

ADA Annual Report 2006

Foreword by the Chairman

While the 2005 International Year of Microcredit, gave a real boost to the microfinance sector, 2006 has confirmed this progress and the global success of this unique poverty-reduction tool, which continues its growth in developing countries.

In step with this evolution, ADA strengthened its position as a recognised actor in the microfinance sector, both nationally and internationally.

The association's activities in southern countries experienced strong growth throughout 2006. Our goal was to enhance independence, transparency, professionalism and growth in our partner Microfinance Institutions (MFIs). In order to accomplish this, most of our actions focused on work in the field.

Throughout the year, our team, assisted by partners in Africa, Asia and Latin America, set up training workshops attended by more than fifty MFIs providing financial services to hundreds of thousands of microentrepreneurs.

In terms of research and innovation, the life microinsurance product, launched in 2005 through a pilot programme, was expanded: it now reaches over 65,000 microentrepreneurs in five countries in West Africa.

Similarly, financial support for MFIs through the LUXMINT programme continued to grow in Africa. The continent now represents 39% of total investments in MFIs.

A highlight of 2006 was ADA's participation in the creation of LuxFLAG (Luxembourg Fund Labelling Agency) in July. This organisation is responsible for granting a "microfinance" fund label to applicants fulfilling a certain number of criteria in terms of investments in the sector. Since its creation, LuxFLAG has certified three microfinance funds. In joining this initiative ADA took the opportunity to share its skills, to assist this mechanism which links MFIs to capital markets.

ADA's field work was not confined to southern countries alone. The organisation also expanded its awareness activities with a view to promoting the microfinance sector in the Grand Duchy. The concept of "Midis de la microfinance", or midday microfinance conferences, which was launched in March, has met with a success greatly exceeding our expectations in terms of attendance, in total more than 250 people joined the four sessions held. The seminars are planned to resume in autumn 2007.

As further evidence of the growing widespread interest in microfinance issues, visits to all three Websites designed and run by ADA to provide open access to specialised microfinance information (www.microfinance.lu, www.lamicrofinance.org and www.microinsurancefocus.org) have experienced strong growth, with an increase of 90% in 2006 as compared to 2005. Taken together, the three sites now receive nearly 30,000 visits per month.

The authorities in Luxembourg demonstrated particular interest for the microfinance sector in 2006. In November, an ADA delegation accompanied the Minister of Development Cooperation, Jean-Louis Schiltz, to Ethiopia for an official visit that confirmed the impressive development of microfinance institutions as well as their positive impact on the social and economic development of disadvantaged populations.

With the signing of a cooperation mandate for the next five years with the Cooperation Department of the Ministry of Foreign Affairs, our association has committed to pursue its efforts to implement projects which, we hope, will help ensure that the future of microfinance continues to be as promising as the year 2006 has been.

Philippe Fitzpatrick Onimus, Chairman

Microfinance: Our Vision

Microfinance is an efficient tool in the fight against poverty so long as its fundamental principles are respected. The professionalism and independence of microfinance institutions in developing countries is enhanced through funding and innovation, allowing the frontiers of microfinance to be pushed back for the benefit of vulnerable populations.

ADA's Approach to Microfinance

The concept of independence is, without a doubt, ADA's "leitmotif". Independence means empowerment of the microfinance institutions with which ADA works, but also for the microentrepreneurs who are the ultimate beneficiaries. ADA works in three key areas: Strengthening the management of Microfinance Institutions; developing innovative microfinance products; and managing a resource centre which is recognised across Europe.

Where are ADA's Activities based?

ADA collaborates directly with more than 20 Microfinance Institutions in the following countries: Burkina Faso, Mali, Senegal, Togo, Benin, Ethiopia, Peru, Bolivia, Nicaragua, Argentina, Ecuador, Cambodia and, in the near future, Vietnam. ADA also works with microfinance associations and networks in several countries.

Viability: Strengthening Institutional Management

Viability in microfinance rests on two pillars: provision of sustainable financial services to vulnerable populations, and professional and accountable management of Microfinance Institutions. ADA's activities in the area of strengthening institutional management focus on improving the performance and transparency of Microfinance Institutions and increasing their access to financial resources. Services offered include workshop organisation, publishing technical documents and managing support programmes specifically aimed at Microfinance Institutions.

