

Fundación Paraguaya, Paraguay

SOCIAL RATING: ^sAA

Excellent social performance management systems and client protection. High probability of achieving the social mission.

Social Performance Management



D C B BB A AA

Social Rating Committee May-23 Previous SR: AA-, November 2020, MFR

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BASIC SOCIAL RATING PRINCIPLES

SOCIAL PERFORMANCE MANAGEMENT SYSTEM High level of commitment on the BoD and the management team to the social objectives. Limited risk of mission drift, at present gradual supervision by the Central Bank of Paraguay through the regulatory framework for credit providers. Strategy of products and services very well aligned with the social mission: Microfinance, Poverty Stoplight, Entrepreneurial Education and Agricultural School programs. Excellent monitoring capability of the social objectives.

SCOPE OF CLIENT PROTECTION AND SOCIAL RESPONSIBILITY Good client protection and social responsibility systems, including implementation of non-financial programs for internal clients. Effective policies to prevent over-indebtedness. Moderate index of transparency in the interest rate given the inclusion of non-financial services and additional credit components. Salaries aligned with the microfinance sector in Paraguay; the induction and training system contributes very effectively to disseminate the mission to the personnel.

SCOPE Good nationwide geographical coverage. Adequate breadth of outreach at the borrower level compared with the national average, showing a recovery in client growth. Very good alignment of the financed activities with the institutional mission. Good outreach to the vulnerable population, including focus on the rural population, women and the poor.

QUALITY OF SERVICES Wide range of financial services, aligned with the needs of target clients. Due to its legal form, no savings products are offered, although savings are encouraged as a complement to the services offered. Good accessibility of products, with various delivery channels and wide coverage. Wide range and reach of non-financial services to clients and non-clients of the institution.

Datos institucionales

Dec-22

Active borrowers	79,945
Active savers	-
Gross portfolio, US\$	20,891,212
Total savings, US\$	-
Branches	25
Total personnel	436

Legal form	NGO
Network	International Action
Start	1985
Area	Urban-rural
Credit methodology	Individual, Village Banking
Financial Services	Credit, insurance
Non-financial Services	Financial education, Stoplight
Coverage	15/17 departments

Social Indicators

Dec-22

Rural coverage, clients	45.4%
Women clients	91.5%
Clients without primary education	36.0%
Clients below the country's poverty line	38.0%
Average loan granted, US\$	319
Clients without prior access to formal credit	19.0%
Productive portfolio for microenterprises	100.0%
Average loan balance / GNI pc	4.6%
Village Banking Methodology, clients	75.5%
Client dropout rate	26.5%
CeR30	2.3%
Staff turnover rate	31.1%
Average annual interest rate (AIR)	53.2%
Average transparency index	45.1
Exclusive borrowers	47.0%

For more details, see Annexes 2 and 4.

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Area	Factor	Assessment	Results
Social Performance Management System	Social Mission	Excellent	<p>The mission is complete and includes the social goals of outreach, + quality and change. The Strategic Plan includes the definition of key terms.</p> <p>+ The mission, complemented with the vision, fully reflects the intentions of the institution.</p>
	Social Governance	Excellent	<p>The BoD provides effective guidelines to guide the management team in + defining strategies and shows a high level of supervision and direction to the management team.</p> <p>+ Strong commitment of the BoD to the fulfillment of the mission, supported with the participation of different committees.</p> <p>Limited risk of mission drift with respect to the gradual supervision envisaged by the Central Bank of Paraguay (under the regulatory framework for credit providers).</p>
	Social Strategy	Excellent	<p>Social objectives and clear targets are included in relation to the + fulfillment of social objectives in the Strategic Plan and in the operational plans.</p> <p>The product strategy is very well aligned with the mission, also + highlighting the offer of the other programs (Poverty Stoplight, Entrepreneurial Education and Agricultural Schools).</p> <p>The BoD periodically reviews information related to social risks, covering + information from each of the programs, and based on the institutional risk matrix.</p>
	Social and Financial Balance	Excellent	<p>+ Portfolio and borrower growth shows signs of recovery, after the impact of the pandemic in 2020.</p> <p>+ The average ROA of the last three years (before donations) shows 2.2%, indicating a responsible profitability with their clients.</p> <p>+ See client protection for responsible pricing.</p> <p>+ Senior Management remuneration is transparent, although the remuneration gap with respect to field personnel is slightly higher compared to peer groups.</p>
	Social Monitoring and Reports	Excellent	<p>Good capacity to monitor the characteristics of target clients and social + objective of change through the Poverty Stoplight.</p> <p>+ Fundación Paraguaya has good social performance management reports.</p>
	HR alignment with the mission	Excellent	<p>+ The training contributes very effectively to the dissemination of the mission to the personnel.</p> <p>+ The performance assessment and incentive system includes parameters related to the fulfillment of social objectives.</p>

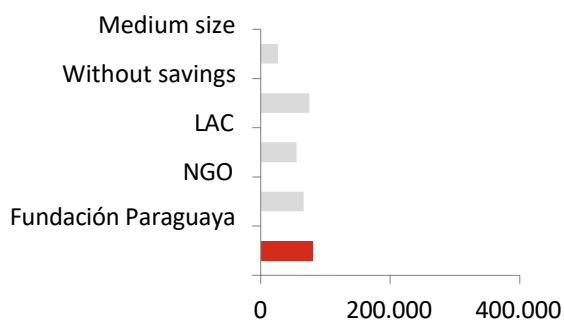
Area	Factor	Assessment	Results
Client Protection and Social Responsibility	Design and granting of the products	Excellent	+ Systematic and periodic monitoring regarding the use of the products as customer satisfaction, although to include more detail regarding specific credit characteristics.
	Prevention of over-indebtedness	Excellent	+ Medium over-indebtedness context risk. Good analysis of payment capacity. Systematic use of the credit bureau. System of variable incentives does not promote client over-indebtedness.
	Transparency	Excellent	+ Clients receive detailed information about the conditions of the credit, insurance and Clients Club prior to signing the contract. The transparency index is below (see section 2.2 for further details).
	Responsible pricing	Adequate	+ The average AER for the Committee of Women and Microenterprises reaches 60.3% and 42.8% respectively, justified by the limited average amount and the non-financial services offered.
	Fair and Respectful Treatment	Excellent	+ Good portfolio recovery policies. Good internal control system to measure appropriate collection practices with clients.
	Client Data Privacy	Excellent	+ Formalized authorization request process to review and share client information with external entities (includes credit bureau).
	Mechanisms to resolve complaints	Excellent	+ The channels to file complaints are easily accessible (virtual mailbox, App, email, call center, social networks, etc.) and respond very well to client preferences.
	Social Responsibility towards personnel	Excellent	+ Good gender balance among the personnel (63.5% of lost collaborators are women. Personnel turnover rate (31.1% in 2022) with a growing trend. + Formalized human resources policies. Systematized processes for evaluating personnel satisfaction (94% satisfaction in 2021). + Contractual conditions in line with the legislation. Salary level of collaborators is considered in line with the microfinance sector.
	Green Index	Excellent	+ The environmental strategy is adequate; includes within its mission the economic and environmental sustainability approach. Existence of different credit programs, projects and products related to the generation of environmental impact.
	Social Responsibility - community	Excellent	+ Existence of social responsibility policies for the community, including the implementation of various projects.

Area	Factor	Assessment	Results
Scope	Breadth of Reach	Good	<p>Good geographic coverage (25 offices in 15 of the 17 departments); + opening of new office in 2022. Good breadth of reach in relation to the number of borrowers reached.</p> <p>+ Average annual growth of borrowers between Jan20-Dec22 reached 5.8%, higher than the average growth of borrowers in Paraguay (0.8%).</p>
	Alignment of the geographic reach with the mission	Excellent	<p>The reach to the poorest areas of the national average is good.</p> <p>+ The coverage of rural areas (45.4% to Dec-22) with a higher concentration of the financially excluded population and higher levels of poverty is extensive.</p>
	Alignment of the vulnerability of clients and of the activities financed with the mission	Excellent	<p>Outreach to households with a low level of education and vulnerable demographic characteristics is good. Very good outreach to women clients (91.5% of active borrowers).</p> <p>+ The alignment between the type of financed activities and the mission is very good (income-generating portfolio 94.8% to Dec-22).</p>
	Alignment of poverty and financial exclusion of clients with the mission	Excellent	<p>Good outreach to poor clients; the income of 38.0% of clients is below + the poverty line.</p> <p>+ Good outreach to clients without prior access to formal financial services, according to the target client profile (village bank clients). To Dec-22, the average disbursed loan balance is US\$ 261, with a + declining trend, evidencing a type of low-level clients reached.</p>
Quality of Services	General variety of financial services	Good	<p>Adequate variety of financial services, with a wide range of credits and insurance; savings products are not offered due to its legal figure, although savings are encouraged through financial education programs.</p> <p>+ The products and services meet the needs of target clients very well in relation to working capital, fixed assets and immediate liquidity needs.</p>
	Accessibility of credit services	Excellent	<p>+ There are no access barriers to the products and services for target clients.</p> <p>The disbursement procedure is quick and easy for clients. The required collateral is in line with the amount requested and the profile of the target client (joint and several guarantees in women's committees and co-debtors in individual credits).</p> <p>+ </p>
	Flexibility of the credit services	Good	<p>+ Good level of adequacy of term and payment plans adjusted to the needs of the target clients.</p> <p>The amounts of the credits are in line with the needs of the target client, with gradual increases for the Women's Committees. Good level of service satisfaction.</p> <p>+ </p>
	Client drop-out rate	Excellent	<p>+ Dropout rate monitored on a monthly basis (26.5%, calculated using the MFR formula), showing a growing trend.</p>
	Quality of the other financial services	Good	<p>+ Good level of adequacy and quality of the insurance and assistance services offered by Fundación Paraguaya.</p>
	Quality of the non-financial services	Excellent	<p>Very good non-financial services offered (education and + training, workshops and contests, medical assistance, Poverty Stoplight, etc.), with a good reach to clients.</p>

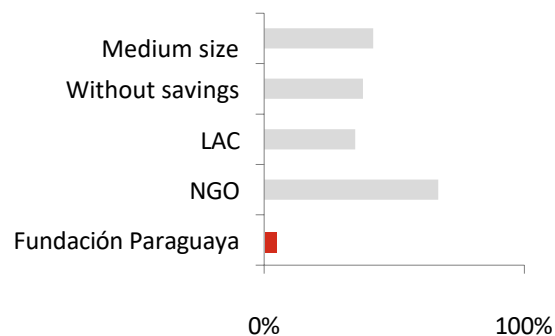
+ indicates an adequate, good or excellent score; - indicates a moderate, weak or very weak score.

Benchmark

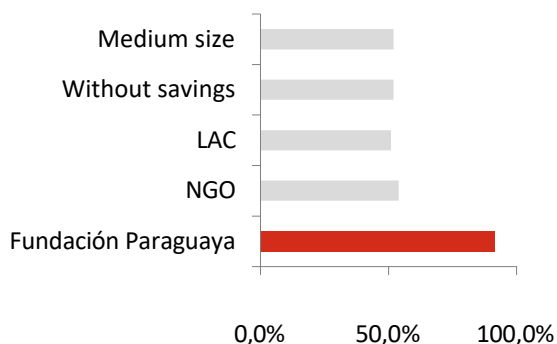
Active Borrowers



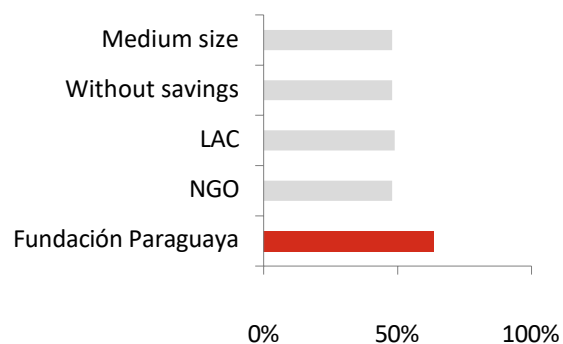
Loan Balance/Borrower/GNI pc



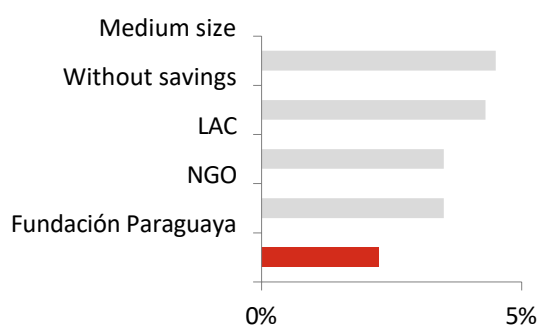
Women Clients



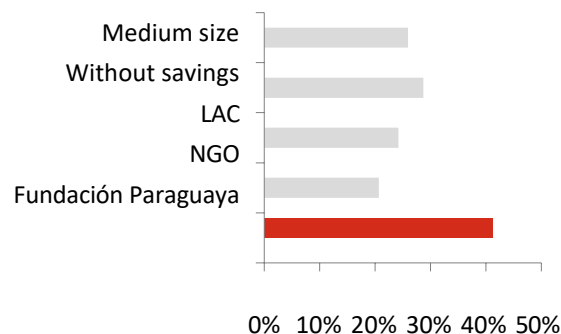
Women Personnel



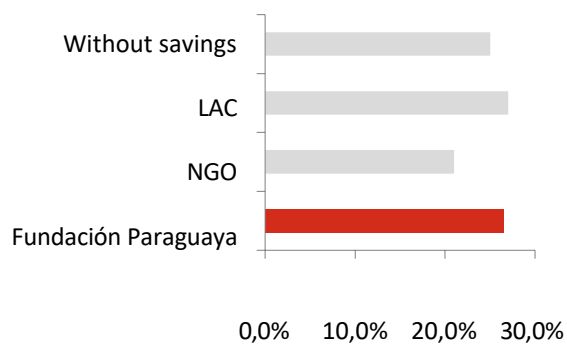
CeR30



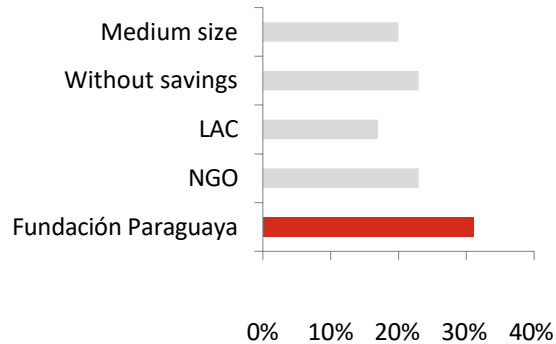
Portfolio performance



Client dropout rate



Personnel turnover rate



Context

Sovereign Risk ¹

	Dec-19	Dec-20	Dec-21	Dec-22
Fitch Ratings	BB+ (Stable)	BB+ (Stable)	BB+ (Stable)	BB+ (Stable)
Moody's	Ba1 (Stable)	Ba1 (Stable)	Ba1 (Stable)	Ba1 (Positive)
Standard & Poor's	BB (Stable)	BB (Stable)	BB (Stable)	BB (Stable)

