

**MICROLOAN FOUNDATION**

(A company limited by guarantee)

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

Charity number 1104287

Company number 04828558

## MicroLoan Foundation

### Report of the Trustees for the year ended 31<sup>st</sup> December 2008

The Trustees present their annual report with the financial statements of the company for the year to 31 December 2008.

#### Directors and Trustees

The directors of the charitable company (the charity) are its trustees for the purposes of charity law and throughout this report are collectively referred to as the trustees.

The trustees serving during the year, and since the year end were as follows:

Mr Peter Ryan  
Revd Michael Riley (resigned 11 March 2009)  
Mrs Caroline Ryan  
Mr Nick Ridge  
Mr Jeff Bennett  
Mr Ian Marshall (resigned 31 March 2008)  
Mr Iain Richardson  
Mr Egmont Kock (appointed 24 September 2008)  
Mr Greg Delaney (appointed 11 March 2009)

Due to an increase in his other commitments Ian Marshall resigned as a trustee on 31 March 2008; he remains an active fundraiser and volunteer, particularly with the charity's MicroVentures programme.

Michael Riley also resigned due to pressure of other commitments, but remains an active supporter of the charity.

#### Structure, Governance and Management

##### Governing Document

MicroLoan Foundation is a company limited by guarantee, governed by its Memorandum and Articles of Association dated 10th July 2003 as amended and updated on the Companies House Register. It is also registered as a charity with the Charity Commission of England and Wales.

##### Appointment of Trustees

The appointment of trustees is governed by the Memorandum and Articles of Association. A new trustee is proposed, seconded and voted in at trustee meetings.

Throughout the year the charity actively sought new Trustees who would bring relevant skills to the growing needs of the charity. Networking and personal recommendation proved to be the most effective approaches to identifying suitable people, leading to the appointment of Egmont Kock and Greg Delaney.

## Trustee Induction and Training

A new trustee is introduced to the charity and its UK and overseas operations on a personal basis by existing trustees, employees and volunteers.

## Organisation

The board of trustees, which must have at least 3 members, it provides governance and oversight of the charity, and meets every two months (more frequently if required).

In addition, a Remuneration & Appointments Committee and an Audit Committee were formed during the year. From 30 July to 24 September the Remuneration & Appointments Committee was comprised of Jeff Bennett, Iain Richardson and Nick Ridge, and from 24 September 2009 it comprised Egmont Kock, Jeff Bennett and Iain Richardson. The Audit Committee is comprised of Egmont Kock, Iain Richardson and Nicholas Ridge. Both committees report to the board of trustees.

The board of trustees were aware that the CEO intended to leave the organisation at the end of July, when his two year commitment was completed and commenced their search for a suitable replacement in January. By May, however, following interviews and psychometric testing, a suitable candidate had not been identified. Peter Ryan, encouraged by some of the Trustees, put himself forward for the post and the trustees agreed that it would be in the best interests of the charity and its beneficiaries for him to do so, provided the permission of the Charity Commission could be obtained. Once terms were agreed, the proposed appointment was referred to the Charity Commission, which gave permission for him to be employed as CEO and to continue to serve as a trustee. Peter Ryan's appointment was effective from 1 August 2008, and the consultancy arrangements described below were terminated. Peter Ryan and his wife, Caroline Ryan, were absent from the trustees meetings when his proposed appointment as CEO was discussed. Jeff Bennett served as interim chairman from 30 May until 24 September 2008.

The board of trustees identified the need for a new trustee to act as Chairman as there would be a significant increase in the governance issues arising from the growth of the charity. Egmont Kock, recently retired from Deloitte, was appointed as Chairman and Trustee on 24 September 2008.

Until the appointment of Peter Ryan as CEO on 1 August 2008 the Charity was managed by an Executive Committee comprising the then CEO and trustees Peter Ryan, Ian Marshall and Iain Richardson. Following Peter Ryan's appointment as CEO the Executive Committee was replaced by a management team comprising the CEO, the Funding Manager and the Finance and Operations Manager.