Training Workshops

Financial Performance Indicators for Microfinance Institutions

This workshop, which has been developed over many years by ADA, is designed to raise awareness among Microfinance Institutions (MFIs) on the use of key indicators in performance monitoring. This involves applying generally accepted microfinance ratios to participants' data and reviewing and interpreting what the results indicate for the MFI's portfolio quality, their efficiency and productivity, and their financial management and profitability.

In 2006, ADA organised two sub-regional workshops. The first was held in Brazzaville, Congo, with 21 Microfinance Institution participants from Chad, Cameroon, Congo, Rwanda, the DRC, the Central African Republic and Burundi. A second workshop was held in Mombasa, Kenya, in collaboration with the Kenyan consultants K-Rep Services, and brought together 19 Microfinance Institutions from Uganda, Tanzania, Ethiopia, Zimbabwe and Kenya.

Performance Indicators in Microinsurance

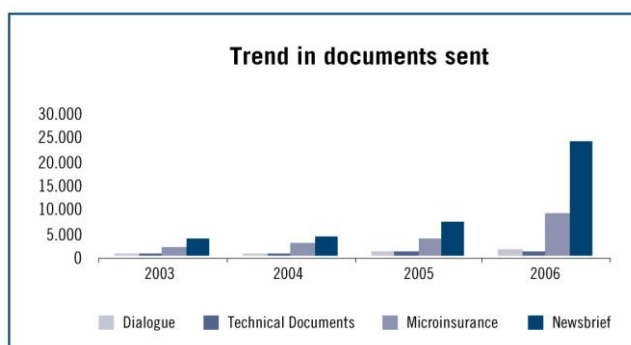
Key Activities in 2006

ADA organised the first workshop on performance indicators in micro-insurance in collaboration with BRS (Raiffeisan Foundation Belgium) and the CGAP Working Group on Microinsurance. The aim of this initiative was to strengthen awareness about performance analysis and risk management, and to arrive at a consensus on performance indicators for the microinsurance industry.

More than 20 microinsurance agencies from Africa, Latin America and Asia shared their data and discussed a set of key indicators. Ten key indicators were agreed upon and have been published in a summary note in English, French, and Spanish.

Publications

Production and dissemination of publications and technical documents aimed at Microfinance Institutions encourage promotion of good practices and exchanges on recent experiences. Publications are disseminated through a mailing list or on request. In 2006, ADA sent out more than 38,000 publications.



In 2006, ADA published:

- 11 issues of the information newsletter Newsbrief, published in English, French, and Spanish;
- 3 documents on Microinsurance for the CGAP Working Group on Microinsurance in English, French and Spanish;

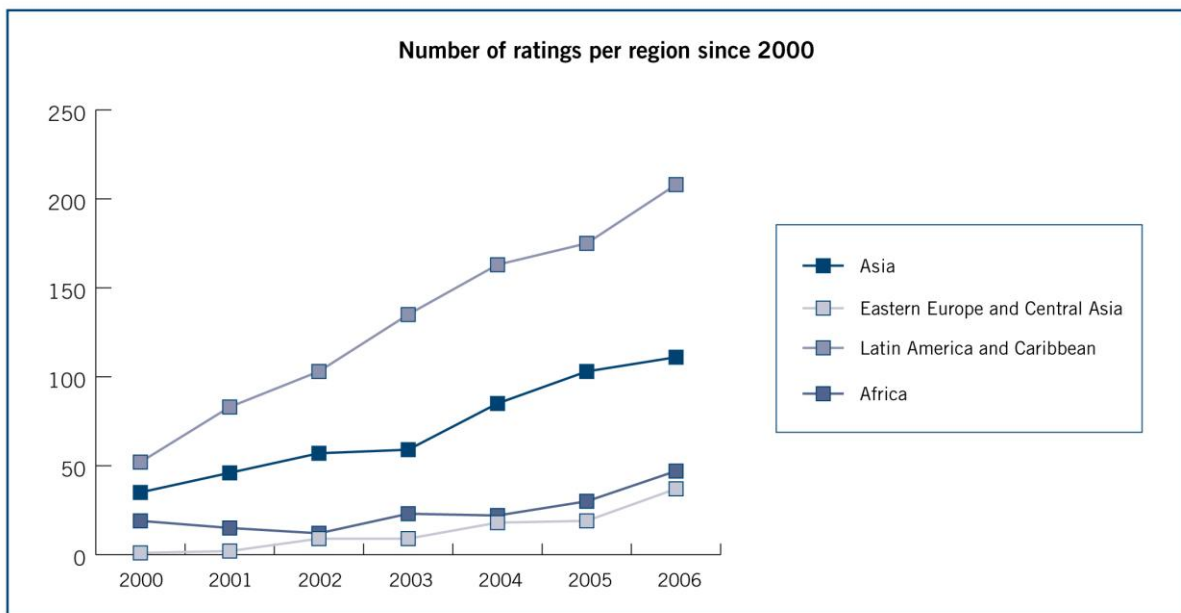
- A special European edition of the Dialogue publication on the 'Role of Research in Microfinance' for the e-MFP Working Group on Research, in both English and French;
- In collaboration with CHF (Cooperative Housing Foundation International) ADA produced a French version of their 'So, You Want to Do Housing Microfinance? A Guide for Incorporating a Home Improvement Loan Program into a Microfinance Institution'.