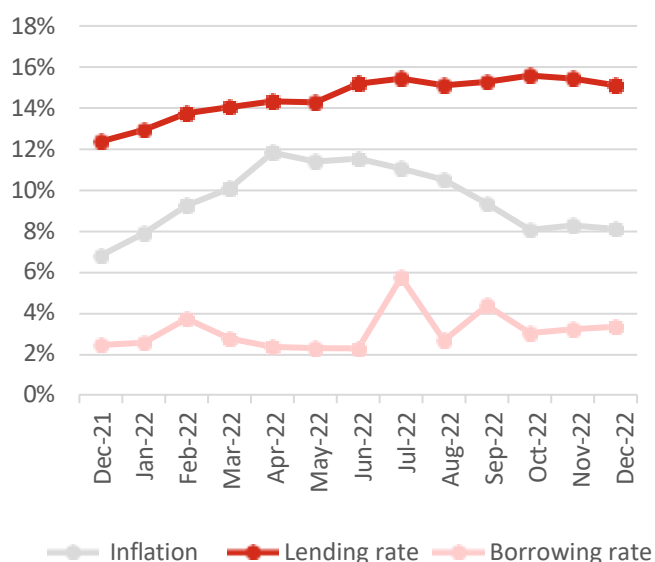
Source: Trading Economics. ¹ Long term in foreign currency. na = not available

Macroeconomic Indicators

	Dec-19	Dec-20	Dec-21	Dec-22
GDP per capita (local currency)	36,245,108	36,248,041	39,909,979	40,321,930
Local currency/dollar exchange rate	6453.14	6916.81	6879.11	7331.26
GNI per capita, Atlas method (US\$ at current prices)	5,950	5,550	5,740	nd
GDP growth (annual %)	-0.4%	-0.8%	4.1%	0.2%
Current account balance (% of GDP)	-0.5%	2.7%	0.8%	-4.9%

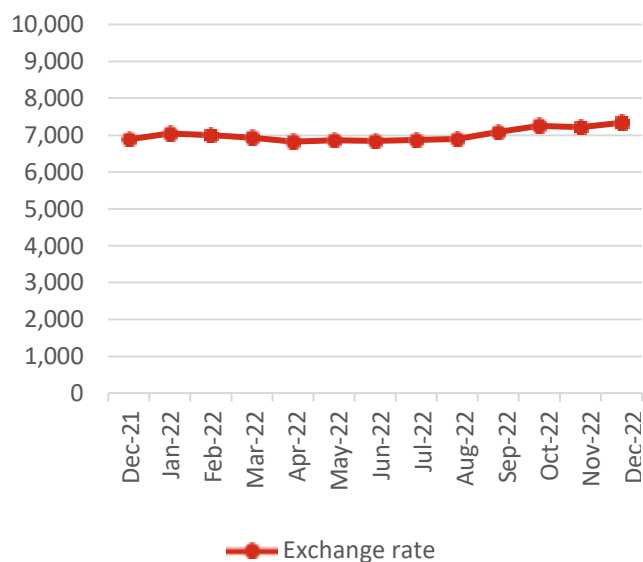
Source: World Bank. na = not available

Inflation and interest rates



Source: MFI, Internal sources.

Exchange rate, US\$



Source: MFI

Social Indicators

	Data	Source	Year
Total population	7,45,695	INE Paraguay	2022
Human Development Index (HDI)	0.728	UNDP	2021
- Level	high	UNDP	2021
Poverty rate at the level of the national poverty line	24.7%	INE Paraguay	2022
Poverty rate at US\$ 3.10 per day	31.9%	World Bank	2020
Poverty rate at US\$ 1.90 per day	0.7%	World Bank	2021
Population that did not complete primary school	12.8%	World Bank	2016
Financial Inclusion Environment ²	62%	Economic Intelligence Unit	2019
- Country ranking	15	Economic Intelligence Unit	2019
Population without bank account	48.6%	Global Findex	2017
Population without an active loan in the last 12 months	87.2%	Global Findex	2021
MIMOSA score ³	3	MIMOSA	2017

² Regulatory framework for financial inclusion and implementation of the respective public policies.

³ [MIMOSA](#): Microfinance Index on Market Reach and Saturation. nd = not available

1. Social Performance Management System

1.1 Mission, Governance and Strategy

Social mission: Excellent
Social governance: Excellent
Social strategy: Excellent

MISSION

Develop and implement practical, innovative and sustainable solutions that activate the entrepreneurial potential of families to eliminate their multidimensional poverty and live with dignity.

Social Mission

- + The mission is complete and includes the social objectives related to the target client, the quality of the services offered and the expected change, which are formally defined in its Strategic Plan with a glossary of key terms. Similarly, Fundación Paraguaya seeks to apply its mission statement to all the institution's programs: Entrepreneurial Education, Self-sustaining Agricultural Schools, Poverty Stoplight and Microfinance.

Social Objectives

Reaching the target client

Meeting their needs

Creating changes

Keywords in the mission

Families

Developing and implementing practical, innovative and sustainable solutions.

Activating the potential entrepreneurship of families to eliminate their multidimensional poverty and live with dignity

- + The mission, complemented by the vision, fully reflects the intentions of Fundación Paraguaya, shared by the Board of Directors, General Management and the management team. The mission refers to "families" as the target clients, defining them as "a group of people, generally located in the same household, with one or more sources of income"; a very broad concept of the target client is specified because the Fundación Paraguaya's outreach approach to families in general goes beyond microcredit clients, through its different programs, to reach wage earners, farmers, students, *Juntas de Saneamiento* (private community sanitation associations, young refugees, indigenous people, among others. The quality objective "to develop and implement practical, innovative and sustainable solutions" consists of the crosscutting strengthening of the offer of credit products and socially responsible services for each of the institution's programs such as: offer of microfranchises, program of financial education and training in entrepreneurship, offer of insurance and medical assistance services, program of self-sustaining schools, etc. Lastly, the objective of change "to activate the entrepreneurial potential of families to eliminate their multidimensional poverty and live with dignity" is fully aligned with the intentions of Fundación Paraguaya, highlighting the support to improve their quality of life through the application of the Poverty Stoplight. It is important to indicate that Fundación Paraguaya is now updating its Strategic Plan 2023-2027; however, no changes are expected in its mission, vision and institutional values to be considered as an aspect to be monitored.

Governance good practices

- + The Board of Directors (BoD) of Fundación Paraguaya provides guidelines to guide the management team in the definition of strategies, showing a high level of commitment to the social objectives and social performance management. The members of the BoD participate actively in the definition of the objectives detailed in the Strategic Plan. The level of supervision and control by the BoD to the General Management and the management team is good; The BoD has a measurement tool "Bonus Plan" established jointly at the beginning of each administration and defines a system of bonuses with financial and social parameters in line with the attainment of the goals for each of the programs (for example, reaching the objective of lifting 10,000 Paraguayan families out of poverty based on income and 3,000 out of total poverty, adding 2 self-sustaining schools, consolidating the microfinance model focused on poverty, among others).
- + Fundación Paraguaya has a Code of Ethics & Conduct (last update Mar-16) focused on both collaborators and members of the BoD. The Code includes guidelines to avoid conflicts of interest, as well as those responsible for ensuring compliance and their registration. The implementation and awareness of the Code is good. There is no evidence of conflicts of interest at the BoD, General Management or management team level. Fundación Paraguaya includes a conflict-of-interest policy in the Collaborator's Manual (last update Sep-12); it also has a Good Corporate Governance Policy (last update Apr-08) that describes the main roles and functions of senior management and standards of behavior, although it does not contemplate the management of eventual conflicts of interest, perceived as spaces for improvement at the time of updating these documents.

Social Governance

- + The Board of Directors is made up of 14 members (8 regulars and 6 alternates). The last elections were in 2021. Members have broad and diverse experience in financial, legal, entrepreneurial, environmental, agricultural, industrial and organizational issues. Two BoD members are specifically specialized in social performance management issues. Although there is no formal social performance committee, we underscore the different committees for each of the institutional programs such as the Microfinance Committee, the Self-Sustaining Agricultural Schools Committee, the Poverty Stoplight Committee, and the Entrepreneurial Education Committee, which meet once a month with the participation of 3 BoD members; the committees monitor the progress and compliance with the entity's social goals. It is also important to indicate that the Executive Director of Fundación Paraguaya is a prominent social and business leader in Paraguay, with strong social influence in the current government due to his participation as presidential candidate in the last elections; he is also the international representative of the Poverty Stoplight, generating relationships with governments at the regional level (Ecuador, United States, etc.) for the implementation of programs to reduce poverty.
- + The members of the BoD review and analyze information related to the social objectives of the institution, through the information available in each Committee (Self-Sustaining Agricultural Schools Committee, Poverty Stoplight Committee and Entrepreneurial Education Committee) and in all the reports and periodic reports shared with the General Management, Executive Director and BoD by each of the areas involved: (1) Satisfaction studies (annual periodicity) and use of the Fundación's services (monthly periodicity) carried out by the Client Support Center; (2) Statistics (quarterly periodicity) on the use of the benefits of the Clients Club prepared by the Clients Club Management; (3) Reports on poverty elimination, different projects and contests carried out by the Poverty Stoplight Management, etc.; and (4) in the audit and daily reports of the different areas for the General Manager and Executive Director to see first-hand all the advances of the different projects, etc. The minutes of the BoD meetings show that social information influences decision-making, although there is also evidence of an appropriate focus on financial sustainability. It is important to mention that Fundación Paraguaya includes social indicators in the OPPM in order to monitor compliance with each of the social objectives established in the mission and that are aligned with the "Bonus Plan".

- + Fundación Paraguaya is an unregulated entity, although it is currently under the gradual supervision of the Central Bank of Paraguay based on the regulatory framework for credit providers. To Jun-20, Fundación Paraguaya has been registered by the Central Bank of Paraguay as "Cash credit grantors / credit providers", according to the note issued in Mar-20 (00263/2020), where the institution was included as subject to the Banking Law and its amendments, taking into account the habituality of granting credit to its beneficiaries. The risk of this regulation creating difficulties for Fundación Paraguaya to reach target clients and maintain its social mission is limited, underscoring that the entity is already governed by interest rate regulations. This is an aspect widely discussed by the management team and the BoD.

Social Strategy

- + The Strategic Plan 2023-2027 includes the objectives and strategic goals in relation to the outreach to target clients, quality and expected changes; in addition, it describes the activities, and those responsible for their compliance, in each of the operational plans defined for each area through the OPPM tool; it is important to point out that the Strategic Plan is in the draft phase and its approval is expected in the first semester 2023. By 2027, the Microfinance program is expected to lift 3,000 families out of income poverty, 9,000 families are expected to clear all the indicators that define their multidimensional poverty (Poverty Stoplight), and 5 new offices are to be opened nationwide. The Poverty Stoplight Management expects to increase the number of families with the application of 35,000 Stoplights through companies and civil society, reaching more than 75 countries and achieving a database of 540,000 stoplights. By 2027, the Self-Sustaining Agricultural Schools Program is expected to adapt the model in at least 5 schools in Paraguay and 200 schools internationally. By 2027, the Entrepreneurial Education program is expected to reach of one million students, youth and children. It is important to mention that the areas involved monitor the operational plans on a monthly basis and report to the General Manager, Executive Director and the members of the BoD in the different committees.

