure on margins.

**Microfinance Operations and Portfolio Quality (pg. 5)**

Given the huge potential market, WISDOM's growth has been quite conservative, notably due to the lack of funding. Both methodologies, for group and individual loans are acceptable but there is room for refinement. WISDOM has successfully started to diversify its product offer but operations remain concentrated in agriculture, which exposes the MFI to a major risk in case of natural disaster such as drought.

WISDOM has come a long way to improve portfolio at risk. This being said, MicroRate is concerned about the negative trend since crops have not been good and since inflation reared its ugly head, affecting clients ability to repay loans. Provisions are very low and do not allow to properly cover the risk. This is reinforced by the high concentration in agriculture loans. The MFI has a good write-off policy and it is good to see that WISDOM does not refinance loans.

**Organization and Management (pg. 8)**

WISDOM's organization has been strengthened and new departments have been launched. Whilst the MFI can rely on its strong management to grow in the future, its middle management is weak. This is more of a concern since the MFI has started to decentralize operations, thereby ensuring to maintain efficiency levels meanwhile expanding the network. The MFI indeed remains highly efficient, with adequate productivity levels. Internal controls have improved but the department is highly understaffed. Finally, WISDOM's MIS is obsolete and limits the MFI to mobilize deposits in safe way.

**Governance and Strategic Positioning (pg. 10)**

WISDOM is characterized by a concentrated ownership at the level of World Vision Ethiopia ("WVE"). As a result, majority of the board is composed of WVE staff, with little exposure to Microfinance. The lack of more specialized skills (i.e.: banking) somehow limits the board's ability to take timely decisions in extraordinary situations such as inflation. WISDOM positions itself on a very well identified niche, in line with World Vision's strategy.

**Social Perspective (pg. 11)**

WISDOM successfully fulfills its mission by serving the poorest microcredit niche in Ethiopia and increasing outreach through geographic expansion.

The MFI's social objectives have historically been placed at the center of its institutional strategy, have been instilled to clients as well as staff and are reflected into its processes. The strong presence of World Vision on the Board and its strategy to focus on WV Area Development Programs minimizes the risk that the institution loses sight of its developmental goals.