Support Programmes

The Microfinance Rating and Assessment Fund

The aim of the Rating Fund is to promote the sector's financial transparency through the production and dissemination of reliable, comprehensive and high-quality data on the risks and performance of Microfinance Institutions. It is further designed to promote the development of a viable rating service market. To this end, the Rating Fund offers partial funding for eligible Microfinance Institutions to undergo a performance evaluation or 'rating' with a professional rating agency. This provides a means of exchanging information and raising awareness for the Microfinance Institutions and donors, as well as local and international investors and legislators.

Since 2005, ADA has been in charge of administering and promoting the Rating Fund on behalf of CGAP and the European Union around the world with the exception of Latin America.



Key Activities in 2006

ADA approved the co-funding of 72 rating missions worth more than USD 530,000. In order to raise awareness, ADA organised 4 workshops (Senegal, China, Congo Brazzaville and Kenya) and participated in regional conferences and training courses. Within the framework of the Rating Fund, ADA contributed to the organisation of the Third Microfinance Rater's Forum in Quito, Ecuador, which allowed leading rating experts to update participants on the developments and market views of performance evaluations in different regions.

The African Forum for Performance Evaluation of Microfinance Institutions

The aim of this Forum was to develop the MFI performance evaluation and rating market in Africa. The Forum brought together the first African Microfinance Institutions to undergo performance evaluations with rating agencies operating on the continent. This offered a platform for discussion and exchange between rating agencies and pioneering Microfinance Institutions regarding external evaluations. The Forum hopes to establish this meeting as a regular event, open to all Microfinance Institutions that have been evaluated.

Since 2004, ADA has been responsible for co-ordinating the African Forum for Performance Evaluation of Microfinance Institutions.

The Information Systems Fund

This fund is designed to help Microfinance Institutions identify, choose, install and maintain their management information systems to improve their operations and foster a market for expert advice.

To achieve this, the IS Fund offers to co-fund consultancy missions to evaluate, select, set up, maintain or optimise suitable information systems for a Microfinance Institution.

ADA has been in charge of the administration and promotion of the IS Fund on behalf of CGAP since mid-August 2006. Synergies were developed between the IS Fund and the Rating Fund in terms of promotion during the activities of the Ratings Fund, as both programmes are designed to increase transparency in the sector.

Innovation: Development of New Financial Products

For several years, ADA has been interested in developing products and financial services that are complementary to microfinance credit and savings.. Applied research projects have been set up with partner Microfinance Institutions. The goal of these experimental projects is not only to allow the Microfinance Institutions to offer their clients a wider choice of profitable products tailored to their needs, but also to capitalise on and strengthen these MFIs by increasing the volume of business.

From a methodological standpoint, each new product is identified and tested within a limited perimeter before being replicated on a larger scale. Generally, the experimental phase is initially financed by ADA in the form of grants to MFI partners and takes account of the risks during the experimental phase and the operational launch, Subsequently, the Microfinance Institutions become progressively responsible for costs.