Fundación Paraguaya's product offering is perfectly aligned with the mission, considering the different programs and initiatives designed specifically to reach the social objectives of Fundación Paraguaya. Financial products, services, media and distribution channels have been developed to meet the needs of target clients. As for credit products, (1) the Microfinance Management offers credits based on group and individual methodologies in the microcredit, agricultural and consumer segments; in addition to training, advice, microinsurance offer, Clients Club benefits, microfranchises and Agent Clients. Regarding non-financial services. (2) the Entrepreneurial Education Management seeks to activate the entrepreneurial potential of young people and women by providing mentoring and training through different initiatives, among which the most important are the incorporation of the *Soccer without Poverty* program, contests with Junior Achievement Paraguay Programs, program developed with the Cisco platform, *Cuentas Contigo* program with Deloitte, *Economics for Success* program (Equifax), *Hidrovías Brasil* program, *Young Entrepreneurs Forum* and the *Young Ambassadors* program, competitions for gamers, etc. (3) the Management of Self-Sustaining Agricultural Schools seeks to transform young vulnerable rural farmers into rural entrepreneurs; there are 3 agricultural schools that are part of the "Learning by Doing, Selling and Earning" methodology that is now implemented in more than 20 countries. 4) the Poverty Stoplight Management carries out the self-assessment survey of the situation of multidimensional poverty of families using 6 dimensions and 50 indicators (the institution develops different types of survey to adapt to the needs of users), accompanied by a trained advisor. In addition to direct interventions with the Stoplight, with its own collaborators, with clients of the Microfinance Program and the community in general, Fundación Paraguaya works with 423 organizations worldwide that replicate the Stoplight in 48 countries (including government entities, companies, universities, citizen coalitions, neighborhood commissions, NGOs, among others).

- + The BoD, the Executive Board and the management team regularly analyze the risks relating to social performance (risk of mission drift, risk of not meeting the social objectives defined in the Strategic Plan and operational plans, reputational risk, damage to clients, inappropriate behavior of employees: workplace harassment, discrimination, etc.), using reports and internal reports submitted to each Committee and for each of the areas involved (Internal Audit reports, monthly annual satisfaction studies, monthly reports on the use of the Fundación's services, quarterly statistics on the use of the benefits of the Clients' Club, portfolio classification reports, poverty elimination reports, etc.), as well as external evaluations (Social Rating, Customer Protection Certification, Truelift Certification, external audit, etc.) and takes appropriate actions to avoid any issues. There is evidence of decisions at the level of the BoD and management team to mitigate the risks related to social performance, which are reflected in minutes of the meetings of each committee of the institutional programs.

1.2 Social and Financial Balance

Responsible Growth

Responsible growth: Excellent

Alignment of shareholders with the twofold approach: Excellent

Responsible pricing: Adequate

Alignment of management remuneration with the twofold approach: Adequate

- + Fundación Paraguaya monitors the growth rates of the portfolio and clients on a monthly basis, using the operating plans and through the reports prepared by the Monitoring Management through the Microfinance Report. Every month the management team reviews the total growth rates, per department, branch and product, and formally identifies the difference between the actual rates and the projected growth targets, showing a very good capacity to define eventual drifts from the predetermined targets. In 2022, a portfolio growth of 9.5% was recorded, higher than the levels of previous periods (-1.0% in 2021 and -4.4% in 2020), showing a positive recovery after the impact of the pandemic at the beginning of 2020.
- + Fundación Paraguaya analyzes the market saturation (demand and penetration of the competition) through monthly reports on the economic and market scenario prepared by the Monitoring Management. Similarly, the managers of each office analyze the competition collecting information and classifying entities according to their high/medium/low level of competition; a price comparison and comparative evaluation of interest rates is also carried out.
- + In general, considering the intermediate level of penetration of microfinance services, the operation of the credit bureau and the internal credit policies, prevention of over-indebtedness, and relief measures granted to clients in the face of the health crisis, show a viability of portfolio growth in the last three years that is perceived as good, showing a 1.4% growth in the Jan20-Dec22 period. A portfolio growth of 10.0% is expected in 2024, based especially on the placement of microcredits, through the credit committees and individual portfolio, seeking digital transformation, increased productivity and operating efficiency; as well as through the geographic expansion planned with new service points.

Financial Performance	Dec-20	Dec-21	Dec.-22
Growth of active borrowers	-3.2%	11.8%	8.7%
Growth of the active portfolio	-4.4%	-1.0%	9.4%
Growth in number of employees	-18.3%	7.6%	2.1%
Growth in number of branches	-4.0%	0.0%	4.2%
Portfolio at risk (>30)	3.2%	2.8%	2.3%
Bad debt portfolio rate	2.6%	4.3%	3.8%
Restructured portfolio	1.5%	2.4%	1.2%
Credit risk rate	7.3%	9.5%	7.3%
Return on Equity (ROE)	-1.7%	2.2%	5.1%
Return on Assets (ROA)	-0.7%	0.8%	2.0%
Adjusted Return on Equity (AROE)	-0.1%	2.7%	0.5%
Adjusted Return on Assets (AROA)	0.0%	1.0%	0.2%
Operational Self Sufficiency (OSS)	100%	105%	108%
Portfolio over total assets	75%	69%	71%
Capital over total assets	37%	37%	37%
Debt-equity ratio	1.7	1.7	1.7
Personal productivity (borrowers)	166	172	183
Productivity Credit Officer (borrowers)	609	651	666
Operating expense rate	28.3%	33.2%	35.6%
Financial expense rate	5.4%	4.0%	5.1%
Provision expense rate	4.5%	5.2%	1.7%
Portfolio performance	34.3%	38.5%	41.3%
Risk coverage rate (CER 30)	132%	198%	154%
Management/field personnel remuneration	nd	nd	12.8

Source: Financial Rating

Alignment of shareholders with the twofold approach

- + The average ROA of the last three years registers 2.2%, i.e. a normal range that indicates responsible profitability with its clients. It is important to mention that, in 2020, the entity had losses before donations (ROE -1.7%, ROA -0.7% and OSS 99.8%), while in 2022 the ROE before donations was 5.1%, the ROA was 2.0% and Operational Self-Sufficiency (OSS) was 108.3%. In the last period, higher levels of profitability were recorded, mainly attributed to the improvement in the rate of return of the portfolio and the decrease in provision expenses, given the recovery of the portfolio and greater dynamism in placements after the 2020 pandemic period. It is important to mention that Fundación Paraguaya's strategy is for all programs to be sustainable; however, to December 2022, the Stoplight programs and Agricultural Schools had not yet managed to cover their operational costs. Although their subsidy reflects the entity's social strategy, the entity expects to achieve the self-sustainability of each institutional programs in the short-medium term.
- + There have been no recent changes to the ownership structure and no changes have been planned in the short or medium term.
- + The financial structure is transparent and the debt/equity ratio, reported for various periods, includes all funding sources. The audited financial statements are accessible and available upon request of raters.

Responsible Pricing

- + See section 2.2 for the analysis of responsible pricing.

Alignment of the management remuneration with the twofold approach

- + The remuneration of senior management is transparent and accessible to evaluators upon request; it is generally consistent with the institution's social mission. The gap between the remunerations of the top three Management positions and the bottom three positions of field personnel (gap of about 12.8 times) is above some peer groups (9.7 times for LAC and 9.6 times for South America, according to the MFR benchmark). Fundación Paraguaya has a bonus system for the management team in relation to the fulfillment of financial and social performance goals.
- + The BoD of Fundación Paraguaya presents a formal evaluation to the Executive Director, the General Manager and the management team, based on the "Bonus Plan" tool that is analyzed and formalized at the beginning of each administration, in conjunction with those involved, establishing the financial sustainability indicators, specific social performance indicators aligned with the mission, such as the expanding the reach, lifting families out of poverty and indicators relating to the consolidation of the Self-sustaining School models, the Entrepreneurial Education program and the Poverty Stoplight, among others.

1.3 Social Performance Measurement

- Monitoring of target clients: Excellent
- Monitoring of service quality: Excellent
- Monitoring of change/impact: Excellent
- Consolidation and analysis of social information, reports: Excellent

Target Client

- + Fundación Paraguaya shows a very good capacity to monitor clients' characteristics that are relevant to its mission. Multiple relevant data are captured during the credit origination process through the application for all clients, collected through a mobile application, such as: gender, age, nationality, marital status, spouse data, co-signor data in the case of individual credits, # of children, educational level, as well as data on the economic activity, profession, income and expenses of the business (in the case of agricultural credit: type of crop, size of the plot of land, existence of irrigation, etc.) and the family unit in general and general household data (are there separate bedrooms, modern bathroom, living room, kitchen/dining room, secure doors, secure roof, elevated cook stove, is there a television, refrigerator, radio, stereo equipment, fan, motorcycle, car, etc.), which are applied at the time of implementing the Poverty Stoplight. These data are stored electronically in the banking Core. Through its surveys, the Poverty Stoplight provides information on the level of multidimensional poverty of its clients (both for clients and non-clients of microcredit).
- + Internally, the Fundación Paraguaya developed a tool called "Poverty Stoplight", which asks 50 questions to assess the situation of multidimensional poverty of a sample of its clients and non-clients. The assessment is based on six dimensions (Income & Employment, Health & Environment, Housing & Infrastructure, Education & Culture, Organization & Participation, Interiority & Motivation) and fifty indicators that are visualized through a stoplight system (red=extreme poverty, yellow=poverty, green=no poverty), which determine the level of poverty according to the answers provided by the families themselves. It is important to mention that the Poverty Stoplight is a tool that adapts to the segment to which it is to be applied, prioritizing certain indicators or adapting the questions as required. This multidimensional poverty measurement system is applied to a sample of about 4,500 clients each year (although the goal in the OPPM is to reach 3,000 clients, due to client inactivity, delinquency, etc., a larger sample has been considered), with close support of the Fundación to improve the poverty indicators of its women clients and their families, through continuous monitoring of their map of life (plan of action).

Quality of Service

See section 2.2.1 for an analysis of the monitoring of quality of services.

Change

- + The system to monitor the change in the lives of clients who participate in the stoplight is

very good; it consists of a self-assessment survey of the multidimensional poverty situation using 6 dimensions and 50 indicators (different types of survey are developed by the institution to adapt to user needs), supported by a trained advisor. The answers are signalized as red, yellow or green; i.e. a person is not poor if all 50 indicators are green. Additionally, the institution has an internally designed platform "Poverty Stoplight Platform-PSP" consisting of 5 modules: Self-assessment, Connection, Tableau and Salesforce, Maps of Life and Georeferencing System. Change is measured with a longitudinal methodology (during a calendar year), monitoring the "map of life" (plan of action based on the results of the first stage of diagnosis of the multidimensional poverty of the families) which, with the support of advisors and credit officers (who visit the families at least once a month and contact them twice a month - as of the pandemic also monitoring virtually with WhatsApp and phone calls) who participate in the program to evaluate the families' progress. A participating family is considered to have been lifted out of poverty when the family has "greened" all its indicators, the entity maintains goals in relation to the number of clients and the number of indicators of the Poverty Stoplight that have "greened". Lastly, the Poverty Stoplight Management analyzes each period to verify how many families require an additional cycle of the program to reach the objectives, i.e. greening all their indicators.

- + Every month Fundación Paraguaya monitors the progress of the Stoplight participants. All the institution's activities are designed to improve the quality of life of its clients and non-clients in compliance with its mission. The Poverty Stoplight Management is in charge of analyzing and developing the methodology (new stoplights developed for different sectors: education, health, environment), the technology (adaptation and change of the new platform to measure poverty), and the operations (providing mentoring, training and implementation of the tool in the different institutions where it is applied). Reports on the advances of the indicators are produced every month in compliance with the goals and the information collected and the tool in general are validated.

**Report and
reliability
of the information**

- + The quality and reliability of the information collected on the profile of clients and the change in their lives are perceived as good. All aspects of the information management process, including personnel responsibilities, methods for collection, storage, quality control and reporting are clear and documented in the policies. Data collection and data capture are covered during the training for advisors and credit officers, and various areas check the accuracy of the social data collected in the field and captured in the system. It is important to indicate that Fundación Paraguaya ensures different reinductions on general policies and procedures of the institution, and on programs and tools to all field personnel, at least once a year. The Methodological Manual of the Poverty Stoplight Program provides a straightforward explanation of the correct application of the tool and the interventions to solve each case; as well as the conceptual framework, a description of the dimensions and indicators and the stages of the Stoplight's methodology and operability (1. Approach to families and diagnosis; 2. Design and application of intervention proposals; 3. Monitoring of results; 4. Intervention certification). Similarly, the Stoplight Solutions Manual details the process of monitoring and supporting participating families. Lastly, Fundación Paraguaya has a defined internal control procedure to validate and corroborate the baseline information obtained by field personnel, as well as to validate the participants' certifications: (1) in the agencies the Stoplight is monitored by the Office Manager and random monitoring by the Regional Manager in coordination with the Program Coordinator (5% sample); (2) the Monitoring Management verifies 5% of certified clients; (3) Internal Audit controls 5% of the baselines and 5% of the certifications through field verification visits.

- + Fundación Paraguaya reports social performance data transparently through the Social Rating

every two years, in addition to the Client Protection Certification (to Apr-23 the Fundación obtained the SPTF+CERISE Gold recertification) and Truelift Poverty Certification; the institution also reports annually, providing information on its social performance in its Annual Report. As of 1985, the Fundación has been part of the International Action Network, which promotes technical exchanges, benchmarking, networking and advertising; it also belongs to the international network for technical education (UNESCO (UNEVOC).

1.4 HR alignment with the mission

Alignment of the selection and training of personnel with the mission: Excellent
Alignment of the evaluation and incentive of personnel with the mission: Good

Alignment of personnel training

- + Fundación Paraguaya has an induction and training system that contributes effectively to disseminate the mission to the personnel; the mission, values, social objectives and principles of client protection are comprehensively covered during these processes. The frequency and coverage of the training on social performance is appropriate, with virtual training and on-site induction sessions that have considerable reach. The dissemination of the mission among the personnel is perceived as very good, with a strong commitment of its collaborators with the institution's social objectives.

