

**Loans and  
Guarantees  
programme 2006**



## Financial statements

### Fund Manager's report

#### Financial performance 2006

The year 2006 brought mixed results to Cordaid's Loans & Guarantees programme.

New approvals of loans and guarantees were at an all-time record high totalling almost € 18 million (2005: € 14 million). This very satisfactory result was achieved partly thanks to a temporary special Tsunami credit programme specifically designed to cater for reconstruction investments in the Asian countries struck by the Tsunami of Christmas 2004.

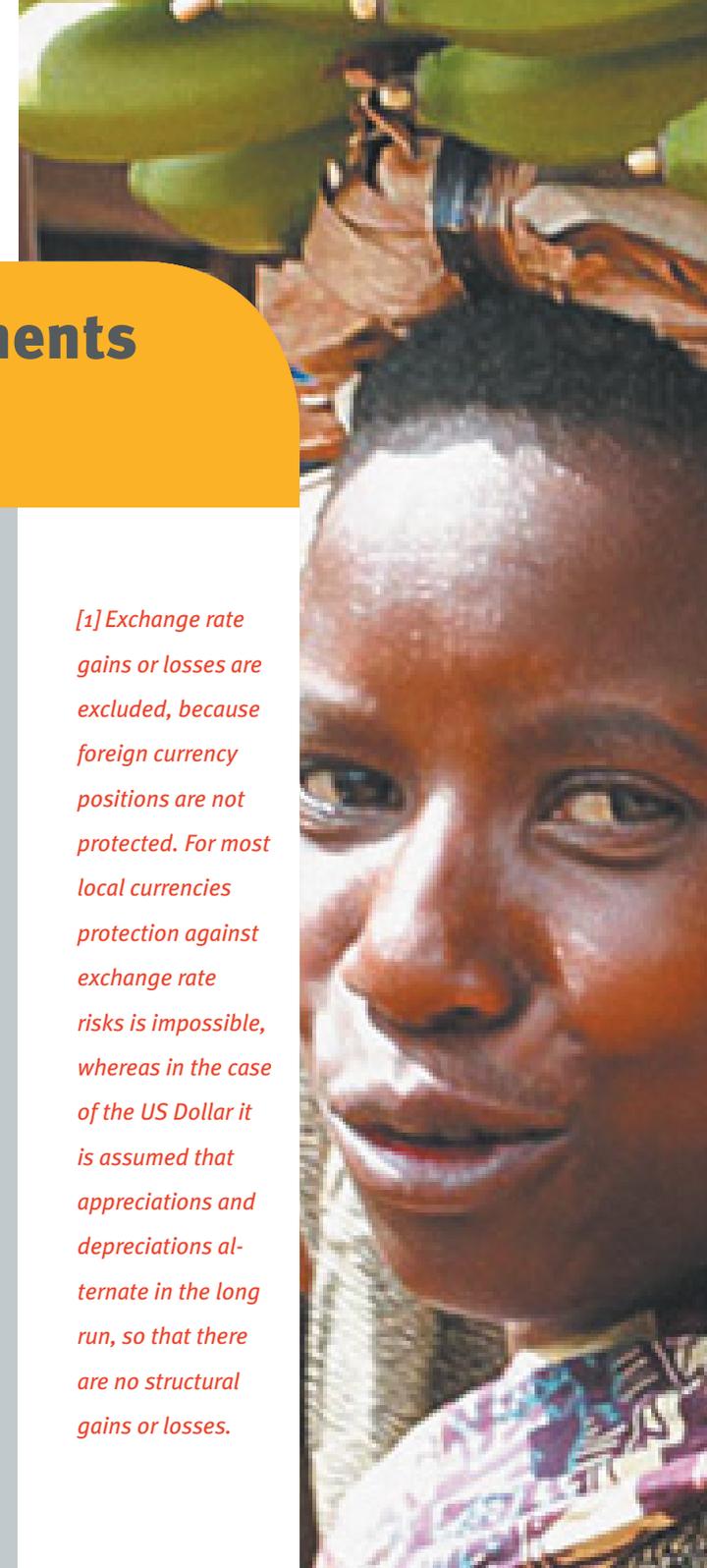
€ 6 million was funded by external sources, mainly the Dutch government's co-financing programme. The balance was financed from internally generated funds.