Identification → Applied Research → Capitalisation → Replication

New Innovative Microfinance Products

In 2006, ADA was involved in 2 pilot projects, the first examining the **integration of young artisans** into the Senegalese labour market through microfinance: *how to achieve a good balance between financial support (start-up funds) and non-financial support (monitoring and training) to offer sustainable help to a young person who has just left a training school to set up his/her own business.* The other project consists of exploring ways to help ensure more productive use of **remittances** sent regularly by West African migrants settled in northern countries: *what new savings and loan products could MFIs set up in order to capitalise and get a better return on a portion of remittances, which are usually completely used by the families of the migrants for daily necessities?*

2006 Highlights

Integration of Young Artisans

- Product redesign workshop based on initial experiences conducted in Senegal with the participation of the first groups of young people financed and set up in business.

Remittance Savings

- Inventory of remittance products.
- Choice of a solution, such as prepaid cards for making electronic micropayments.
- Preparation of an experimental phase to be carried out in 2007 with Senegalese and Burkina Faso migrants' associations in Northern Italy.

A third applied research project is the development of microinsurance products initially launched in West Africa, which has entered the replication phase in five West African countries with a specific product known as the credit coverage scheme. This initial microinsurance product offers automatic life insurance coverage to all borrowers in the network of six large savings and loan cooperatives based in West Africa linked to the CIF (Centre d'Innovation Financière, Burkina Faso). The coverage offers twofold protection: extinction of the debt or its remaining balance in the event of the borrower's death and a lump-sum payment of €150 to the family of the deceased to help cover funeral expenses and in general assist the family. This group insurance product is mandatory for all individual borrowers; their premium is paid in one instalment when the loan is issued.

2006 Highlights

Microinsurance

Principal indicators of the credit coverage scheme as at the end of December 2006

- Replication of the product in 5 countries: Benin, Burkina Faso, Mali, Senegal and Togo
- Loans insured/Number of individual borrowers: 64,826
- Volume of loans insured: €56.8 million
- Amount of actuarial reserves set up: €783,814

THE RESOURCE CENTER

The transfer of competencies is a key element in helping Microfinance Institutions gain independence. For this reason, ADA attaches great importance to microfinance sector research, analysis and monitoring. Through its Resource Center, ADA offers information and advisory services to Microfinance Institutions and other actors involved in this area of development.

Internet Sites

www.microfinance.lu

Results in 2006: 5700 visitors monthly (93% increase in one year).

Managed by ADA, this internet site is a microfinance gateway that not only covers ADA's activities but also gives access to a number of microfinance links and expert resources. One feature of the site is its bibliography of more than 2,000 works on microfinance, which are available for consultation in ADA's library.

www.lamicrofinance.org

Results in 2006: 14,700 monthly visitors (96% increase in one year)

This French-language Microfinance Gateway was set up by CGAP, GRET and ADA, and covers topics of interest as well as microfinance challenges for Francophone countries. The main features of the site include:

- A virtual library of more than 800 works and articles in French on microfinance;
- Ten focus areas including information systems, savings, microinsurance, etc.
- Country profiles presenting important information on the sector and its principal actors, by country.

www.microinsurancefocus.org

Results in 2006: 7500 monthly visitors

This is the main gateway to microinsurance information. ADA manages the contents of this site on behalf of the CGAP Working Group on Microinsurance. Updated in 2006, the site offers comprehensive coverage on microinsurance and presents case studies, documents, tools, and links to key players in the field.

Helpdesk

As an organisation specialising in microfinance, ADA regularly shares its expertise with those already working in the sector or wishing to become involved in microfinance. Whether they come from microfinance institutions, NGOs, banking institutions or development organisations, the Helpdesk set up by ADA answers all requests for information on microfinance and offers information sources on related subjects.

Other, more in-depth advisory missions are also carried out, such as support for the creation of Lux-Flag (Luxembourg Fund Labelling Agency), participation in training sessions organised by Luxembourg's ATTF (Financial Technology Transfer Agency) and in the Masters programme on "Very Small Business, Microfinance and Development" at France's Nancy University, as well as support for microfinance projects set up by the NGO OTM in Haiti and by the Luxembourg government development agency, Lux-Development, in West Africa. Further examples of ADA's advisory missions

included its contributions to the creation of a European Microfinance Platform (eMFP) and to the Luxembourg Round Table on Microfinance.

