

In Brief

Arab microfinance enjoys one of the most favorable environments for growth. Low market penetration rates combine with low inflation and generally stable economies to provide a space where the sector can grow unfettered. Standing at the peak of its youth, the region is moreover unshackled by competition and high financing costs, hallmarks of more mature sectors. Arab microfinance institutions face lower hurdles than their global peers and can more easily attain profits, all while responding to the needs of the lower segment of the microfinance market. The Moroccan sector continues to lead in outreach, but Egyptian institutions are fast on their peers' heels and are showing new signs of growth.

Table of Contents

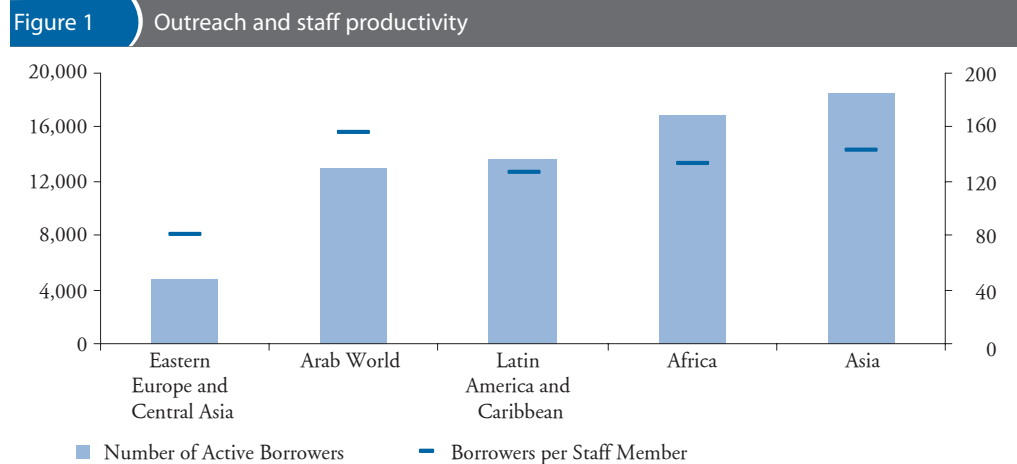
In Brief	1
Analysis	1
Scale and Outreach	1
Financial Structure	4
Profitability	5
Conclusion	7
Data and Data Preparation	8
Indicator Definitions	9
Arab Tables	10

Benchmarking Arab Microfinance 2005 captures some of the intricacies of the sector's performance through an analysis of 23 market-making Arab institutions surveyed by the Microfinance Information Exchange, Inc. (MIX). Beyond exploring variations within the region, the following pages also contextualize sector performance within a global set of 446 leading MFIs. Combined with two year panel data from 19 institutions, a picture of trends within the Arab sector begins to emerge.

Analysis

Scale and Outreach

Together, the Arab microfinance institutions (MFIs) surveyed reached 890,000 borrowers with over 246 million dollars in loans. Savings services were glaringly absent from the picture in light of widespread government resistance to the mobilization of deposits by non-bank institutions, but the sector made tremendous strides in micro-credit offering. Indeed, 2005 proved to be a milestone year for Arab microfinance as the median institution in the region outstripped global norms for outreach and crossed the 10,000 borrower mark, providing micro-credit services to just under 13,000 borrowers. Opting to invest more in human resources than other regions, the sector is finally reaping the benefits of its decision. In 2005, Arab institutions spent 14 percent of their portfolio on personnel expenses – two points above the global norm and second only to Africa, where skilled personnel comes at a particularly high cost. As *Figure 1* demonstrates, Arab microfinance watched its productivity pull ahead of more experienced sectors and land at an impressive 156 borrowers per staff member.



Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. All observations are medians.

If institutions in the Arab region can maintain productivity at its current high levels, and at the same time overcome funding and management constraints to building up their institutional capacity, then their outreach growth will be tremendous. *Figure 1* indicates that institutions in both the Arab region and Eastern Europe and Central Asia reach far fewer borrowers than their global peers given their productivity levels, perhaps a reflection of their limited human resources. Partly due to their young age, both sectors trail behind global staffing norms, with the median Arab MFI counting just 80 staff members among its ranks – 20 short of the global median. In order to rapidly build up their human and physical infrastructures, Arab institutions will have to develop more ambitious business plans and procure the funding that can support those plans – tasks that many have often struggled with. While a quick hike in staff figures would boost overall outreach, it would also likely drive down productivity as new staff embark on the learning curve. Innovations in delivery channels become key as they combine with effective staff incentive schemes to boost productivity of existing staff.