Alignment of personnel evaluation and incentive

- + The evaluation of the performance of Fundación Paraguaya's collaborators is aligned with the mission; this evaluation is performed on all employees every six months and considers different factors to measure the ethical behavior of personnel, their relationship with clients and personnel, the quality of client support service, the display of honesty and emotional stability in their behavior, and compliance with the institution's standards, among others. In addition, the performance evaluations of advisors and credit officers consider quantitative aspects such as the fulfillment of portfolio goals, reaching target clients, delinquency, profitability, among others. The field visits of the Internal Audit review the quality of the service of field personnel, as well as the collection and quality of social data which, in relevant cases, can be considered in personnel evaluation.
- + Personnel incentives are designed to contribute to compliance with some of the social objectives of Fundación Paraguaya. The Fundación has a policy that defines the incentive regime for Regional Managers, Office Managers, Supervisors, Advisors and credit officers of Women's Committees, which are established through placement goals, arrears goals, forecasting goals, goals of adding new and renewed clients, which are determined with scales of progressive compliance based on the amount and number of clients; as well as incentives in the case of compliance with the goals in terms of the number of clients lifted out of poverty each year, measured through the stoplight indicators, sale of subscriptions to the Clients Club and Microfranchises. It is important to mention that the incentives are periodically analyzed to adapt to the new conditions of clients' payment capacity and the reality of credit placement, as well as the institution's goals. Personnel incentives and productivity goals do not contribute to the risk of mission drift.

2. Client Protection and Social Responsibility

2.1 Social Responsibility to personnel

Work environment: Good
Personnel compensation: Excellent
Professional development: Excellent

Gender equity among personnel

- + The gender balance in the entity is good. The composition of the Fundación's personnel is well balanced (63.5% of collaborators are women), although female staff is underrepresented in the Management and BoD (8.8% and 30.8%, respectively).

Personnel turnover

- Fundación Paraguaya's personnel turnover rate is above the benchmark for Latin America and the Caribbean (23.0%), according to MFR.
- + The personnel turnover rate of Fundación Paraguaya was 31.1% in 2022, which is higher than in the last periods. A certain concentration of turnover is evident in the microfinance program, including administrative areas, followed by the spotlight program, entrepreneurial education and agricultural schools. In 2022, 119 departures were registered: 42 departures in the microfinance program, i.e. 17% of its payroll of 243 collaborators. At the main offices (administrative areas) 30 departures were registered, i.e. 28% of its payroll of 107 collaborators. 17 departures were registered in the poverty spotlight program, i.e. 55% of its payroll of 31 collaborators. 6 departures were registered in the Entrepreneurial Education program, i.e. 46% of its payroll of 13 collaborators; lastly 24 departures were registered in the Agricultural Schools (13 Belén and 11 Cerrito) i.e. 47% of the payroll of 51 collaborators; all occurred at the close of 2022. Of the total number of personnel departures in 2022, 23.9% correspond to personnel who did not pass the probation period. It is important to mention that the personnel turnover goal of Fundación Paraguaya is not more than 20%. To mitigate this risk, the "Support Network" program was created, consisting of individual (in-person) interviews with each collaborator to address aspects to improve their wellbeing, both at work and in their family, in addition to talks to provide tools for collaborators to improve their quality of life, understand their needs and the quality of leadership and camaraderie.
- + In 2022, the following are among the main reasons for the departures of personnel: voluntary resignation (61%), dismissal for breach of the Code of Ethics (32%), contract expiration (3%), retirement (3%) and death (1%). 48% of voluntary resignations were due to better job proposals, 14% due to the search for new opportunities, 11% for personal and/or family reasons, etc.
- + The Organizational Development Management estimates the personnel turnover rate and monitors its level periodically. Exit surveys are applied to all employees leaving the institution due to voluntary resignation, the main reasons for leaving are investigated and a report is prepared and addressed to the Operations Management, to then be submitted to the General Management.

Personnel	Dec-20	Dec-21	Dec-22
Total personnel	397	427	436
Female personnel	65.5%	65.1%	63.5%
Female personnel in Management	43.5%	42.2%	38.0%
Female members in the BoD	30.8%	30.8%	28.6%
Personnel turnover rate	27.9%	22.3%	31.1%
Male	29.9%	24.5%	28.6%
Female	26.8%	21.2%	32.4%
Management	2.0%	0.0%	0.0%
Credit Officers	39.0%	17.2%	24.9%
Other personnel	27.8%	27.7%	39.3%

HR resource and safety at work policies

- + Fundación Paraguaya has a Collaborator's Manual that covers, in general, aspects related to salaries, incentives, working conditions, safety at work, protection against harassment, freedom of association, resolution of complaints, disciplinary procedures and other sanctions, fully aligned with the Code of Ethics and the Internal Work Regulations. All institutional policies and manuals, including those on human resources, are available to all collaborators through the "Heroes" App and on the Intranet, and are shared during the induction process and periodically in training and reinforcement sessions, as well as by email. It is important to mention that Fundación Paraguaya offers all its collaborators basic private life insurance at no cost and in each of its offices has security cameras to protect the integrity of its collaborators.
- + Fundación Paraguaya's human resources policies comply with national labor laws. The institution does not use forced or child labor and complies with the laws on the recruitment of minors.
- + In its Code of Ethics, Fundación Paraguaya clearly establishes its mission, vision and institutional values; it also defines the standards of professional conduct of its collaborators with the community, the environment, suppliers, the government and the competition. Similarly, it has a specific section on sexual harassment, non-discrimination policy and defines the complaint process and applicable sanctions evaluated by the institution's respective Ethics Committee. The risk of discrimination towards personnel or favoritism based on gender, religion, family or other factors is low.
- + Fundación Paraguaya prohibits collaborators from handling cash in the field; there are also different agreements signed with auxiliary collection companies (collection points), to mitigate the potential risks of cash in hand.

Monitoring of the work environment

- + Every two years Fundación Paraguaya conducts a survey on the work environment. The work environment survey (last one was in 2021) was developed internally by the institution and consists of 38 indicators classified into 8 dimensions that influence the behavior of collaborators. The latest work environment survey shows 94% satisfaction, surpassing the results of previous periods (91% in 2019 and 90% in 2020), evidencing areas for improvement in communications and working conditions such as: providing assertive communication tools to the leaders of the institution and of the areas, socializing the leadership model, supporting the departments/offices in the compliance of their action plan, etc. The work environment surveys are completed anonymously on a digital platform, while the results are analyzed and shared with the management team and collaborators in general. Additionally, Fundación Paraguaya applies the Stoplight to collaborators, as an additional space to listen to and receive feedback from the personnel.
- + Fundación Paraguaya has a formalized complaints system through a mailbox, email, call center and the "Heroes" app for collaborators to express their concerns confidentially. There is also openness for collaborators to share their concerns with managers on a personal level.

Contractual conditions and benefits

- + All collaborators sign an employment contract. In general, the level of remuneration of collaborators is perceived to be in line with the microfinance sector. The salary study is now being updated with the support of an external company (the last one was in 2017), and certain adjustments have been made at the management level. The fixed remuneration of personnel is based on the legal minimum salary. In addition, there is an incentive system for field personnel (advisors and credit officers) with which they can access a variable salary through monthly bonuses achieved for meeting the goals of reaching target clients and change in their quality of life; the variable salary reaches a maximum of 50% of the total salary. The progress and development of its workforce is important for the institution, through a complete and varied benefit plan (salary and non-salary): family bonus (5% of the current legal minimum wage for each child); salary advances; internal promotions; awards for seniority; leave for university exams; trainings; day off for birthdays; free Clients Club card; cellphone plans; life and personal accident insurance. Fundación Paraguaya also applies the Poverty Stoplight tool and monitors the map of life of its collaborators, through the Poverty Stoplight Management and the "Heroes" app, establishing activities to improve the quality of life of collaborators and create different strategies such as: financial support, facilitating the purchase of laptops at low-cost, access to credit with special rates, microfranchises.

Assessment, training and development

- + Fundación Paraguaya has a good personnel training system. Twice a year, different internal and external events appropriate to their functions are described in the Annual Training Plan, depending on the needs of the different areas. In 2022, 100% of the budget allocated to training was executed, providing 4,950 hours of training for 90% of collaborators who received an average of 3 days training; as well as focus on the development of technical skills (46%) and 54% of soft skills. Fundación Paraguaya also has an e-learning platform that includes the virtual and in-person learning methodologies and support. The induction of new personnel covers the essential skills of each job position. For 2023 the budget amounts to PYG 250 million (US\$ 35,000). It is important to indicate that the institution has a Leaders' School (conducted every year) and its candidates are selected according to the career plan that considers specialized parameters to train and evaluate said collaborators in line with the Strategic Plan.
- + Fundación Paraguaya conducts a formal performance evaluation on all collaborators twice a year: (1) according to the evaluation form - normal process that is carried out for all collaborators and that considers a management model based on competences; and (2) on-the-spot evaluations for corrections in personnel performance - circumstantial evaluations (not carried out on all collaborators). The results are used to feed the training plan, as well as to define promotions and salary rises. Career opportunities are based on transparent criteria, which can be reviewed in the Collaborators' Manual (results of evaluations, compliance with values, seniority, academic background, etc.). At present, Fundación Paraguaya does not have formal career plans for personnel; however, provisional replacements are informally defined.

2.2 Client Protection

Design and distribution system of adequate products: Excellent
Prevention of indebtedness: Excellent
Transparency: Excellent
Responsible pricing: Adequate
Fair and respectable treatment: Excellent
Client data privacy: Excellent
Mechanisms to resolve complaints: Excellent

Design and distribution system of adequate products

- + Fundación Paraguaya systematically analyzes the use of products and services that it offers its clients in each of the programs. (1) In the Microfinance program, the institution has extensive analysis on the placement of the portfolio for Women's Committees and individual credits, broken down by segment, gender, education, marital status, geographic location, product, office, credit methodology, security and delinquency. The portfolio information is monitored on a daily, weekly, monthly and quarterly basis. (2) In the Poverty Stoplight program, the institution analyzes information on the reach of the program. The results of the Stoplight, that is applied to Fundación Paraguaya's clients, are analyzed by region, office, type of indicator, etc. at least once a year. (3) In the Self-sustaining Agricultural Schools program, the institution identifies and analyzes potential applicants who must belong primarily to rural environments and have scarce economic resources; it also continuously monitors students' families by applying the Stoplight to them and offering services through the Microfinance program. At least once a month Fundación Paraguaya reviews the statistics of the products and services offered through its hotels and dairy products, among others. (4) In the Entrepreneurial Education program, the institution seeks to promote entrepreneurship in children, youth and women through different programs in educational institutions. The results are identified by department, region, age, gender, etc. and their scope is continuously monitored by the management in charge.

Additionally, the Client Support Center (CAC) conducts satisfaction surveys on an annual, monthly and quarterly basis, mainly focusing on the products and services offered by the Microfinance Program. Similarly, it prepares a monthly analysis of the dropout and cancellation rate in each of the offices and per type of credit, and the reasons why clients are inactive.

- + Fundación Paraguaya systematically analyzes its clients' satisfaction and the Client Support Center provides a monthly evaluation of client satisfaction: women's committees and individual clients in arrears for not more than 30 days, disbursements, renewed clients, women's committees in the first cycle, service dropouts, and complaints and claims. A general client satisfaction survey is also carried out annually on the different products and services offered (micro-commerce, consumer, service, agriculture, livestock, women's committee, small business, micro-industry and KIVA clients). In 2022, the goal of the satisfaction survey was to reach 2.2% of clients, i.e. 1,733 clients. The main results indicate that 89% of clients rate the Fundación's services as Excellent and Very Good, evidencing areas to be improved in relation to clarity for granting loans and interest rates. In addition, 98% of those interviewed stated that they would recommend the institution's services to others and 92% stated that they would extend their credit. As for the Clients Club services, 70% indicated that they do not use it and 88% of clients do not use the Fundación's mobile app either. Satisfaction surveys are also applied to clients who are beneficiaries of the different services offered by the Fundación; the 2022 survey determined that 81.6% of clients rate the service of the Hotel Cerrito as Excellent and Very Good and, according to the results of the 2022 satisfaction survey for microfranchises, 92.1% of clients rate the experience with the product as Excellent and Very Good. The incorporation of questions related to satisfaction with the different credit conditions into the survey provides evidence of room for improvement.

- + See section 4.2 for the analysis of the client dropout rate.