## Related parties

The charity has a close relationship with the MicroLoan Foundation (Malawi) which is a registered trust in Malawi. The MicroLoan Foundation (MLF UK) provides advice to local Malawi management and trustees, in addition to grants to support the

Malawi operation. Two UK trustees are also trustees of the Malawi entity.

The MicroCredit Foundation (Zambia) was formed in 2007. It is a limited company in which MLF UK has a beneficial interest in 100% of the ordinary share capital. It will commence operations in early 2009 having received approval to do so from the Bank of Zambia on 3 December 2008. Two UK trustees are also directors of the Zambian entity.

The consultancy agreement for fundraising and marketing services with trustee Peter Ryan at the rate of £2,083 (plus VAT) a month continued until 31 July 2008. The governing documents of the charity permitted trustees to charge for professional services provided to the charity and the Charity Commission was aware of this arrangement. This consultancy fee was comparable to an outside fee that the charity would have to pay for this work, although it did not cover all the aspects of the charity's work that Peter Ryan was responsible for in his role as Chairman.

On 8 January 2008 the MicroLoan Foundation USA (MLF USA) was established. This is a non profit organisation with the purpose of creating a base in the USA to raise funds and awareness of the MLF USA and to develop operational capacity to establish further microloan programmes. One of the UK trustees is also a trustee of the US entity.

On 19 June 2008 the MicroLoan Foundation Australia (MLF Aus) was registered as a company limited by guarantee. On 19 September 2008 MLF Aus received endorsement for charity tax concession with the Australian Taxation Office. It is intended that MLF Aus will mirror MLF USA in raising awareness of and funds for microloan programmes. Two UK trustees are also trustees of MLF Aus.

### Risk management

The CEO is responsible for the day to day management of risk. This is also a standing agenda item at Trustee Board meetings where the CEO presents a risk management strategy for review by trustees. This includes:

- identifying the risks the charity may face
- the implementation of systems and procedures to manage identified risks

This is subject to regular update and review at Trustee Board meetings.

To reflect the risks commensurate with the growth of the charity, the trustees have Trustee Indemnity Insurance with the approval of the Charities Commission.

### Reference and administrative details

Company Number: 04828558      Charity Number: 1104287

### Registered Office and Operational HQ

10 Barley Mow Passage  
Chiswick  
London  
W4 4PH

### Relevant Organisations & Persons

Auditor  
BDO Stoy Hayward LLP  
Emerald House  
East Street  
Epsom  
Surrey  
KT17 1HS

Bank  
CAF Bank Limited  
25 Kings Hill Avenue  
West Malling  
Kent  
ME19 4JQ

## Objectives and activities

The MicroLoan Foundation (MLF) is a London-based charity providing microfinance services in Sub Saharan Africa and the Philippines... The objectives of the charity are the relief of poverty, the advancement of education and the relief of sickness in the developing world by the provision of microloans and grants.

The principal activity of the charity is the provision of grants and support to independent microfinance operations. The main operation currently supported is in Malawi and called the Microloan Foundation (MLF Malawi). In 2008 the MicroCredit Foundation (MCF Zambia) was registered with the Bank of Zambia and will commence making loans in 2009. It is envisioned that MCF Zambia will grow to replicate the coverage and impact that MLF Malawi has had. A smaller operation – the Philippines Self Help Foundation (PSHF) – is also supported by way of grants. We are also in the process of establishing operations in Namibia and Mozambique.

MLF Malawi is a registered NGO and an incorporated trust, governed locally by CONGOMA (the Council of NGOs in Malawi) and the NGO Board of Malawi.

The Malawi charity provides small loans, basic business training and on-going guidance to groups of women in Malawi. This enables the women to develop self-sustainable livelihoods, to feed, clothe and educate their families, and to work their way out of the poverty trap. At December 31<sup>st</sup> 2008 the charity had 15 branch offices in Malawi, and since inception had made over 40,000 loans to around 19,000 women, directly impacting the lives of 114,000 family members and dependents. Full details of the activities of the Malawi operation, including case studies involving some of the charity's clients, can be found on the website - [www.microloanfoundation.org.uk](http://www.microloanfoundation.org.uk).