Between 2004 and 2005, Moroccan institutions rapidly scaled up their infrastructure, with the median MFI augmenting its personnel base by 68 percent. At the same time, productivity dropped slightly from 193 to 188 borrowers per staff member, reflecting the hiring of inexperienced staff as well as the introduction of individual loan products in a sector that traditionally focused on

group loans. Indeed, the largest productivity dips occurred among two large scale MFIs that expanded their human resources by over 170 new hires. Overall productivity in the region, nonetheless, increased from 137 to 145 borrowers per staff member over the course of the year, largely owing to the Egyptian sector, where MFIs recently introduced group loans in an attempt to boost outreach. Between 2004 and 2005, these institutions witnessed an outstanding 36 percent increase in productivity, from 107 to 145 borrowers per staff member. Low market penetration rates in the country, and across the region as a whole, have thus far spared institutions from hitting the productivity ceiling that reins in hotly contested markets.

In the absence of any serious market competition, Arab MFIs continue to grow unhampered, led by the Moroccan sector. Institutions surveyed in both 2004 and 2005 enjoyed healthy growth rates and expanded their combined client base by over 219,000 borrowers. Regional figures, however, mask an uneven distribution of growth. As in previous years, Moroccan MFIs were at the leading edge of sector expansion. These institutions added three fourths of new borrowers in the sample, reflecting both larger sample size due to more widespread commitment to financial transparency as well as a concentration of large scale MFIs in the country. Indeed, four of the six institutions surveyed in 2004 and 2005 served over 30,000 borrowers, with two passing the 100,000 mark. The six leading Moroccan institutions averaged 49 percent in growth, bringing

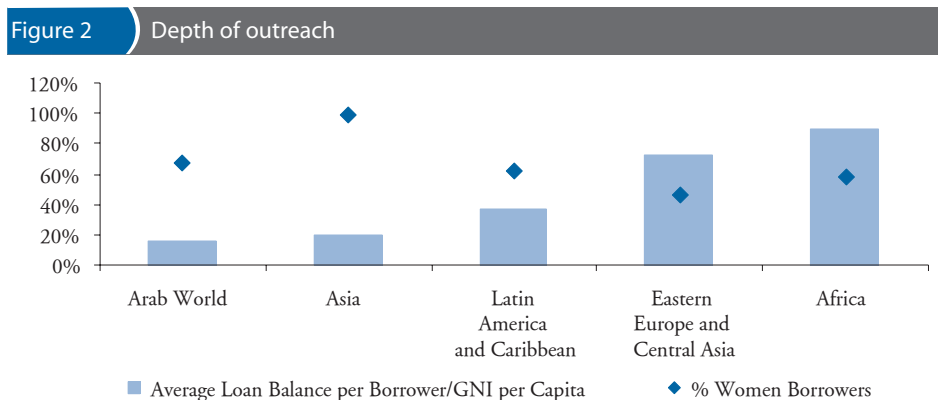
median outreach to 63,000 borrowers in 2005. Boosted by their productivity increase, Egyptian MFIs were fast on their heels, expanding their median outreach from 32,000 borrowers in 2004 to 49,000 in 2005, a 52 percent increase. As a group, these three MFIs added 35,000 borrowers and contributed 16 percent of regional growth.

As in previous years, sustainable institutions captured the lion's share of the market, serving four fifths of the client base while representing just two thirds of institutions sampled. These MFIs saw their numbers take off between 2004 and 2005, boosting median outreach by 57 percent to 15,000 borrowers. Unprofitable institutions, however, trailed behind with a modest growth of 19 percent and median outreach of just 11,000 borrowers. While profitability has generally made its mark on outreach across the region, some sectors continue to elude this trend. Profitability forms the backbone of outreach in Morocco and Jordan, but it has yet to take hold in Egypt, where two thirds of borrowers rely on loss-making institutions for their loans. Unless these MFIs clear the profitability hurdle, the country's vast market potential will go largely unexploited, and a significant share of the bankable poor will remain excluded from financial services.

While the Arab sector has much ground to cover in ensuring that clients have reliable access to microfinance services, it has certainly hit the mark on depth of outreach. As institutions expand their client base, they remain focused on the low end of the microfinance market, managing average loan balances that amount to just 15

percent of local income. Except for Jordan and Palestine, where institutions also cater to small enterprises, loan balances across the region do not exceed one fourth of local income. As *Figure 2* makes evident, only Asian institutions, historically renowned for their poverty focus, achieve similar depth of outreach.