The financial returns of the portfolio, however, were disappointing, at a loss of € 1.40 million, consisting of an operational profit of € 0.09 million and an exchange rate loss of € 1.49 million. The operational profit is exceptionally low because of very high additions to the Loss Provision caused by intensified monitoring and survey efforts on defaulting loans. In 2006 the staff was temporarily extended to more adequately manage these loans, which resulted in an improved recovery rate of some of those loans, but at the same time speeded up the process of identification of loans that will have to be written off.

The net portfolio result just lived up to the target for financial return set by Cordaid's directors: the net result excluding exchange rate losses<sup>[1]</sup> must be positive.

On the target for preservation of the portfolio's value – at least 80 % of the total value of the invested funds must remain intact – performance was better. Since the start of the Loans & Guarantees programme and including this year's loss, a cumulative net loss of € 0.4 million has been reported. This means that 99 % of the total funds invested was kept intact.

*[1] Exchange rate gains or losses are excluded, because foreign currency positions are not protected. For most local currencies protection against exchange rate risks is impossible, whereas in the case of the US Dollar it is assumed that appreciations and depreciations alternate in the long run, so that there are no structural gains or losses.*



### Development relevance

Cordaid operates its Loans & Guarantees programme as an instrument in its development work. It is a means for reaching out to economically active poor, both supporting their efforts to employ their own strengths for improving their economic situation and empowering them to become more respected and confident members of their communities. Cordaid offers loans and guarantees at market interest rates and guarantee fees, but accepts higher risks than a commercial financial service provider would (or could) do. On the basis of the loans and guarantees provided by Cordaid around 200,000 micro loans were extended to poor MFI<sup>[2]</sup> clients

– 65 % of whom were women – in 2006, supporting some 1,000,000 (2005: 850,000) people (clients and their family members). Trade finance was offered to around 9,000 smallholder farmers, partly in cooperation with local commercial businesses. 20 % of the loans and guarantees approved in 2006 was contracted with partners in Africa, 40 % went to Latin America and Asia accounted for 35 %. The remaining 5 % was extended to partners with a worldwide programme. In 2006 Cordaid's outstanding portfolio consisted of 150 loans and guarantees to 144 partner organisations, 10 % of which are women's organisations<sup>[3]</sup>.

### Economic developments 2006

The programme results were achieved against the background of a general economic upswing. Healthy economic growth prevailed all over the globe. The US economy showed a little slow-down in growth at a still respectable level of 3.3 %, the EU was stronger than it had been in many years at 2.6 % GDP growth. Growth in the developing countries is reaching even higher levels. The Chinese economy again increased in volume by more than 10 % and all emerging economies together grew by 7.7 %. A significant number of African economies showed growth rates in the range of 5 – 7 %. The growth of the world economy as a whole amounted to 5.3 %.

*[2] Micro Finance  
Institutions  
[3] Organisations  
managed by  
women with a  
target group  
consisting of  
women.*

A remarkable feature of the current world economic situation is the low and stable levels of inflation, which are being kept at this level thanks to a number of consecutive interest rate increases by the American and European central banks. The interest rates on the money market are higher than they have been for several years. By the end of the year, the official central bank rates stood at 5.25 % (US Dollar) and 3.50 % (Euro). At the moment, the most serious economic instability is the unprecedented capital flow from China to the US. This is reflected in exchange rate developments. After a temporary recovery in 2005, in 2006 the US Dollar was again weak against the

Euro and many other currencies. Over the year the US Dollar depreciated from 0.844 to 0.758 Euros (- 10 %).

In brief, prosperous economic circumstances dominate the scene, hand in hand with continuing currency fluctuations.

### **Cordaid's Loans & Guarantees Programme**

In 2006 Cordaid embarked on a path of strategic reorientation, which eventually led to the decision to focus on four different thematic areas, one of which is concerned with economic programmes. As of 1 January 2007, a new sector department, Entrepreneurship, was created

in which all Cordaid's economic expertise was brought together. The Loans & Guarantees programme was integrated in this sector. A fund manager who reports to the sector manager is responsible for managing the entire portfolio.

In 2006, the staff responsible for the Loans & Guarantees programme consisted of 10.3 full-time equivalents. The management information system (PRET) became fully operational in 2006 and is now a valuable tool for the fund manager and other staff.