MCF Zambia is a registered company under Zambian law and a subsidiary of MLF. MCF Zambia was established as a company limited by shares in order to satisfy the Bank of Zambia's regulations. The raison d'être, operating methods and target clients of MCF Zambia all mirror those of MLF Malawi and have been designed to ensure that they fulfil the objectives of the charity.

The charity also continued its support for the PSHF (a micro finance operation based in Manila) by way of grants.

## How we work

MLF Malawi predominantly makes loans to groups of around 15 women. The women receive individual loans, but take responsibility for repayment of each other's loans collectively. The group structure is similar to the one used by Muhammad Yunus' Grameen Bank, where joint liability for repayment alleviates the lack of security or collateral on the loans. This means that if one member gets into trouble, the others provide assistance and support to ensure success throughout the group. In Malawi the average loan size is around MWK14,000 (£60 approx.) per member.

MLF Malawi's loans programme is complemented by business and group cohesion training. Since around two-thirds of our clients have had little or no schooling, we consider the training to be essential to the overall success of our programme. To this end, all clients receive eight training sessions before their first loan, and subsequently

receive training during loan cycles as required.

Clients have to save 20% of the value of their loans (10% on the first cycle), with savings services facilitated through agreements with local banks to open accounts on our clients' behalf. This aspect of our work is crucial, since it enables clients to build up their own reserves of capital for the first time, greatly increasing their economic independence.

Clients pay a service charge, or interest fee, on loans, and this contributes towards the running costs of the organisation. We are working towards making our in-country operations sustainable in the long term, with interest payments covering local overheads. We have projected that MLF Malawi will be operating at a sustainable level by the end of 2009. However, we do not believe that universal access should be sacrificed in the pursuit of sustainability, and consequently we place an emphasis on ensuring we are serving the poorest clients in rural and peri-urban areas.

### **Achievements and performance**

2008 has seen the principal operation that the charity supports, MLF Malawi, achieve major successes in pursuing its growth strategy to self-sustainability. MLF Malawi now has a presence in all regions of the country and has over 10,500 active clients serviced from 15 branch offices.

Six new branches were opened in 2008 in the districts of Balaka, Karonga, Lilongwe, Mzimba, Nkhata Bay and Ntcheu. These new branches, together with capacity increases at several of the existing branches, enabled MLF Malawi to increase the number of loans it made in the year three-fold to just over 23,000 (2007 - 7,500). The actions that were taken to build capacity in Malawi in the previous year, together with increased focus on the key performance indicators associated with operational success, enabled this rapid growth to take place. One such success has been in our ability to reduce the time that it takes for us to relend to our clients; this ensures that their businesses remain capitalised and that the amount of capital that we require to service our clients is reduced.

For the second year in succession, MLF Malawi's repayment rate on loans has been 99%. This is an indicator that our growth has not impeded the quality of our service, and that the procedures and controls that we worked extremely hard to develop in the early stages of the operations set-up are capable of supporting our service delivery on a larger scale. We cannot however afford to become complacent about our repayment rates. Our operations reach extremely poor people living in rural areas, for whom the success or failure of staple food crops following the country's annual rainy season can mean the difference between life and death. 2008 saw Malawi experience a bumper harvest which undoubtedly contributed to our success in the year. Previous harvests have not been so successful and have resulted in famine; in such circumstances the organisation naturally writes off the loans to afflicted clients.

This vulnerability to the fortunes of the rainy season is one of the key issues that our MicroVentures programme that operates within MLF Malawi seeks to address. Its objective is to give clients in our target areas the opportunity to learn skills that they can use in value-added businesses, thereby reducing their dependence on the success of the rains for their livelihood. Although still in its pilot stage, MicroVentures has trialled the forming of loan groups to receive specific training and funding for

irrigation programmes, juice making, knitting and sewing and chicken broiler businesses. There have been positive results in several areas, and the challenge is now to identify the projects that can be scaled up and which align with the organisation's overall objective of self-sustainability.