Prevention of indebtedness

- + The Paraguayan market has an average level of over-indebtedness. The level of microfinance services in the operation areas and the growth rate of competitors are reasonable. The risk of over-indebtedness is partly mitigated by the information provided by the credit bureau. Fundación Paraguaya constantly monitors its growth levels and delinquency levels of the financial sector and the different economic sectors with which it works. The Monitoring Unit analyzes the economic scenario once a month and the information presented by the other program managements; certain decisions have been especially adopted to avoid the risk of over-indebtedness of its clients.
- + In the Credit Manual, Fundación Paraguaya defines the limit for the payment capacity of its clients according to the client's credit product or type of activity. In the case of micro-entrepreneurs or small entrepreneurs with monthly interest and principal payments, the maximum limit should not be greater than 60% of the available family net income. In the case of employees, the maximum limit should not exceed 40% of net income. In the case of loans with monthly interest payments and principal at maturity, for the monthly interest payment the maximum limit will be 50% of the available family net income, while for the payment of the principal at maturity the limit will be 60%. For loans with interest and principal payments at maturity, the maximum limit will be 60% of net income. In the case of Women's Committees or Youth Committees, the maximum available limit will be 80% of the available income, although justified by the fact that joint and several guarantees are applied and the members of the group approve the participation of each member; although it is formalized, in practice each member's income and expenses are analyzed and approved as specified above, at the group's discretion.
- + Fundación Paraguaya's individual cash flow analysis is good. The institution analyzes the flow of income and expenses of its clients, including all members of the Women's Committees and individual credit clients. In addition to the business flow, other family income and expenses, and current debts in other institutions are considered. The Credit Officer must necessarily visit the private address and the location where the business operates to confirm the information provided. It is important to note that this analysis is conducted for each credit cycle.
- + The analysis of the payment capacity of the group's member is good. In the Credit Manual Fundación Paraguaya describes the procedure to complete the credits for urban Women's Committees and rural Women's Committees. The groups will include between 15-30 women. According to the Credit Manual, the credit evaluation process specifies that at least 50% of the members of the committee must be visited; however, the Advisor must conduct a socioeconomic evaluation interviewing each member during the first meetings with the group for the institution to analyze their income and expenses; however, it is not a decisive factor for credit approval as it is mostly based on compliance with credit requirements and policies in terms of members and the amounts to be granted. Within the committee, the women decide the distribution of the total amount of the credit; advisers must communicate promptly to the Committee if one of the members does not meet the maximum borrowing capacity (80% of the available income will be considered as the maximum), with the members of the group approving the inclusion of said member into the group, at all times stressing the concept of joint and several guarantee.

- + The quality and quantity of initial training and refresher courses for Credit Advisors and Credit Officers are excellent. Fundación Paraguaya offers its permanent collaborators and new recruits an induction and reinduction program that includes training material with sufficient level of detail. The main topics covered are: payment morality, the first interview, verification of the Informconf Credit Scoring file, verification of other references, the procedure for the analysis of individual clients and the credit committee where the flow of income and expenses must be determined, credit approval levels, etc.; as well as practical training in each of the offices with the support of more experienced personnel. All ongoing training responds to a Training Plan (virtual and in-person), organized by the Organizational Development Management and the Microfinance Management. Modifications to internal policies and other issues of interest to the credit process are reviewed at weekly meetings in each of the offices. It is important to indicate that the policies and updates are available in the Heroes app, and are generally accessible to all collaborators of the institution and emailed to all personnel.
- + The system for reviewing and reporting client data through the credit bureau is good. In its Credit Manual, Fundación Paraguaya establishes the obligation to consult the report of the credit bureau on all its clients, both to request a new credit or an extension. In the case of Women's Committees, the Credit Advisor must inform all members of the results of those with a negative record; each committee may accept a maximum of 6 members with a negative record to apply for credit. The report of the credit bureau is collected by the Office Receptionist, who initially checks the references and attaches said document to the file for it to continue the due process. In Paraguay, a credit bureau service is available (Equifax Informconf).
- + Fundación Paraguaya shows adequate levels of portfolio quality. To Dec-22, the CeR30 indicator stands at 2.3%, with a decreasing trend, mainly due to the economic recovery after the pandemic in 2020. According to information of the Central Bank of Paraguay, the delinquency indicator for financial institutions is 5.0% and 3.4% for banks. The restructured portfolio rate stands at 1.2%, while the bad debt portfolio rate in 2022 was 4.0%, lower than the previous period, albeit higher than in 2020. Relevant levels of portfolio at risk are evident with respect to the restructured portfolio (35.7% to Dec-22, 41.4% to Dec-21).
As the main mitigation measure, Fundación Paraguaya has defined a PAR30 limit of not more than 3% in the Risk Matrix. It is important to note that the Internal Audit area implemented additional delinquency alerts per product, credit methodology and the entire portfolio; a ranking of offices has been established to detect those with lower levels of productivity and efficiency, which are visited regularly for their continuous improvement.
- + The incentives for the personnel and the productivity goals of Fundación Paraguaya appraise both the accomplishment of client goals (portfolio growth and client growth), delinquency and the increase in provisions, according to the parameters previously defined in the internal policy to help prevent over-indebtedness. Regarding the last update in Jul-22, although there is no limit for the payment of the commission related to the portfolio volume, Fundación Paraguaya has established a maximum amount for the payment of the commission. Additionally, as mentioned above, there is an additional control to verify possible aggressive sales. Lastly, thanks to the constant monitoring of the Microfinance Management, Internal Audit and the Monitoring Unit, cases of fraud, client abuse, aggressive sales and over-indebtedness can be detected and mitigated.

Transparency

- + The credit settlement and the contract provided to clients include all the conditions of the loans: loan amount, nominal interest and commissions (amount), annual interest rate (AIR, although it does not include all the cost components to access credit), total cost of the loan amount, disbursement date and credit term, amortization table (with amounts of principal and interest for each payment), linked products (Clients Club), consequences of late payments and collection expenses. The credit settlement also includes an amortization table. The credit settlement for committees can be completed including the amount of principal and interest in the installments of each member. It should be noted that the new clauses on rates and fees for the month are issued on a monthly basis, and published and displayed visibly for clients in the offices of the Fundación.
- The institution's transparency index represents a weighted average of the transparency index of the two main credit products: Women's and Microenterprise Committee (representing 91.7% of the portfolio), is low (45), implying a significant difference between the nominal interest rate disclosed to clients and the effective interest rate calculated according to international standards (MFR Methodology), mainly due to additional cost components to access credit (mandatory debt microinsurance, administrative expenses and Clients Club). These costs are partly redistributed to clients through the different education programs that are provided free of charge, as well as the additional services included that are beneficial to, and show a good level of use and satisfaction of, the clients.

Responsible pricing

- + The AER of the two main products of Fundación Paraguaya (women's committees and microenterprise) is 53.2%, with a higher rate for the committees than for microcredit (60.3% and 42.8% respectively). The AER for both products includes: interest rate; mandatory debt microinsurance; Clients Club; administrative expenses; and 10% VAT on additional expenses to the credit: Panal Seguros + Membership Fees + Administrative Expenses + Interest + Rounding. The rate is higher than its regional peers (LAC region 43.3% and South America 35.2%). It is important to emphasize that, in order to improve price transparency and responsibility, in 2022 Fundación Paraguaya changed from a flat rate to a rate on the declining balance of principal in its women's committee's product, showing its commitment to target clients. As for the nominal rates, the institution is governed by the clauses of the Central Bank of Paraguay. The difference between the AER of Fundación Paraguaya and its regional peers is justified by the limited average credit granted (US\$ 319), which shows a declining trend; the village banking methodology (75.5% of its clients); the Clients Club benefit that includes basic healthcare and other benefits; credit life insurance; the application and monitoring of the spotlight that entails higher expenses, as well as the complementary education services provided as part of the village banking methodology.

See section 1.2 for the alignment of profitability with the mission.

Credit products	Average annual interest rate (AIR) ¹	Average transparency index ¹	Active borrowers	Active portfolio	Average loan balance US\$ ²	Loan balance / GNI pc ²
Women's Committee (Village Bank)	60.3%	50	77.1%	54.8%	186	3%
Microenterprise	42.8%	37	18.6%	36.9%	518	9%
Fundación Paraguaya	53.2%	45	95.7%	91.7%	261	5%

Microfinance Transparency Methodology: Pricing analysis tool. ¹ Main credit products that together constitute >70% of the portfolio (Annex 4). ² The data in the Fundación Paraguaya's line refer to the total portfolio.

**Fair and
respectful
treatment**

- + The Credit Manual specifically indicates the procedures to be followed to manage the arrears of individual and group credits. These procedures specify the action to be taken per delayed segment. Inappropriate practices are also detailed: physical aggression, use of offensive words or abusive language, sharing information with third parties about the client's delinquency to embarrass them, contact at inappropriate hours, entering the home or seizing assets without the client's consent or without a court order, depriving the client of basic goods for their survival. Field and collection personnel receive regular training on follow-up and inappropriate delinquency management practices are repeated.
- + Fundación Paraguaya has an internal policy that defines restructured and refinanced credits, establishing credit evaluation guidelines and analyzing the conditions for granting this type of credit. Fundación Paraguaya establishes the general rules for clients to access refinancing in its internal policy, for example: (1) decrease in sales greater than 40%; (2) Theft or assault, with significant damage affecting the business's income; (3) Health issues of the credit-holder or close relative; (4) Death of a close family member; (5) Fire in the home or business premises; and (6) Problems caused by natural disasters such as floods, droughts, etc. It is important to note that the Fundación also granted specific measures, due to the pandemic contingency, as financial relief for its clients, which involved the implementation of specific policies. To Dec-22, the restructured portfolio was 1.2%, with no COVID-19 portfolio.
- + Fundación Paraguaya establishes internal procedures to detect breaches of the Code of Ethics, Code of Conduct and/or Internal Regulations that affect the relationship with clients: (1) Internal auditors ask specific questions about the treatment received by the institution's personnel during field visits, ruling out cases of fraud or falsehood in the information reported in the credit application forms and the proper treatment of clients; (2) Analysis of complaints and suggestions, to detect any non-compliance with the internal rules or misbehavior of the operating personnel, which is also controlled by the Internal Audit Department which reviews a sample of complaint cases; (3) Through client satisfaction surveys (phone calls) by the CAC; (4) Field visits by Office Managers with suitable frequency. There is evidence of the measures taken in cases of policy breaches, for example: verbal warnings and contract terminations.

**Client
data privacy**

- + Fundación Paraguaya always requires the client's consent at different times of the credit process: (1) In the credit application through a form that must include the client's signature, the guarantor and/or the spouse; (2) In the disbursement process during the signing of the credit contract which includes a specific section on the consent to obtain and request the information as many times as deemed necessary and provided it is to benefit the client. In addition, the credit application requests the client's authorization to report to Informconf Credit Scoring in the event of arrears of more than 90 days. This authorization is also contained in the credit contract. The client's written consent is required to use their information or photographs in advertisements, marketing materials, etc. At the time of disbursement, it is important to ensure that clients understand that their information or image may be shared with third parties who assist in a service or are partnered with Fundación Paraguaya.

Mechanisms to resolve complaints

- + Fundación Paraguaya offers several channels to file complaints: complaints and claims mailbox in each of the offices (virtual mailboxes that collect requests, complaints, claims and suggestions on tablets with voice messages, if the client so prefers), Call Center, email dedicated to the resolution of complaints and suggestions, social networks, WhatsApp and a form on the website. These mechanisms ensure that clients are able to submit complaints through someone who is not their main point of contact, for example: their Advisor or Credit Officer, Secretary/Receptionist, Lawyers or Office Manager. Fundación Paraguaya centralizes the management of complaints and claims of its clients related to external suppliers: if a client has a complaint or claim, they present it directly to the institution through any of the available channels. The mechanisms offered by Fundación Paraguaya to file complaints are adapted to client needs and preferences and are easily accessible.
- + Fundación Paraguaya promptly communicates to its clients which are the mechanisms to file petitions, complaints, claims and suggestions, both in the promotional material delivered at the time of disbursement, and during the credit promotion process through training sessions provided by the Advisors and Credit Officers. Clients receive a flyer with information on the different channels to file complaints. Additionally, during the disbursement process, the Secretary/Receptionist in each office communicates to all clients the mechanisms to file a complaint. If a client approaches the offices to file a complaint, the Secretary/Receptionist explains the detailed procedure to file a complaints through the virtual mailbox or provides the opportunity to communicate by other means, if necessary. Among its guidelines, Fundación Paraguaya establishes that all offices must include a visible, well-placed website to file complaints through the virtual mailbox.

2.3 Green Index and social responsibility community

Management of environmental risks: Good
Environmental products: Excellent
Community protection policies: Excellent
Projects for the community: Excellent

Green Index

- + Fundación Paraguaya's environmental strategy is adequate. In its mission, Fundación Paraguaya includes the economic and environmental sustainability, approach based on the different programs and projects related to the generation of social and environmental impact. BoD members have relevant experience in environmental and social risk management, including participation in programs to access water, climate action, environmental conservation, and in general, in the participation in the different social programs of the Fundación. In its Strategic Plan 2023-2027, the institution establishes that all its projects must be environmentally sustainable, i.e. that they take care of and seek to improve the environment. The institution has an Environmental Responsibility Policy (last update Jul-17) that establishes the reference framework and defines the environmental and social principles, guidelines, responsibilities and opportunities; although its update is evidence of an aspect needing improvement. Although said Policy establishes that the General Management must appoint an Environmental Coordinator, to the date of this report none had been appointed; however the activities are managed through the Programs Management. Fundación Paraguaya also has the following policies: Internal waste selection and recycling policy (2011), battery collection policy (2011), *Cuido mi Ambiente* (I look after my environment) policy (2016) and the environmentally responsible events policy (2019).
The information related to the activities of the different programs is communicated to the members of the BoD through the different committees, in the annual activity report and through the institutional report.