### Preview 2007

The world economy will probably slow down a little in 2007, although growth rates will stay relatively high. Interest rates will remain on the present relatively high level. The uncertainties surrounding the value of the US Dollar will continue, with a downward tendency as long as America's trade deficit is not reduced to more tolerable levels. The value of the US Dollar will also be put under more pressure now that several central banks are reducing the share of the currency in their official reserves. The tensions in the international political situation – the Middle-East, Iraq, Iran, Darfur – will continue. Russia's new, oil and gas fuelled,

economic power is creating political tensions. As to Cordaid's programme countries, China's growing need for raw materials and commodities makes itself felt more and more. China is investing heavily in developing countries without much attention for governance and human rights. In brief, more uncertainty, both in economic and in political terms, is to be expected.

Cordaid's Loans & Guarantees programme will be managed in a different, more decentralised, way in 2007 after the organisational changes that were induced by Cordaid's strategic reorientation described above. Procedures have been adapted to the new situation.

Cordaid's directors are planning to evaluate the new set-up in autumn 2007.

The role of Loans & Guarantees as an instrument in Cordaid's strategy is gradually changing towards market niches where Cordaid can reach the highest added value by covering financial risks that, because of lacking securities, are too high for commercial financial service providers: start-up and emerging MFIs, catalyst financing for specific investment or loan funds, guarantees for trade finance of agricultural products. A specific loan type for start-up MFIs (seed capital) is currently being developed.



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0784-303414/0752-049590





[4] Available through Cordaid's website [www.cordaid.nl](http://www.cordaid.nl).

## Accounting policies and auditor's opinion

*Continued from p. 5*

A consequence of this focus in the programme will be a certain pressure on its financial outcomes. The present financial targets were consciously designed for the programme, but in a period when it was less focused on the risky niches described above. Their adequacy will therefore be discussed with Cordaid's directors.

It is expected that in 2007 new loans and guarantees for an amount of € 14 million will be approved. The operational profit is likely to improve as no new high additions to Loss Provision are expected.

The accounting policies of Cordaid's Loans & Guarantees programme are identical to those applied for Cordaid's annual accounts. They are presented in Cordaid's annual report<sup>[4]</sup>. The elements most relevant to the Loans & Guarantees programme are:

Assets and liabilities are valued at nominal values, where needed after deduction of a provision for potential loss.

Amounts in foreign currencies are converted to Euro at the exchange rate as of 31 December.

Income and expenditure are recognised in the year in which they are earned or incurred.

On the basis of prudence exchange rate gains on outstanding foreign currency loans and guarantees are

reserved as long as this profit is not liquidated. Exchange rate losses on the outstanding portfolio are charged to this reservation in as far as it contains an amount for the relevant currency. As far as the reserved amount is not sufficient, exchange rate losses are directly reported as a loss in the income statement.

The information contained in these financial statements of the Loans & Guarantees programme is consistent with the information in Cordaid's published annual accounts. Those accounts are certified by Cordaid's auditors PwC (Pricewaterhouse-Coopers).



## Balance sheet

x € 1,000

	31 December 2006	31 December 2005
<b>Assets</b>		
Loans co-financing programme	47,517	38,854
Loans Vastenaktie	761	950
Loans Memisa	178	205
Loans Mensen in Nood	80	887
Guarantees	5,426	5,513
	<b>53,961</b>	<b>46,409</b>
Loans and guarantees not yet disbursed	-22,678	-22,432
Loss Provision	-2,947	-2,165
Reserved exchange rate gains	-134	-751
Net development financing	-25,759	-25,348
	<b>4,160</b>	<b>4,000</b>
Other long term investments	4,160	4,000
Total financial fixed assets	32,362	25,061
Current account		
Treasury Cordaid	3,686	12,198
Deposits covering guarantee obligations	5,426	5,513
Receivables	9,112	17,711
Deposits	9,470	4,502
Bank accounts	12,962	13,440
Liquid assets	22,432	17,942
<b>TOTAL ASSETS</b>	<b>63,906</b>	<b>60,714</b>

## Liabilities

	31 December 2006	31 December 2005
Co-financing Fund	58,964	55,015
Vastenaktie Fund	1,164	806
Memisa Fund	312	316
Mensen in Nood Fund	1,102	1184
Total Loans & Guarantees Fund	<b>61,542</b>	<b>57,321</b>
Long term borrowings	1,708	1,546
Long term liabilities	1,708	1,546
Sundry liabilities	656	1,847
Short term liabilities	656	1,847
<b>TOTAL LIABILITIES</b>	<b>63,906</b>	<b>60,714</b>