2008 has not been without its challenges. The two major challenges we faced occurred as a result of the global economic environment impacting our operations. Firstly, the devaluation of sterling saw it lose close to a quarter of its value against the Malawi Kwacha over the course of the year. This was coupled with the second factor - the significant rise in the price of food and oil that Malawi, like many countries across the developing world, suffered. These events placed MLF Malawi operations under pressure both internally and externally. Internally its costs in sterling terms exceeded our budget, challenging the viability of its self-sustainability model, and externally challenges arose where clients increasingly requested higher value loans to enable them to run their businesses at consistent levels.

The situation in both these respects has stabilised in the short term at least, allowing us to amend our projections for Malawi. These show that self-sustainability remains achievable, but that we need to work with our best performing clients to further support them in their business development and increased financing requirements. The successful achievement of this upgrading of our service to clients is a key objective for 2009.

Our monitoring of the impact that our work is having on clients, their families and the communities in which we work has continued in 2008. Our latest study of clients in Malawi found that on average clients and their families live on a daily per capita income of \$0.67. After receiving between one and five loans from MLF Malawi, they have increased their family's per capita income to \$1.67 per day. This more than doubling of per capita income makes a major difference to people no longer classed as living in extreme poverty. The extra income, combined with savings, is sufficient to buy medicine for ill family members and to support the funding of continued education for clients' children. In total our near 11,000 clients have saved over \$240,000, an average of over \$23 per client.

Progress with MCF Zambia was disappointingly slow for much of 2008 as we encountered countless delays in the completion of our registration there. Zambia has limited experience with microfinance at the rural and peri-rural level at which we will operate and applies a comprehensive approach to the regulation of its financial institutions. As such, misunderstandings and the need for extensive clarifications of our application occurred. The trustees remained committed to this project throughout and significant donors also came forward to support it. Thankfully, in December of this year approval to operate was finally received. Following receipt of the approval we have wasted little time in preparing the ground work for the set-up of our operation and expect to make our first loan there in April 2009.

We concluded our feasibility work in Namibia in 2008 and plan to commence operations there, registration permitting, in the latter half of 2009. Our initial branch will be situated in the north of the country, close to the Angolan border where population density is closer to what we have encountered in Malawi.

Finally an initial feasibility study was conducted in Mozambique with positive results. We intend to undertake more detailed studies in early 2009 to support the



development of an operational plan for the setting up of an operation there, and to engage in the registration progress. If all goes to plan, we could be in a position to make our first loans in Mozambique before the end of 2009.

The following extract has been taken from the unaudited financial statements of the Malawi Trust:

|  | (Unaudited)<br>2008 | (Audited)<br>2007 |
|--|---------------------|-------------------|
| <b>Loan Book</b>                                     |                     |                   |
| Number of loans made                                 | 23,215              | 7,500             |
| Value of new loans made (MWK'000)                    | 331,060             | 99,543            |
| Value of new loans made (GBP)                        | 1,258,783           | 348,050           |
| Average value of loans made (MWK)                    | 14,260              | 13,270            |
| Average exchange rates (MWK - GBP)                   | 263                 | 286               |
| Repayment rate                                       | 99%                 | 99%               |
| <b>Operations</b>                                    |                     |                   |
| Number of branches as at 31 <sup>st</sup> December   | 15                  | 9                 |
| Number of client groups at 31 <sup>st</sup> December | 686                 | 270               |
| Number of staff at 31 <sup>st</sup> December         | 88                  | 49                |

## Financial Review

In 2008 the charity's income grew marginally against the previous year whilst the amount of funds expended on our charitable activities increased significantly. Nonetheless the overall health and long-term financial future of the MicroLoan Foundation remains solid, with the charity well placed to weather the consequences of the current economic downturn.

A total income figure of £907,527 (2007 - £897,476) represented a strong achievement given that in 2007 over £300,000 of the charity's income was raised through the exceptional event of the charity being selected as part of the Daily Telegraph 2006 Christmas Appeal. In addition, the charity's sister fundraising office, MLF USA received donations equivalent to £75,000 from donors managed by MLF UK's fundraising team, and £30,000 was received directly by MLF Malawi, again from donors managed by the UK fundraising team.