- + The management of the internal ecological footprint of the organization is very good. The entity has various activities to promote the optimization of resources, including awareness raising campaigns for personnel and on recycling. In addition, the agricultural schools have environmental licenses of the Paraguayan government, covering the implementation of the Environmental Technical High School program (General Directorate of Environmental Quality Control & Natural Resources), complying with adequate quality management and environmental protection. The implementation of contests and initiatives of the entrepreneurial education program with themes of environmental protection is noteworthy: eco-entrepreneurs, “playing for the environment”. However, the institution has not yet established metrics to define the internal environmental risk, although the implementation of the Environmental Stoplight is important as initiative to improve the environmental quality of the communities.
- + The monitoring of the environmental risk of the credit portfolio is perceived as adequate. Fundación Paraguaya defines categories of environmental and social risks, with environmental and social risk assessment formats for group (women's committees) and individual credits. Reports are developed on the total portfolio and per days of arrears in relation to the climate and social risks identified by the institution. There are clauses established by the financiers that specify certain activities that the Fundación must not carry out to ensure care for the environment; in addition, the credit manual contains a general exclusion list of activities that must not be financed. Although not formally defined in the credit policy, it is a common practice that, when a major critical environmental risk is detected, the institution requests environmental impact studies and, if necessary, an improvement plan.
- + Fundación Paraguaya offers specific green loan products to finance activities that promote care for the environment, for example: the KIVA credit product to finance indigenous communities to reforest with eucalyptus, with a 10-year term and ensuring that the company that sells the plants offers technical assistance to the indigenous families. Similarly, there is a special credit to finance the purchase of efficient cook stoves for families whose needs were identified in the Poverty Stoplight. To Dec-22, a total of 163 credit operations had been recorded, although less than the number recorded in previous periods (to Oct-20 with 786 operations, in 2019 with 350 operations); and with a program aimed at groups of the same community that represent the so-called *Juntas de Saneamiento* (private community water and sanitation associations) for the authorities to meet their basic needs with the advice of the Fundación and the application of the Poverty Stoplight (to Dec-22, 18 credits were generated to *Juntas de Saneamiento* made up of groups of at least 10 families).

- + The institution provides significant green non-financial services to clients in the form of environmental risk awareness raising (poster displays in environmental responsibility agencies), training in environment-friendly business or practices at both the Microfinance and Agricultural School levels (training for women's committees on care for the environment and sustainable environmental practices), the teaching and application of agricultural practices related to care for the environment in Agricultural Schools; and in the organization of events to design innovative ideas for caring for the environment and contests involving partnerships with strategic institutions with the Entrepreneurial Education Management with themes on environmental protection: eco-entrepreneurs, "playing for the environment". However, the consolidation of outreach statistics on the green non-financial services offered by the institution is evidence of an aspect requiring improvement. Lastly, in 2022 the institution implemented the "Environmental Stoplight" whose objective is to promote pro-environmental habits through the theory of change of the Poverty Stoplight in the environmental context. It includes five dimensions, each divided into informative indicators with elements to measure the situation at different levels, the stoplight (red, yellow and green) shows the habits that generate most or least damage to the environment, which are: Adaptable: as they reflect the characteristics of the local context. Actionable: There are actions that the family can undertake to influence the status of each indicator, to then start their path towards green. Understandable: The indicators are presented in simple terms that are understandable to the local context. Achievable: Each indicator shows a minimum desirable situation that the family can achieve.

**Social
responsibility
towards the
community**

- + Fundación Paraguaya has manuals and procedures to prevent money laundering. The Finance and Administration Management acts as Compliance Officer, assuming monitoring functions of the relevant activities according to local regulations (Secretariat for the Prevention of Money or Asset Laundering- SEPRELAD). In its Credit Manual, Fundación Paraguaya has an exclusion list of activities harmful to the community, in line with the provisions of Law 294/93, Art. 7. The institution has also established that deforestation, leather tanning, and service station activities may be financed if they present environmental impact studies and have an environmental mitigation plan as per stipulations in the regulations.

+ Fundación Paraguaya has different social projects with an impact on the community through entrepreneurial education programs, self-sustaining schools and the poverty stoplight, for example, training and workshops for the community in general: 16,665 children trained in savings management; 809 women entrepreneurs from different cities trained on the use of technology to sell their products, digital marketing, financial education and sales techniques (*Rompiendo esquemas* (Breaking patterns) partnered with USAID); benefits offered by the Clients Club (discounts in stores, monthly draws for household appliances, hotel stays, burial coverage, free access to medical services and cinema shows); the *Chipa Apo* contest with 351 participants nationwide; the contest "*Qué lindo tu pesebre* (How pretty your manger is) with 180 participants nationwide; the impact of the "Education to eradicate poverty" program with the participation of 11,004 school students; 28,524 people benefited from the "Junior Achievement" program; 280 young participants in the Entrepreneurs' Forum; 13,072 students enrolled in the Stoplight Olympics; etc. It should be noted that there are different applications of the Poverty Stoplight, the Environmental Stoplight and the Educational Stoplight for clients, collaborators and communities, as well as for other types of public and private organizations inside and outside the Paraguayan market (United States, Ecuador, South Africa, Romania, etc.) to help reach an important number of families from different sectors (business, education, etc.). In addition, the Poverty Stoplight program, in co-creation with IMAGO, developed a community intervention model that consists of an action pathway aiming at participation and training in the stoplight methodology for civil society actors (community leaders) that established a map to lift the community out of poverty. In 2022, 388 ambassadors (leaders) were certified and the stoplight was applied to 2,012 families in 13 municipalities.

3. Reach

3.1

Areas of operation

Geographical coverage: Excellent

Alignment with the geographical reach with the mission: Excellent

Regions of operation	Poverty	Fundación Paraguaya	
		Active borrowers	Active portfolio
Capital	13.1%	0.3%	2,6%
Central	13.2%	31.3%	32,9%
Cordillera *	22,9%	5.4%	5.2%
Misiones *	42.5%	2.5%	2,5%
Itapúa	33.4%	8.6%	7,8%
Alto Paraná	21,2%	6.6%	5.5%
Presidente Hayes *	33,4%	1.5%	1.8%
Caaguazú	39.9%	12.5%	10,9%
Paraguarí *	29,9%	7.4%	8.6%
San Pedro	38.7%	8.9%	8,0%
Ñeembucú *	40,6%	2.9%	2.7%
Guairá *	44.4%	3.2%	3,0%
Concepción *	45,3%	3.0%	3.2%
Canindeyú *	46,9%	3.3%	3.0%
Caazapá	39.1%	2.6%	2,3%
Total, Fundación Paraguaya		100%	100%
Urban operations		54.6%	62.8%
Rural operations		45.4%	37.2%
Total, Paraguay	24.7%	Paraguay. population	
Urban	19.5%	62.2%	
Rural	33.8%	37.8%	

Source: National Statistics Institute (INE), Permanent Household Survey 1997/98 -2016, Continuous Permanent Household Survey 2017 - 2022.

(*) last data reported to the second semester 2020.

- + The breadth of geographic coverage is very good. To Dec-22, Fundación Paraguaya has a network of 25 agencies nationwide, covering 88.2% of the departments in the country, with a physical presence in 15 of the 17 departments of Paraguay. In 2022, the office opened in the city of María Auxiliadora, with no new openings envisaged for 2023, although the strategic plan contemplates 5 new offices nationwide by 2027.
- + The reach to the poorest areas of the national average is good, 56.4% of the Fundación's active borrowers are in departments above the national poverty level.
- + The coverage of rural areas, with a higher concentration of the financially excluded population and with higher levels of poverty, is extensive; the percentage of rural operations of the Fundación (45.4%) is above the percentage of the rural population in Paraguay (37.8%).

3.2 Clients reached

Breadth of reach: Good

Alignment of the depth of reach with the mission: Excellent

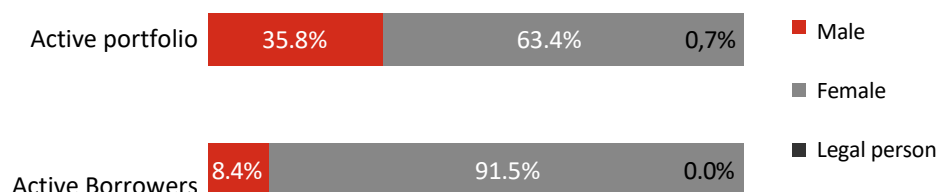
Fundación Paraguaya	Jan-20 Dec-20	Jan-21 Dec-21	Jan-22 Dec-22
Active borrowers	65,779	73,560	79,945
Gross portfolio, US\$	20,435,703	20,342,419	20,891,212
Branches	24	24	25
Active portfolio growth	-4.4%	-1.0%	9.4%
Growth of active borrowers	-3.2%	11.8%	8.7%

- + The breadth of reach indicated by the number of borrowers compared to the regional average is large. To Dec-22, the institution had 79,945 active borrowers, above the benchmark of microfinance institutions in the region (LAC: 65,959, source: MFR).
- + The total number of borrowers is high compared to the local market. To Dec-22, the average number of active borrowers of 32 institutions reporting to the Central Bank of Paraguay (banks, finance institutions and others) was 71,178; lower than that registered by the Fundación in the same period.
- + The average annual growth of borrowers between Jan20-Dec22 reached 5.8%, higher than the average growth of borrowers reporting to the Central Bank of Paraguay (0.8%) in the same period.
- + As of 2021, Fundación Paraguaya once again has shown growth of borrowers, given a post-pandemic reactivation scenario, although growth was slightly lower in 2022 than in the previous period.

Alignment of the social vulnerability and household profile with the mission

- + Outreach to homes with a low level of education is good. Because the database of the socioeconomic surveys shows that the portion of clients who did not finish primary school was 36.0% in 2022; while the latest statistics reported by the INE (2019) indicate that the average years of study of the population over 25 years of age was 9.2 years, so we can infer that in general, the Paraguayan population completes their primary education that, at present, is 9 years-long.
- + Based on the available data, outreach to homes with vulnerable demographic characteristics is good. To Dec-22, 28% of Fundación Paraguaya's clients are under 30 years of age, evidencing that 72% are clients are 30 years of age or older. According to information provided by the institution, 0.05% of the portfolio is made up of clients with special capacities and 0.03% are clients who are responsible for a person with disabilities. 0.4% of the portfolio accounts for clients of indigenous communities. It is important to mention has a portfolio placement goal of the Microfinance program for indigenous clients and clients with special capacities, as part of the institution's target clients.
- + Based on the available data, outreach to women is very good. The portion of women clients is significantly higher than the national and regional average (54.0% in LAC and 42.3% in Paraguay, according to the MFR benchmark); 91.5% of the Fundación's active borrowers are women. It is important to mention that the gender approach is not formally included in the institutional mission statement, Fundación Paraguaya has specific credit products for women (women's committee), training programs, targeted contests, etc.

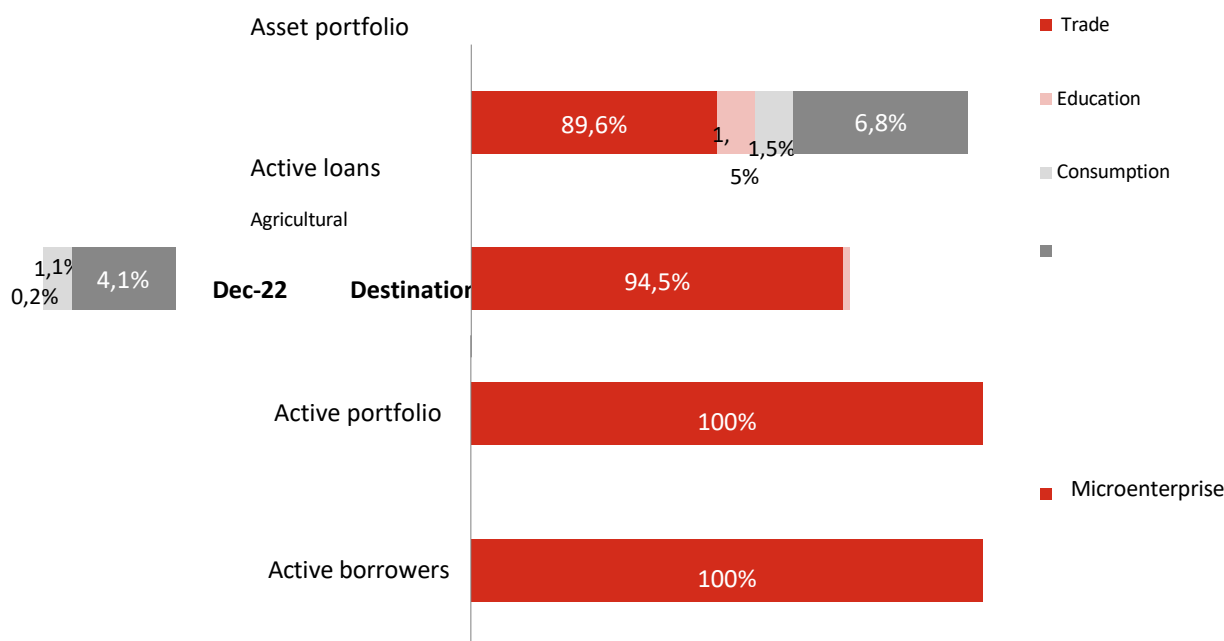
Dec-22 Gender



Financed Activities

+ The alignment between the type of activities financed and the mission is good: the portion of loans that finance income-generating activities is very high (94.8% to Dec-22) and is significantly above the average of other similar institutions of the region (71.0% for LAC, according to the MFR benchmark). The consumer credit portfolio is low (6.8%) and has an internal limit of 15%, while the destination to business accounts for 89.6% of the total portfolio. 54.8% of the portfolio is allocated to women's committees focused on promoting their entrepreneurial potential, for example through microfranchises.