## Income statement

x € 1,000

### Income

#### Financial income

#### *Income development financing*

	2006	2005
Interest income on loans	1,125	1,358
Guarantee income	186	96
Income from capital investments	25	0
Income from participations	5	6
Addition Loss Provision	-1,474	-577
Exchange rate losses/gains on Loans & Guarantees	-1,487	2,585

-1,620 3,468

Other long term investment income	190	0
Interest liquid assets	366	273

#### Other income

Operation costs allowance	1,036	961
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**TOTAL INCOME** -28 4,702

#### Direct operational expenses

Personnel	679	566
Travel expenses	99	76
Other expenses	120	31

898 673

Indirect expenses attributed to Loans & Guarantees	477	448
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TOTAL EXPENSES 1,375 1,121

**NET INCOME** -1,403 3,581



## Notes to the financial statements

### Balance sheet

#### Financial fixed assets

Financial assets consist of all outstanding loans, guarantees and capital investments. Loans, capital investments and guarantees are extended as development finance to parties or for purposes that commercial financial institutions will not fund.

Portfolio development in 2006 was as follows:

x € 1,000	31 December 2005	Approved	Repayments and additions to provisions	Exchange rate losses and write-offs <sup>[1]</sup>	31 December 2006
Development Finance					
Loans	39,367	13,135	-5,732	-1,580	45,190
Capital investments	1,530	1,750	0	66	3,346
Guarantees	5,513	2,776	-1,210	-1,653	5,426
	<b>46,410</b>	<b>17,661</b>	<b>-6,942</b>	<b>-3,167</b>	<b>53,962</b>
Loans and guarantees not yet disbursed	-22,432	-247	0	0	-22,679
Loss Provision	-2,165	0	-1,474	692	-2,947
Reserved exchange rate gains	-751	0	617	0	-134
	<b>-25,348</b>	<b>-247</b>	<b>-857</b>	<b>692</b>	<b>-25,760</b>
	<b>21,062</b>	<b>17,414</b>	<b>-7,799</b>	<b>-2,475</b>	<b>28,202</b>

The average remaining duration of the outstanding loans is 3 years.

A number of loans and guarantees show arrears in repayments. The portfolio at risk (calculated on the basis of arrears of more than 90 days) is € 7.6 million or 23 % of the outstanding portfolio of loans and guarantees.

[5] Includes administrative corrections previous years

The Loss Provision is formed to cover risks of losses on loans (in case of repayment defaults) and guarantees (in case these are called). This provision is calculated as the total of:

A general provision of 5 % of total outstanding portfolio (€ 1.625 million)

A specific provision for those loans and guarantees for which – after extensive efforts to recover the outstanding amount – it must be assumed that their loss is unavoidable.

In 2006 eight projects were classified for this provision, totalling a loss of € 1.322 million. In 2006 eight projects with an outstanding value of € 0.697 million were written off and charged to the provision. On a project previously written off, a repayment of € 0.005 million was received and

added to the provision.

In 2007 provisioning policy will be reviewed.

The foreign currency part of the portfolio is annually adjusted for exchange rate changes. If a currency shows an exchange rate gain the resulting profit is not included in the income of the year, but – on the basis of prudence – reserved as long as this profit is not liquidated. On 31 December 2006 € 0.134 million was thus reserved. Exchange rate losses on the outstanding portfolio are charged to this reservation in as far as it contains an amount for the relevant currency. As far as the reserved amount is not sufficient, exchange rate losses are directly reported as a loss in the income statement.

### Receivables

The Receivables consist of:

The current account of the Loans & Guarantees programme with Cordaid's Treasury. Many payments, like those from the Dutch government under the co-financing programme, but also disbursements of loans, salaries and other expenses, are routed through Cordaid's bank accounts. The net position between the Loans & Guarantees programme and Cordaid's Treasury is reflected in the balance sheet.

Bank deposits as a security for letters of credit issued by these banks for the benefit of some of Cordaid's partner organisations.



### Liquid assets

Liquid assets consist mainly of funds identified for approved loans to be disbursed and cash inflows from repayments received and not yet used again. A growing part of the liquid assets is deposited on interest-bearing accounts.

### Loans & Guarantees Fund and Long term borrowings

The Loans & Guarantees Fund contains the capital attributed to the Loans & Guarantees programme. This capital originates from the Dutch government's co-financing programme and from Cordaid's own fund-raising (Vastenactie, Mensen in Nood, Memisa).