'Midis de la Microfinance'

Results in 2006: more than 250 participants

The concept of 'Midis de la Microfinance' is structured around seminars focusing on a topical microfinance subject, that are held at midday. The aim is not only to raise awareness but also to create links between target audiences from the private and public sectors, as well as the general public. In 2006, the first round of these midday microfinance seminars covered themes such as "migrant worker remittances", "microfinance as a tool in the fight against poverty", followed this year by "microinsurance and private investment in microfinance".

2006 Highlights

- Launch of the 'Midis de la Microfinance' midday seminar series;
- Launch of the www.microinsurance.org site;
- Creation of Lux-Flag (Luxembourg Fund Labelling Agency), of which ADA is a founding member;
- Creation of e-MFP (European Microfinance Platform), of which ADA is a founding member.

LUXMINT – An Incubator Fund

In 1999, ADA, with the support of the Luxembourg government, created the 'LUXMINT' (Luxembourg Microbanking Intermediary Scheme) financial support programme to support Microfinance Institutions in their growth. The scheme offers loans and bank guarantees to Microfinance Institutions which have already arrived at an intermediate stage of growth but which have little or no access to resources from the financial sector.

LUXMINT not only supports the growth of an institution's loan portfolio, but above all enables it to build up a credit history which strengthens its credibility for potential investors and facilitates negotiations with the financial sector with a view to obtaining additional funds.

Reinforcing LUXMINT in Africa

2006 Highlights

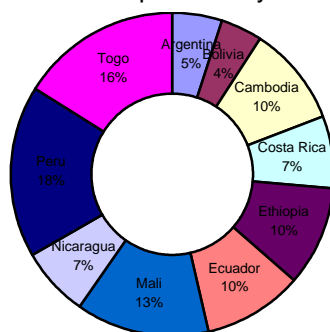
In 2006, LUXMINT made three new investments in Africa. In Mali, LUXMINT lent €150,000 to Soro Yiriwaso, an MFI operating in a rural area 200 km south of the capital city of Bamako. LUXMINT also gave two bank guarantees of USD 100,000 each to Eshet and Buusaa Gonofaa, two Ethiopian Microfinance Institutions operating in rural and periurban areas.

In all, ADA's investments in Africa rose from 26% of its portfolio in 2005 to 39% in 2006.

The Logic behind the Incubator Fund

The aim of the LUXMINT programme is to support Microfinance Institutions on their way to achieving independence and to facilitate their access to diversified long-term financial resources. In 2006, this goal was achieved for four institutions and, the financial commitments having reached their term, LUXMINT was repaid its loans, which were then invested in four other Microfinance Institutions. Thus, LUXMINT truly fulfilled its 'incubator fund' philosophy.

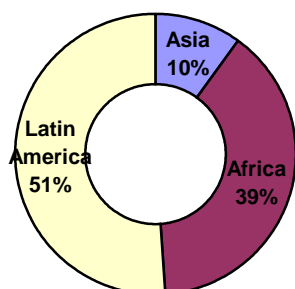
Distribution of the portfolio by country



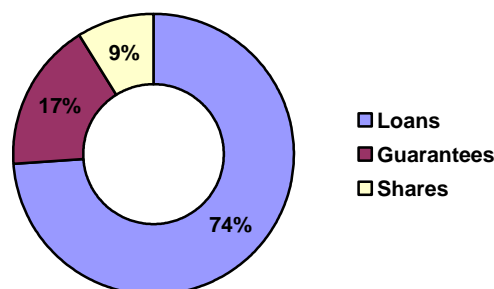
Status of LUXMINT as of 31 December 2006

As of 31 December 2006, LUXMINT's investments in USD valued in euros, stood at €1,016,819 and its investments in euros stood at €448,022. At the end of December 2006, LUXMINT supported 19 Microfinance Institutions in 10 countries. By the end of 2006, these MFIs provided services to over 685,000 clients.