Dec-22 Activities financed



Economic poverty

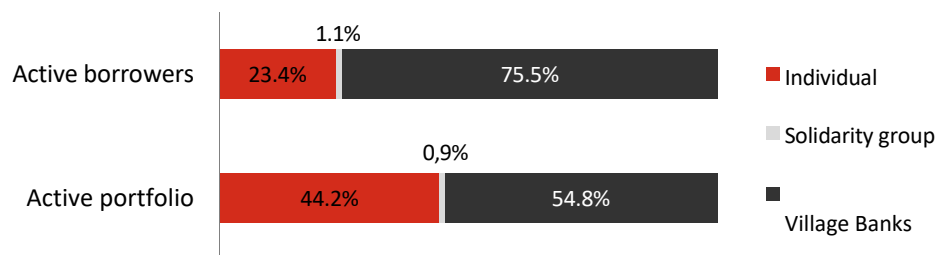
+ Outreach to the poor population is very good and shows good alignment with the mission. According to the latest information available, in 2021, 38.0% of all clients were below the national poverty line, evidencing less reach compared to that registered in the 2019 survey (66.0% of clients) and Sep-20 (71.0% of clients). It is important to point out that, in 2022 the results of the application of the Poverty Spotlight to the clients of the Microfinance program show that the poverty levels of 3,716 of the 5,077 families had improved, with 35% of the families reporting green in 3 to 8 indicators and the average of indicators in red and yellow declining from 7.7% (1.5% indicators in red and 6% indicators in yellow) to 4.4% (0.7% indicators in red and 4% in yellow).

Housing and assets

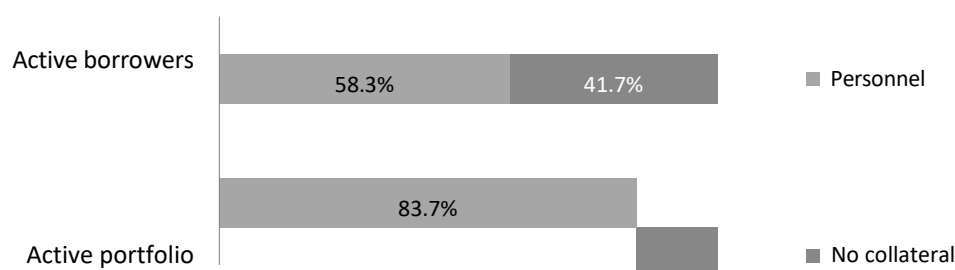
+ The outreach to homes that do not own land and house is adequate, and less than the national average: To Dec-22, 22.0% of Fundación Paraguaya's clients had their own or borrowed homes, while to 2021, at the level of Paraguay, the percentage of homes with their own house was 71.5%, according to statistical information provided by the INE.

- + At present, Fundación Paraguaya does not have collateral security for its credit portfolio. The number of loans covered by joint and several guarantees suggests that most clients are not necessarily owners of high value assets.

Dec-22 Credit methodology



Dec-22 Collateral*



*Estimate based on the breakdown per credit product

Access to financial services

- + To Dec-22, according to information presented by Fundación Paraguaya, outreach to financially excluded people (clients without prior access to formal financial services) was 19.0%; this is aligned with the national average (18.5% according to the MFR benchmark), although lower than the regional average (52.5% for LAC, according to the MFR benchmark). In addition, to Dec-22, the percentage of active borrowers in rural areas accounted for 45.4% and the percentage of the credit portfolio in rural areas accounted for 37.2%; while the percentage of the portfolio placed in the village banking methodology is 54.8% (portfolio represented by women who have or do not have a fixed economic activity and do not have collateral security, making it difficult for them to access formal financial services), which suggests good outreach to the financially excluded population. It should be noted that the outreach to the financially excluded population is not explicitly part of the social objectives of the institution; however, when seeking to serve the poor population the elimination of their multidimensional poverty is expected to include this aspect.

Size of loan and savings

- + To Dec-22, the average balance per credit was small (US\$ 261), representing 4.6% of GNI per capita, indicating reach to a type of low-level customers, in line with the entity's social objectives. The product of the Women's Committee, which represents the majority of borrowers, has a particularly low average credit (US\$ 186). There is also evidence of a decline in the average credit balance in the last year, in line with the strategy adopted by the Fundación.

Loan size	Dec-20	Dec-21	Dec-22
Average loan balance, US\$	311	277	261
Average loan granted, US\$	338	335	319
Average loan granted (US\$PPP)	582	572	581
Average loan balance growth ¹			-4.0%

¹ Average annual growth of the last three years.

Loan size per product	Average loan balance, US\$	Loan balance ¹ / GNI pc	Portfolio growth ²
Women's Committee (Village Bank)	186	3.2%	6.3%
Consumption	438	7.6%	9.3%
Agricultural	1,438	25.0%	46.4%
Microenterprise	518	9.0%	13.4%
Total	261	4.6%	9.4%

¹ Per borrower. ² Last period.

4. Quality of Services

4.1 Variety of Services

Range of types of service: Good

Range of services for the different needs of clients: Excellent

Variety of types of services

- + Fundación Paraguaya offers credit products, insurance and non-financial services to its clients, while savings and other financial services (leasing, factoring, money transfer and payment services) are not offered due to their legal form.
Although the entity does not offer savings services given its legal form, in the case of Women's Committees (village banking), the Fundación encourages the savings culture through training and support during the first credit cycle, to finally request mandatory savings as of the 2nd cycle that corresponds to 10% of the requested amount. These savings must be deposited in a financial entity and are periodically audited by Fundación Paraguaya. As of the 2nd cycle, the Women's Committee must establish a common fund in parallel of 3% of the credit, in charge of a person appointed by the Committee that is used for group activities. It is important to mention that these funds can be used or withdrawn at any time by Committee members and can be used to cover installments in cases of default.
- + Fundación Paraguaya offers its clients two insurance options: mandatory debt insurance (credit life insurance) and voluntary insurance through the Clients Club that includes: burial insurance and basic medical insurance. Mandatory debt insurance is offered through a collaboration with an authorized insurance company (Panal Seguros), while voluntary insurance is offered directly by Fundación Paraguaya. The Clients Club provides discounts on medical consultations, laboratory tests and analyses, clients club benefits (discounts in certain stores, discounts on entertainment, among others), etc.

Variety of different services for different needs of clients:

- + Fundación Paraguaya offers a wide range of products and services to meet the needs of its clients. Clients have several options to meet the financial needs of their home and business through credits with appropriate characteristics to finance working capital, fixed assets, agricultural activities (with payment at maturity), family events such as weddings and funerals, education and health, for the purchase of eco-efficient cook stoves and of the private community water and sanitation associations (*Juntas de Saneamiento*); as well as educational credits (*Credicolegio* for educational institutions and *Crediestudio* for students). The credits also target vulnerable sectors of the population such as people with disabilities, indigenous population, etc. In addition, the institution's credit product offering includes different payment frequencies: weekly, fortnightly, monthly, bimonthly, quarterly, semiannually or at maturity, which are established according to the amount and destination of the credit. Additionally, the institution offers non-financial services such as financial education and training in entrepreneurship, sales and microfinance, participation in the Poverty Stoplight and its different variations, the Microfranchise model, Clients Club benefits (discounts in stores, cinema shows, hotel stays, raffles, among others).

- + The products and services cover the needs of clients in common emergencies. Clients have several options to manage cash flow shocks such as refinancing (a new loan is granted to pay off current debt, this applies to credits that are already in arrears), restructuring (the client is up to date but cannot continue paying the same installment), savings promoted by the Fundación in the bank account of the Women's Committee, funds of the Women's Committee accessible for emergencies and insurance services (life insurance and Clients Club). It is important to indicate that Fundación Paraguaya applied different strategies aligned to the needs of its clients to mitigate the effects of the COVID-19 pandemic, such as new levels of moratorium and payment agreements for its clients: period of grace for the payment of principal (interest payment only), refinancing and/or restructuring.

4.2 Adequacy of services

Adequacy of credit services: Good
 Adequacy of other financial services: Good
 Adequacy of non-financial services: Excellent

Accessibility: distribution system of services, time, procedure and collateral

- + The requirements of the Fundación's products do not constitute a barrier for the target population, thanks to minimum amounts according to the income of the target client (minimum amount of US\$ 40.9), collateral requirements corresponding to the amount of credit and the profile of the target client (joint and several guarantee in the case of Women's Committees and personal collateral for individual credit), as well as physical service channels (offices, visits by the credit advisor/officer). The institution has different delivery channels, including through non-banking correspondents and points of collection with nationwide coverage. The institution also has the "Heroes" app with which clients can access a line of credit (only for Microfranchises), review their account statements, access clients club services, file a complaint and/or query, among other features. In order to promote financial inclusion, microcredits (ARAMI) are offered, which are entirely managed through WhatsApp, with the support of a chat bot; it is a product that improves access to financial services for people who are not able to travel (rural areas) and reduces costs.
- + The service delivery channels are very practical thanks to the sufficient coverage of the branch network (25 in the country, covering 15 of the 17 departments) and the proximity of the branches to the areas where the target population lives. Disbursements are in cash and/or check, which is delivered to the client at the office window; clients can also pay their installments at the Fundación's offices, at authorized payment networks (points of collection), deposit into the Fundación's accounts and with mobile banking. The last report available to Mar-22 shows that 66.6% (1,199) of clients stated that they do not use the points of collection; 29.2% (526) stated that having a point of collection nearby facilitates their payments and saves time and money; 4.5% (74) stated that the points of collection are very expensive; and 0.1% (1) indicated that there is no point of collection available in their community.
- + Disbursements are reasonably quick and straightforward for clients, and take 1 to 4 days for individual credits. In the case of creating a new Women's Committee, 4 pre-disbursement meetings are held with the adviser to explain the work of the Fundación, carry out socioeconomic surveys and sign the documents, as well as the application and final confirmation of the credit. This can take more than a week, but once the credit is approved, the disbursement itself does not take more than 24 hours. The documents required for the loans are easy for clients to get together and field personnel help clients complete the application form. The results of the last satisfaction study generally show that the proportion of clients satisfied with the Fundación is very high; however, as a space for improvement a question should be included in relation to the disbursement process.

- + The types of collateral required are accessible to target clients and their value is appropriate with respect to the credit risk of the credits disbursed. The Women's Committees are 100% backed by joint and several guarantees, while the majority of individual clients have a co-signer and present a sworn statement of assets held as collateral which, by decision and initiative of the client could be sold in the case of default (to Dec-22 there were no additional coverages as the institution does not have a collateralized portfolio). The level of coverage of the collateral is not considered excessive as, in most cases, it is less than 100%. The latest satisfaction studies did not investigate client perception of the type of collateral required, so its inclusion is an aspect to consider.

Flexibility: term, frequency, amount and support

- + Credit terms are adapted to the main financial needs of the segments of the target population (from 1 month to 3 years for individual credits and 3 to 12 months for Women's Committees). The latest satisfaction studies did not investigate clients' perception of the credit term, so its inclusion is an aspect to consider.
- + The frequency of payments is well customized to the most common cash flow needs of the business and household of the target client. Individual clients can decide among different options for appropriate payment terms; for consumer credits it is monthly, for microenterprises weekly, fortnightly or monthly, and for agricultural credits monthly, quarterly, semi-annually or at maturity. Depending on the cycle, Women's Committees have the option of paying every week, every fortnight or every month. The institution does not investigate satisfaction in relation to the payment frequency in its satisfaction studies.
- + The vast majority of the financing needs of target clients are covered by the amounts of credit offered by the entity. The amounts are defined based on the client's needs and their payment capacity. For individual credit, the amounts vary between US\$ 68 and US\$ 50,000; while for Women's Committees they vary between US\$ 40 and US\$ 1,000. The average loan granted in 2022 was US\$ 319. However, a specific question needs to be included on the amounts of the loans in the satisfaction studies.
- + The client service offered by Fundación Paraguaya's personnel is good, client satisfaction is very high in relation to field personnel according to the client satisfaction study conducted in Mar-22, where 40.0% rated the services as Excellent, 49.9% as Very Good; 10.0% as Good; and 1.0% as Fair or Poor.

Client dropout rate

- + The dropout rate is monitored on a monthly basis using a reliable formula. The system allows a general analysis of the client dropout rate, its trend and concentrations at the branch level. The dropout rate is also available per client segments.
- + The client dropout rate (26.5% in 2022, calculated with the MFR formula) is above the regional average and in line with the average for similar institutions (21.0% in the LAC region and 27.0% for similar institutions - NGOs), according to the MFR benchmark; the trend in the client dropout rate is increasing. The dropout rate calculated by Fundación Paraguaya in 2022 was 29.5%.
- + Reasons for client dropouts are formally investigated and monitored for all clients who cancel (do not extend) their credit. The Regional Managers collect the information every month, where the advisors and credit officers justify the reason for non-extension of credits, after which the Client Support Center classifies the responses into categories to make the analysis more effective. In general, the method used to categorize the reasons for leaving is appropriate for the analysis. This consolidated analysis is performed once a year at the organization level to identify the main reasons for client dropouts.

- + The possibility of target clients turning to other financial institutions with more diversified or appropriate products and services does not appear to be one of the main reasons for client dropouts. In 2022, the main reason for the departure of clients from the women's committees was internal arrears, i.e. clients who no longer have the payment capacity and are, therefore, excluded from or leave the group; while the main reason for leaving individual credits is their own decision to take a break between credits.