In addition, Cordaid received interest-free borrowings from a limited number of like-minded organisations. These are presented as Long term borrowings. They have a variable maturity geared to the loans funded by them.

The programme's net income in 2006 amounts to a € 1.4 million loss and is distributed over the different parts of the Loans & Guarantees Fund.

Of the total capital available, € 63 million, an amount of € 54 million has been committed (see Financial fixed assets).

x € 1,000	31 December 2005	Approved	Repayments on borrowings	Net income L&G programme	31 December 2006
Loans & Guarantees Fund					
Co-financing programme	55,015	5,309	0	-1,360	58,964
Vastenactie	805	315	0	44	1,164
Memisa	316	0	0	-4	312
Mensen in Nood	1,184	0	0	-82	1,102
Long term borrowings	1,546	170	-8	0	1,708
	<b>58,866</b>	<b>5,794</b>	<b>-8</b>	<b>-1,402</b>	<b>63,250</b>

## Income statement

In 2006, the programme suffered a loss of € 1.40 million. This is made up of an operational profit (including loss provisioning for defaulting loans and guarantees) of € 0.09 million and an exchange rate loss of € 1.49 million.

For the coming years a higher operational profit is expected. This year's income has been adversely affected by an exceptionally high addition to Loss Provision. Exchange rate risks are unpredictable. In the long run, a certain exchange rate loss is however anticipated. The interest rates for local currency loans reflect this: higher interest rates are intended to cover the (expected) currency losses.

It is expected that the programme will be able to comply with its financial targets in the next few years. Net income will, however, be negatively influenced by the expected decrease in the Dutch government's operational costs allowance, as a consequence of the decrease in the part of the portfolio financed by new funds from this programme.

Targets will have to be revised in the longer run because of the sharpened focus of the programme on high-risk niches (see Preview 2007 in the Fund Manager's Report).

### Financial income

#### *Interest income on loans*

Interest rates on loans are set according to local market conditions. The outstanding loan portfolio produced an interest income of € 1.1 million. Interest and guarantee provision income are only reported when actually received. The decrease in interest income compared to 2005 follows a deterioration of repayment behaviour of a limited number of partner organisations:

Interest income	
receivable in 2006	€ 1.4 million
Delayed interest	
payments	€ 0.3 million
Cash inflow	
interest income	€ 1.1 million

It is expected that this backlog will be recovered through intensified attention in 2007.

#### *Guarantee income*

Guarantee income consists of guarantee fees (€ 0.135 million, including some fee income related to guarantee operations in 2005) and interest on deposits serving as a security (€ 0.051 million).

#### *Addition Loss Provision*

The addition to this Provision is calculated as the amount needed to keep the size of the Provision adequate after charging of write-offs to it. The adequacy of the amount provided is explained under 'Financial fixed assets'.

#### *Exchange rate losses outstanding portfolio Loans & Guarantees*

In 2006, total exchange rate losses amounted to € 2.1 million. Of this total, € 0.6 million was charged to the reserved exchange rate gains (on the same currencies) of previous years and the remaining € 1.5 million was presented in the Income statement.

The US Dollar accounted for € 1.1 million of the losses. The other currencies that made up most of the remainder of the loss were the Indian Rupee, the Bangladeshi Takka and the South African Rand.

#### *Other long term investment income*

A part of the programme's liquid assets has been invested in a portfolio

of bonds issued by businesses that subscribe to principles of social responsibility. Both cash income and capital gains of this portfolio are presented under Other long term investment income.

#### **Other income**

##### *Operation costs allowance*

The operation costs allowance under the Dutch government's co-financing programme consists of 9 % of disbursements on projects financed under the co-financing programme.



## Annex 1

### Direct operational expenses

Direct expenses consist mainly of personnel costs and travel costs. Staff numbers grew markedly in 2006 because of the additional efforts required for the Tsunami credit programme and the extra attention paid to the portfolio in arrears.

### Indirect expenses

The programme is charged for its part in office costs, finance, HR, ICT and general management of Cordaid.