The charity's fundraising successes in 2008 have come as a result of it demonstrating to donors the positive impact that our work is having on the livelihoods of our clients. It is also evidence of our donors' willingness to support us in our objectives of having a self sustainable operation in Malawi that operates across the entirety of the country, and to replicate this in other areas of sub-Saharan Africa.

The implication of replacing the Daily Telegraph money has been our reaching out to a wider range and variety of donors and, where appropriate, to provide regular updates on our operational progress. This has created an increased administrative and fundraising burden, and as such has resulted in the ratio of these costs to voluntary income rising to 21% (2007 – 16%). This ratio is slightly misleading, because as noted above, £105,000 of funds were raised through work undertaken by the UK team which were then donated either to MLF USA or directly to MLF Malawi. Taking these funds into account, this ratio would in fact be 18%.

Naturally the increased funds raised in the latter half of 2007 and those raised in 2008 have enabled the charity to increase its expenditure on charitable activities. In 2008 a total of £561,589 (2007 - £355,339) was expended on charitable activities, of which £463,844 (2007 - £295,941) was expended through either direct grants to the microfinance organisations that we support or the in-country costs of our subsidiary microfinance operation.

This charitable expenditure was below what had been budgeted to be made in the year. This was due to the positive factor of our outstanding repayment rate in Malawi, together with the improved management of our relending process there (see operational review for further details) which meant that less capital than expected was required in Malawi to meet and exceed objectives. This was despite the significant devaluation of sterling against the Malawi Kwacha. Fortunately for 2008 the majority of our grants were made in the first half of the year before sterling suffered its greatest fall.

Negative factors were also behind our under-budgeted charitable expenditure in two areas. Firstly we encountered further delays in gaining approval from the Bank of Zambia to commence loan making operations in Zambia which meant that capital earmarked for Zambia in 2008 could not be used. Secondly, plans to construct a bespoke MicroVentures training centre alongside our Head Office in Kasungu were

put on hold as we did not receive the grant we had earmarked to support the project and did not wish to commence it until we had received full donor funding.

Net incoming resources were £151,155 (2007 - £394,909) resulting in total funds carried forward of £705,947 (2007 - £554,792). The level of funds carried forward reflects the need to meet reserve policy requirements and the donor support the charity received just prior to the year end towards its 2009 objectives.

Of the funds carried forward, restricted funds amount to £452,015 (2007 - £203,537). The largest restricted fund balance of £155,823 (2007 - £126,569) relates to the new branch fund which is for the purpose of supporting the first two years of finance requirements for new MLF Malawi branches. Other major restricted funds carried forward are £85,754 (2007 - £41,960) for the MicroVentures programme, £79,950 (2007 - nil) for our the start-up of MCF Zambia, £48,396 (2007 - £20,491) to be used towards the start up of a microfinance programme in Namibia and £47,382 (2007 - nil) towards our overall growth and operating costs of MLF Malawi.

### Reserves policy

The trustees have established the level of reserves (those funds that are freely available) that the charity ought to have to meet potential financial risks that it may encounter. In assessing the level of risk the trustees look across both the UK charity and its overseas programmes. In this regard the charity requires reserves because:

- it has no endowment funding and is entirely dependent for income upon donor funding from year to year which is inevitably subject to fluctuation
- it requires protection against, and the ability to continue operating despite, catastrophic or lesser but damaging events
- it requires adequate capital to meet extreme credit risk scenarios

Reserves will be retained to meet the following:

- 6 months operating costs of the charity and its programme activities (net of loan interest earned) on the basis that the current average loan cycle is approximately 5 months
- an extreme credit risk scenario giving a credit risk loss of up to 15% of total annual lending
- the value of fixed assets – to reflect the fact that fixed assets are relatively illiquid
- working capital requirements

The policy will be reviewed by the Board at least annually.

