Summary Description

Eagle Eye Youth Empowerment Initiative (Eagle Eye) is an NGO that commenced operations in 2012, in Lagos, Nigeria. It provides microcredit using the village banking methodology. It covers one state of Nigeria with a network of seven branches.

As of March 2014, the MFI serves 6,041 borrowers with a portfolio of US$833,000, and an average loan size of US$138. Eagle Eye has a total of US$289,000 in client savings deposits.

Rating Rationale

After only two years of operations Eagle Eye is characterized by a strong methodology, excellent portfolio quality, and high profitability. This is a remarkable achievement. However, tight liquidity and a very narrow equity base could limit future growth.

Tight liquidity has recently prevented the MFI from extending new loans to old clients. This removes an important incentive for punctual loan repayment and could eventually affect portfolio quality. There is no exchange and interest rate risk. Eagle Eye uses mandatory and voluntary savings from borrowers to fund the greater part of its loan portfolio. Although this is not illegal in Nigeria, it is considered bad practice, since it exposes savers to risks they are not aware of.

The organization is strong and it shows high efficiency and productivity. Internal controls are strong and the manual information system is well run. The institution would benefit from a strengthened board with more microfinance experience and greater independence from the top management team.

Highlights

Strengths
+ Strong credit methodology and excellent portfolio quality
+ Extremely profitable
+ Clear positioning

Risk Factors
- Low equity resulting in high leverage
- Low liquidity
- Mandatory savings as an important source of financing
## ANNEX I: Microfinance Institutional Rating Grade Definitions

<table>
<thead>
<tr>
<th>Microfinance Institutional Rating</th>
<th>The Microfinance Institutional Rating (MIR) provides an opinion on the long-term institutional sustainability and creditworthiness of a microfinance institution (MFI) through a comprehensive assessment of risks and performance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \alpha^+ )</td>
<td>Financial Institutions with <strong>high long term sustainability</strong> and <strong>high creditworthiness</strong>.</td>
</tr>
<tr>
<td>( \alpha^- )</td>
<td>Excellent performance. Low or well managed short- medium term risk.</td>
</tr>
<tr>
<td>( \beta^+ )</td>
<td>Financial institutions with <strong>good long term sustainability</strong> and <strong>good creditworthiness</strong>.</td>
</tr>
<tr>
<td>( \beta^- )</td>
<td>Good performance. Modest or well-managed short- medium term risk.</td>
</tr>
<tr>
<td>( \gamma^+ )</td>
<td>Financial institutions with <strong>weak long term sustainability</strong> and <strong>poor creditworthiness</strong>.</td>
</tr>
<tr>
<td>( \gamma^- )</td>
<td>Weak or poor performance. High to very high risk.</td>
</tr>
</tbody>
</table>

### Financial Profile Rating

Opinion about the financial strength of the institution and the ability to repay their obligations. The rating grade uses the same \( \alpha, \beta, \gamma \) rating scale as the MIR:

- **Alpha Plus/Alpha** (\( \alpha^+, \alpha^- \)) - Exceptional financial strength
- **Alpha Minus/Beta Plus** (\( \alpha^-, \beta^+ \)) - Good Financial Strength
- **Beta/Beta Minus** (\( \beta, \beta^- \)) - Moderate Financial Strength
- **Gamma Plus/ Gamma** (\( \gamma^+, \gamma^- \)) - Poor Financial Strength.

### Rating Outlook

Expected direction of the rating grade over the 12 months following the rating.

- **Positive** - The rating is expected to increase.
- **Stable** - The rating is expected to remain unchanged.
- **Negative** - The rating is not expected to remain unchanged.
- **Uncertain** - Due to unpredictable factors, a rating outlook cannot be determined.