### Staff and Credit Committee as of 31 December 2006

#### Staff

Jacob Winter	Fund Manager
Maria Kroese	Assistant Fund Manager
Mildred Kolk	Credit Officer Africa
Gauke Andriess	Credit Officer Africa
Ellen Bogers	Credit Officer Latin America
Remko Komijn	Credit Officer Latin America
Jan Postmus	Credit Officer Asia
Rose Rivera	Credit Officer Tsunami programme
Willem Tom	Financial Officer
Lia van de Craats	Management Assistant

#### Credit Committee

Max Spoor	Chairman; Professor Institute of Social Studies
Petra Taams	Microfinance consultant
Marc Breij	Risk manager ABN AMRO Bank



## Annex 2

## Portfolio information 2006

Portfolio 31 December 2006 by partner type and region<sup>[6]</sup>

x € 1,000	Africa	Latin America	Asia	Europe	Worldwide	Total
Microfinance retail	5,618	2,858	4,545	2,130	0	15,151
Microfinance wholesale	626	1,674	2,429	0	520	5,250
Trade finance	518	2,567	476	0	0	3,561
Private sector involvement	4,056	940	75	0	575	5,645
SME financing	123	0	300	0	0	423
Housing	764	0	192	0	0	956
Health care	298	0	0	0	0	298
<b>Total</b>	<b>12,003</b>	<b>8,039</b>	<b>8,017</b>	<b>2,130</b>	<b>1,095</b>	<b>31,283</b>

## Number of contracts outstanding 31 December 2006 by partner type and region

	Africa	Latin America	Asia	Europe	Worldwide	Total
Microfinance retail	23	22	23	9	0	77
Microfinance wholesale	3	7	8	0	3	21
Trade finance	3	11	2	0	0	16
Private sector involvement	17	8	1	0	1	27
SME financing	2	0	1	0	0	3
Housing	2	0	2	0	0	4
Health care	2	0	0	0	0	2
<b>Total</b>	<b>52</b>	<b>48</b>	<b>37</b>	<b>9</b>	<b>4</b>	<b>150</b>

[6] The tables present a breakdown of the outstanding portfolio shown in the balance sheet as: (x € 1,000)

Total loans and guarantees	53,961
Of which not yet disbursed	22,678
Outstanding portfolio	<u>31,283</u>

### Portfolio 31 December 2006 by instrument and region

x € 1,000	Africa	Latin America	Asia	Europe	Worldwide	Total
Senior debt EUR & USD	4,539	5,566	1,295	1,530	575	13,505
Senior debt local currencies	5,560	1,148	5,686	0	0	12,394
Subordinated debt EUR & USD	0	227	0	0	0	227
Subordinated debt local currencies	0	234	0	0	0	234
Guarantees EUR & USD	1,553	704	386	600	0	3,244
Guarantees local currencies	0	0	42	0	0	42
Capital investments/participations	351	158	607	0	520	1,636
<b>Total</b>	<b>12,003</b>	<b>8,039</b>	<b>8,017</b>	<b>2,130</b>	<b>1,095</b>	<b>31,283</b>

### Interest, guarantee fee and dividend income by instrument and region<sup>[7]</sup>

x € 1,000	Africa	Latin America	Asia	Europe	Worldwide	Total
Senior debt EUR & USD	38	226	22	139	0	425
Senior debt local currencies	232	1	417	0	0	650
Subordinated debt EUR & USD	0	8	0	0	0	8
Subordinated debt local currencies	0	42	0	0	0	42
Guarantees EUR & USD	47	84	41	14	0	186
Guarantees local currencies	0	0	0	0	0	0
Capital investments/participations	20	4	0	0	5	30
<b>Total</b>	<b>337</b>	<b>366</b>	<b>480</b>	<b>153</b>	<b>5</b>	<b>1,341</b>



[7] The table presents a breakdown of the income shown in the income statement as: (x € 1,000)

<i>Interest income on loans</i>	<i>1,125</i>
<i>Guarantee income</i>	<i>186</i>
<i>Income from capital investments/participations</i>	<i>30</i>
<i>Interest, guarantee fee and dividend income</i>	<i>1,341</i>

*Cordaid is a Catholic Organisation for  
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Cidse and Caritas Internationalis.*

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*Text Jacob Winter  
Editing Kathelijn Hendrikse*

*Publication © Cordaid, juli 2007*

*Photography Benno Neeleman (p. 2, 3, 6, 7, 14, 15)  
Peter-Jac Steenman (p. 8, 9, 12, 13, 16, 17, 19)  
Cordaid (p. 1, 4, 5, 10, 11)*

*Design IDlab, Den Haag*

*Print Koro, Rotterdam*