The trustees therefore consider the targeted level of unrestricted reserves as at 31 December 2008 to be approximately £290,000. The actual unrestricted reserves of the charity are currently £253,932. A tailored fundraising plan that aims to increase the amount of unrestricted income that is raised in the year ahead has been put in place by management.

### Investment Policy and Powers

The trustees have wide ranging powers of investment as determined by the Memorandum and Articles, but do not have powers to delegate investment management or appoint a nominee. Due to the charity's reserve requirement (see above) funds are held that exceed the short term expense requirements and forecast programme costs, but to which access may be required at short notice. Therefore excess funds are placed in fixed deposit accounts with the charity's bankers. The maturity of these funds is designed to correspond with forecast expenditure and reserve requirements, whilst the nature of these investments ensures that no unnecessary risks are being taken with donor funds.

As a result of the banking crisis that unfolded in 2008 it was felt prudent that the charity's exposure to any one bank be reduced. At year end the charity was in the process of opening deposit accounts with three major UK banks into which reserve funds are to be deposited.

Funds required to meet liquidity and short term expenditure requirements are retained in interest bearing current accounts.

The invested funds held in fixed deposit accounts achieved an average rate of return of 5.4% (2007 - 6.1%).

## Plans for future periods

The charity has established a model that is both effective on the ground and is motivational to both donors and volunteers. As such we believe that, whilst recognising the inevitable challenge of the current recession, the charity is now at the point of inflection for substantial future growth.

This growth will inevitably lead to a deepening of our work in Malawi as our core operation, whilst also enabling broader geographic expansion into new Sub Saharan countries.

The Malawi focus will include:

- continuing to lend small amounts of money to poor women to help them develop self-sustainable businesses, with a focus on rural and peri-urban areas.
- deepening our social impact to ensure that we continue to reach poor people, usually neglected by other microfinance operators. To this end a key objective for 2009 focuses on the need for a live means of monitoring the social impact that our work is having on our clients, families and communities and to ensure that the results and any necessary operational improvements are embedded into our operations.
- increasing available loan sizes to the best clients and ensuring their graduation into the conventional banking sector.
- developing the 'social enterprise' segment of the operation, coupled to the construction of a large training centre to ensure that clients have the opportunity to participate in businesses which will both be financially sustainable and also have a real social impact on their communities.

Developments into new Sub Saharan countries will be dependent on available funds, detailed research and will always follow the 'start small principle' to learn the lessons of a new culture. This has served the charity well since inception and also will allow us to roll out our culture, processes and procedures, thereby de-risking any new start up.

A detailed strategy review has been launched to bring focus to growth ambitions across sub Saharan Africa. In addition to identifying future opportunities for growth it will include the new operations of Zambia and Namibia, together with likely start ups in Mozambique where we have a partnership with ALMA, the Anglican London diocese and potentially other areas in both East and West Africa. The charity considers growth to be important to the spreading of our social mission whilst not being prepared to jeopardise current operations.

Fundraising will be led by increased activity in the UK, the development of our overseas – volunteer led – offices in the USA and Australia, together with the development of a new interactive web site which will be launched later in 2009.

Whilst the UK office will always be a lean operation to ensure the bulk of our funds are spent on the 'social mission', additional resource will be added as required to strengthen the control of overseas operations and fundraising.

## Trustees' responsibilities in relation to the financial statements

The trustees are responsible for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period. In preparing those financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- follow applicable accounting standards, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The trustees are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with company law, as the company's directors, we certify that:

- so far as we are aware, there is no relevant audit information of which the company's auditors are unaware; and
- as the directors of the company we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that the Charity's auditors are aware of that information.

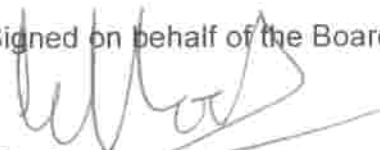
## Auditor

A resolution will be proposed at the Annual General Meeting that BDO Stoy Hayward be re-appointed as auditor to the Charity for the ensuing year.

Registered office:

10 Barley Mow Passage  
Chiswick  
London  
W4 4PH

Signed on behalf of the Board



Chairman  
Egmont Kock