Client dropouts	Jan-20	Jan-21	Jan-22
	Dec-20	Dec-21	Dec.-22
Client dropout rate	22.9%	21.9%	26.5%
Client departure rate (Fundación Paraguaya)			29.5%

Adequacy of the financial services other than credit

- + Fundación Paraguaya offers credit life insurance (compulsory life insurance), and an insurance and benefits package through the Clients Club that includes: burial insurance (in the event of the death of the spouse or child under 18 years of age) and basic medical insurance (consultations, clinical analysis, x-rays and diagnostic aids). The insurance offered is in line with the needs of the target population to protect them from negative events, thanks to the diversified range of events covered and the adequate amounts of losses covered. The range of available plans is reasonably priced (premium) and adequate coverage (adequate amounts of losses covered) with a term aligned to the term of the loan. The institution analyzes the statistics of insurance claims on a monthly basis, showing that the rate of rejection of claims is 0%; and satisfaction studies are carried out periodically on the use of Client Club benefits and show that 97.0% of clients who used the insurance and/or medical assistance service rate the service provided as Good, Very Good or Excellent.

Variety and adequacy of non-financial services

- + The quality and relevance of non-financial services for the target population are very good. The services have been specifically designed to reduce the vulnerability of clients, activate their entrepreneurial potential and take avail of economic opportunities, reduce their levels of multidimensional poverty and improve the quality of life of its clients. Fundación Paraguaya has developed different programs to fulfil its mission, which are combined and lead to the completion of a development cycle for the families. We underscore the non-financial services of financial education and training in entrepreneurship, sales and microfinance, the offer of microfranchises, as well as the application of the poverty stoplight to learn about their current situation to then meet their unmet basic needs by following their map of life.
- + According to information provided by Fundación Paraguaya, the reach of the pool of non-financial services covers more than 50% of clients. Regarding the Microfranchise models, 1,300 benefited clients were recorded in 2022. In 2022, the beneficiaries of the Clients Club recorded 13,387 medical services in hospitals, 5,147 attendees to cinema shows, 411 beneficiaries of the monthly raffles of household appliances, 177 beneficiaries of the burial service, 2,813 beneficiaries stayed at the Hotel Cerrito and 907 at the Hotel Belén. As for the Entrepreneurial Education program, an outreach to 175 women benefited from AWE workshops and courses in 6 different cities and 7 bootcamps, 180 participants of the Paraguayan Entrepreneurs' Forum. 90 rural entrepreneurs graduated from the Self-Sustaining Schools to Dec-22 (not clients of the microcredit program). The Poverty Stoplight is applied to an average of 4,500 clients each year; as of the creation of the Poverty Stoplight program until Dec-22, 27,568 stoplights were implemented to clients of the institution. Each program has its own budget and the Fundación expects each of them to be sustainable, which is still a challenge for the Agricultural Self-Sustaining Schools and the Poverty Stoplight.

- + The alignment of the strategy with the mission is reinforced by the implementation of other projects and initiatives that generate a relevant social benefit for clients. For example, through different contests promoted by the committees of women entrepreneurs, the main objective of which is 'greening' the Poverty Stoplight indicators (My Bathroom, My Kitchen, My Pride; My Happy Smile; *Verdeáte*; *Chipa Apo*, etc.). In 2022, 12 contests were held, 83,565 women participated, and 5,571 women's committees enrolled. Similarly, through the Entrepreneurial Schools Challenge, 513 business ideas and training programs on tools for entrepreneurship development, leadership, financial education, etc. were created partnered with different institutions such as The Coca Cola Foundation, Britimp, Tupí, Panal Seguros, the US Embassy, Junior Achievement, etc., showing full alignment with the objectives set out in the social mission of Fundación Paraguaya.

Annex 1 – Universal Standards and Client Protection Certification

Social Rating

- ✓ Social performance management
- ✓ Client protection
- ✓ Reach
- ✓ Quality of services

Universal Social Performance Management Standards

The Social Rating shows the implementation of the Standards.



Certification of Client Protection

- ✓ The Social Rating provides an indication of efforts to achieve Certification.
- ✓ The Social Rating is not a Certification, but it can be carried out together with a Certification with MFR (authorized).

Universal Social Performance Management Standards validated by the Social Rating

Implementation

1 Define and Monitor Social Goals	Good
1a The institution has a strategy to achieve its social goals	High
1b The MFI collects, reports, and ensures the accuracy of client social data	High
2 Ensure the social Commitment of the Board of Directors, Management and Employees	Good
2a Board members are committed to the mission	High
2b The Board of Directors holds the MFI accountable for its mission.	High
2c Senior managers set and oversee the social strategy.	High
3 Design Products and Channels that respond to Client Needs	Good
3a The MFI understands the needs and preferences of different types of clients	High
3b Products and channels are designed to benefit clients	High
4 Treating Clients Responsibly	Good
4a The MFI avoids over-indebtedness of clients	High
4b The MFI transmits clear, sufficient and timely information to clients	High
4c. The MFI treats its clients fairly and respectfully	High
4d The institution respects the privacy of client data	High
4e The MFI has timely and responsive mechanisms to resolve complaints	High
5 Treating Employees Responsibly	Good
5a The MFI protects employees and creates a supportive work environment	High
5b Working conditions are transparent, training is provided	High
5c The institution monitors staff satisfaction and turnover	Intermediate
6 Balancing Social and Financial Performance	Good
6a Sustainable growth for market conditions, with quality service	High
6b The financial structure is appropriate for an MFI with a social mission	High
6c The pursuit of profit does not affect the sustainability or wellbeing of clients	High
6d The remuneration of senior managers is appropriate for an MFI with a social mission	Intermediate
7 Green microfinance	Good
7a The institution addresses environmental issues through a formal strategy.	High
7b The institution manages its internal environmental risks.	High
7c The institution manages its external environmental risks.	High
7d The institution promotes green opportunities.	High

Implementation: high; intermediate; low.

¹ Map of Universal Standards included in the Social Rating methodology (www.mf-rating.com)

General opinion of the Social Rating on the Client Protection Certification

Status

1 Design and distribution system of adequate products	Certified
2 Prevention of over-indebtedness	Certified
3 Transparency	Certified
4 Responsible Pricing	Certified
5 Fair and respectful treatment	Certified
6 Client data privacy	Certified
7 Mechanisms to resolve complaints	Certified

Annex 2 – Social Indicators

CLIENT PROTECTION AND SOCIAL RESPONSIBILITY	Dec.-22
Women personnel	63.5%
Women staff in the Management	38.0%
Personnel turnover rate ¹	31.1%
Portfolio performance	41.3%
Average annual interest rate (AIR)	53.2%
Average transparency index	45.1
Operating expense rate	35.6%
CeR30	2.3%
Return on Equity (ROE)	5.1%
Return on Assets (ROA)	2.0%
REACH	
Active borrowers	79.945
Growth in active borrowers	8.7%
Active portfolio growth	9.4%
Individual methodology, active portfolio	44.2%
Individual methodology, loans	23.4%
Solidarity group methodology, active portfolio	0.9%
Solidarity group methodology, loans	1.1%
Village Banks Methodology, active portfolio	54.8%
Village Bank Methodology, loans	75.5%
Urban coverage, active portfolio	62.8%
Urban coverage, clients	54.6%
Rural coverage, active portfolio	37.2%
Rural coverage, clients	45.4%
Agriculture, active portfolio	1.5%
Agricultural, loans	0.2%
Income generating activities, active portfolio	91.5%
Income generating activities, loans	94.8%
Productive portfolio for microenterprises	100.0%
Women clients, active portfolio	63.4%
Women clients	91.5%
Clients <30 years of age	28.0%
Clients without complete primary education	36.0%
Self-employed clients	85.0%
Clients below the country's poverty threshold	38.0%
Homeowner households	22.0%
Clients without prior access to formal credit	19.0%
Exclusive borrowers	47.0%
Average loan balance, US\$	261
Average loan balance / GNI pc	4.6%
Average loan granted, US\$ ²	319
Average loan granted (\$PPP)	581
QUALITY OF SERVICES	
Client dropout rate	26.5%

Source: SIG.

¹ Calculated with the average number of personnel. ² Calculated using the average exchange rate.

Annex 3 – Financial Products

Credit products, US\$ /1	Women's Committee (Village Bank)	Consumption	Agricultural	Microenterprise
Destination of the credits	Microenterprise	Personnel	Microenterprise	Microenterprise
Credit methodology	Village Bank	Individual	Individual	Individual
Currency	PYG	PYG	PYG	PYG
Type of interest	On balance	On balance	On balance	On balance
Min. annual interest rate	20.0%	20.0%	29.9%	4.0%
Max annual interest rate	30.0%	30.0%	30.0%	30.0%
Initial commissions (% or amount)	Up to 15% on the amount	Up to 15% on the amount	Up to 15% on the amount	Up to 15% on the amount
Minimum amount, US\$	41	68	68	68
Maximum amount, US\$	1,091	13,640	13,640	\$50,000
Min. term (months)	3	1	1	1
Max. term (months)	12	36	12	36
Payment frequency	Weekly, Fortnightly, Monthly	Monthly	Monthly, quarterly, semi-annually	Weekly, Fortnightly, Monthly
Period of Grace	Up to 90 days paying only interest	None	None	Up to 60 days for strengthening credits of MSMEs
Collateral	Joint and several	Personal	Personal	Personal
Mandatory savings	Yes, in other entities	None	None	None
Target population	Poor women	Wage earners	Independent and/or dependent workers of the agricultural sector.	Independent workers formal and informal microenterprises.

Annex 4 – Definition of Indicators and Statistics

SOCIAL PERFORMANCE MANAGEMENT

Portfolio at risk (>30)	Past due portfolio > 30 days / Gross portfolio
Bad debt portfolio rate	Written off portfolio in the period / Average gross portfolio
Restructured portfolio	Rescheduled or refinanced portfolio / Gross portfolio
Return on Equity (ROE)	Net result / Average Equity
Return on Assets (ROA)	Net result / Average Assets
Return on adjusted equity (AROE)	Adjusted net result / Average Equity
Adjusted Return on Assets (AROA)	Adjusted net result / Average Assets
Operational Self Suff. (OSS)	(Financial income + Other operating income) / (Financial expenses + Provision expenses + Operating expenses)
Financial Self-Suff. (FSS)	(Adjusted Finance Income + Other Adjusted Operating Income) / (Adjusted Financial Expenses + Adjusted Provision Expenses + Adjusted Operating Expenses)
Personal productivity (borrowers)	Number of active borrowers (clients) / Number of total personnel
Productivity Credit Officer (borrowers)	Number of active borrowers / Number of credit officers
Productivity Credit Officer (groups)	Number of groups / Number of credit officers
Operating expense rate	Operating expenses / Average gross portfolio
Financial expense rate	Expense for interest and commissions of financial liabilities / Gross portfolio average
Provision expense rate	Provision expenses for non-performing portfolio / Average gross loans
portfolio performance	Income from interest and portfolio commissions / Average gross portfolio
Risk coverage rate (CER 30)	Reserve for non-performing portfolio / Portfolio at risk >30 days
Cost of funds rate	Expense for interest and commissions of financial liabilities / average financial liabilities
Debt-equity ratio	Total Equity / Total Assets
Management/Field personnel remuneration	Average of the 3 highest remunerations of Management / average of the 3 lowest remunerations of field personnel

CLIENT PROTECTION AND RESPONSIBILITY

Personnel turnover rate	Personnel who left in the period / average total personnel
Average annual interest rate (AIR)	Includes nominal interest, interest calculation methodology, commissions, taxes, mandatory savings (see Microfinance Transparency). The institution's annual interest rate (AIR) is the average of the AIRs of all major products (>70% of pooled portfolio), weighted by the percentage of portfolio (Nominal interest rate / Annual interest rate) * 100
Average transparency index	The institution's transparency index is the average of the transparency indexes of all products, weighted by the percentage of number of loans

REACH

Average loan balance, US\$	Active portfolio (end of period) / Number of active loans (end of period)
Average loan granted	Amount granted during the period / Number of loans granted during the period
Average loan granted (\$PPP)	Amount disbursed (local currency) * conversion factor US\$PPP

QUALITY OF SERVICES

Client dropout rate	(active clients at the beginning of the period + new customers who entered (for the first time) in the period – clients written off in the period – active clients at the end of the period) / (active clients at the beginning of the period)
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n/a	Not applicable
nd	Data not available

Annex 5 – Social Rating Scale

Note	Definition
^s AA	Excellent social performance management and client protection systems. High probability of achieving the social mission.
^s A	Good social performance management and client protection systems. Probable achievement of the social mission.
^s BB	Adequate client protection and social performance management systems. Satisfactory alignment with the social mission.
^s B	Moderate social performance management and client protection systems. Partial alignment with the social mission.
^s C	Weak social performance management and client protection systems. Medium risk of mission drift.
^s D	Weak social performance management and client protection systems. Risk of mission drift.

The "+" and "-" modifiers that can be added to the rating indicate small relative differences within the same rating category.

For more information: www.mf-rating.com

The information used in the social rating has been provided in part by the evaluated institution and in part compiled during interviews with the directors, managers, personnel and clients of the institution. The analysis is based on internal GIS data as well as other official sources. MFR does not guarantee the reliability and integrity of the information, since it does not provide auditing activities, and therefore has no responsibility for any errors or omissions stemming from that information. The Social Rating must be considered an external and independent opinion and cannot be considered as a recommendation to make investments in a specific institution.