Distribution of the portfolio by continent



Distribution of the portfolio by type of operation



LUXMINT – An Incubator Fund

Microfinance Institutions Supported by LUXMINT

Name of MFI	Country	Amount of Investment	Type of Investment	Number of clients
Buusaa Gonofaa*	Ethiopia	100 000 US\$	Guarantee	18 260
Confianza	Peru	50 000 US\$	Guarantee	33 317
Crear Tacna**	Peru	150 000 US\$	Loan	9 426
Eshet*	Ethiopia	100 000 US\$	Guarantee	13 650***
FIE FFP	Bolivia	75 000 US\$	Shares	193 730
FIE Gran Poder**	Argentina	100 000 US\$	Loan	5 111
Folade**	Costa Rica	150 000 US\$	Loan	Na****
Fundacion Alternativa*	Ecuador	100 000 US\$	Loan	3 174
IDESI Grau	Peru	100 000 US\$	Loan	694
Kafo Jiginew	Mali	48 022 €	Guarantee	190 755
Maquita	Ecuador	100 000 US\$	Loan	10 171
Maxima	Cambodia	50 000 US\$	Loan	1 595
Prasac	Cambodia	150 000 US\$	Loan	94 264
Prestanic	Nicaragua	34 859 US\$	Guarantee	9 002
Proempresa	Peru	100 000 US\$	Shares	19 602
Pro Mujer	Nicaragua	100 000 US\$	Loan	19 641
Soro Yiriwaso*	Mali	150 000 €	Loan	23 116
Timpac	Togo	100 000 €	Loan	18 462
Wages	Togo	150 000 €	Loan	36 311

* *New investments realised in 2006*

** *Renewals*

*** *Figures as at 30 June 2006*

**** *Loan provided to the investment programme Fondo Semilla, managed by the Latin American NGO consortium FOLADE.*

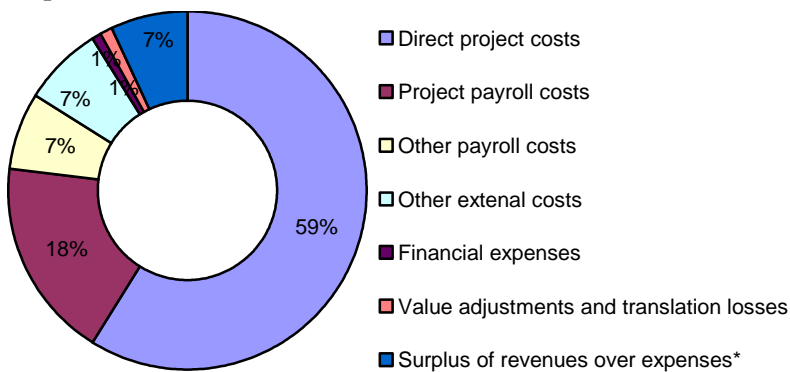
FINANCIAL REPORT

BALANCE SHEET as at 31 December 2006 (in euros)			
Assets	2,671,098	Liabilities	2,671,098
Fixed Assets	1,333,905	Permanent Funds	1,243,917
Tangible assets	20,227	ADA Assets	246,627
Net long-term investments	1,313,678	Reserves for future projects	20,000
<i>Net Luxmint investments</i>	1,306,178	Income carried forward	54,374
<i>Net project investments</i>	7,500	Funds made available (MFA)	922,916
Circulating Assets	1,337,193	Debts	719,472
Misc. receivables	295,777	Provisions and reserves	598,102
Assets in banks, CCP and in Cash	1,041,416	Accruals	478
			FY Surplus 109,128

INCOME STATEMENT as at 31 December 2006 (in euros)			
Expenses	1,664,565	Revenues	1,664,565
Direct project costs	999,871	Subsidies and cofinancing	1,373,600
Project payroll costs	293,015	Donations and dues	103,721
Other payroll costs	110,188	Revenue from projects	74,401
Other external costs	117,774	Financial revenue	112,475
Financial expenses	16,723	Miscellaneous revenue	368
Value adjustments and translation losses	17,866		
Surplus of revenues over expenses*	109,128		

* including EUR 103,720.87 corresponding to total donations and dues received in 2006. Each year, the full amount is allocated to the LUXMINT programme.

Expenses



Revenue