Yet as loan balances have remained remarkably low, the sector has seen a marked decline in its outreach to women – from 85 to just 66 percent of borrowers, a shift that is often associated with movements up-market. In this case, however, the change in client composition more likely attests to the maturing of the sector rather than a deliberate revision of the target population. Previous samples saw a heightened focus on women as Egyptian institutions introduced group loan products with the aim of boosting and deepening outreach. On the other hand, the Moroccan sector, traditionally the regional champion of female-centered outreach, saw the share of female borrowers drop from 86 to 72 percent of the client base as institutions introduced individual loan products to meet market demands for higher loans, either for enterprise development or housing improvements. Indeed, male-run businesses are more likely to be located outside of the home and hence have greater potential for growth. As a result, they have greater financing needs than female-run businesses and are more likely to take advantage of individual loan products. Except for one Moroccan MFI, all institutions in the sector saw their outreach to women plummet by at least 10 percentage points, with two of



Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. All observations are medians.

the largest institutions experiencing 20 and 30 point drops, respectively. As Arab microfinance matures and diversifies its product offering, its client composition becomes more in line with global norms.

Financial Structure

While Arab institutions mirror global norms for outreach, their financial structure remains very distinct, as highlighted in benchmark analysis for the last three years. Whereas the microfinance industry as a whole draws on external funds for over two thirds of its assets, the typical Arab MFI remains heavily reliant on capital, with earnings and donations accounting for the bulk of its funds. Any debt that is leveraged is moreover heavily skewed towards soft, subsidized loans and stands in stark contrast with the overall commercialization of the industry. Throughout the region, governments often opted to play a financing role, providing the sector with a cheap source of funds in addition to the soft loans offered by international donors. Indeed, given the wide availability of below-market priced debt, commercial funds barely constitute one fourth of the sector's portfolio but make up close to 60 percent of loans disbursed by the median global institution.

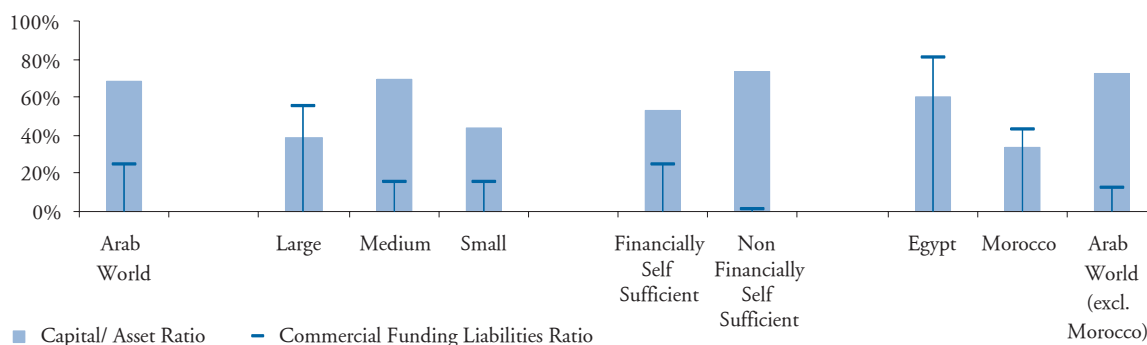
Across the region, Egypt stands out as the most commercialized sector and even surpasses global norms; as *Figure 3* illustrates, these institutions fund four fifths of their portfolios with commercial debt. This result is somewhat skewed by underlying USAID guarantee deposits that enable them to more easily overcome investor hesitations than their

regional peers. However, with these large deposits on their books, overall leverage remains low, and the sector raises just 70 cents in debt for every dollar in institutional capital.

Institutional charter and the inability to raise public deposits lie at the heart of the region's low leverage. Composed in large part of unregulated NGOs with no clear ownership structure, the Arab microfinance sector generally struggles to attract the attention of local investors. In Asia, regulated entities with diverse legal structures have grabbed the attention of financial markets and enabled the region to reach unprecedented leverage, raising four dollars of debt for each dollar in institutional capital. African institutions, on the other hand, rely on their cooperative structures to draw on customer deposits and leverage twice their capital in debt. Currently, local regulations in almost every country prevent Arab MFIs from mobilizing public deposits and exploiting this potential source of funds.

While it trails behind global trends, the Arab sector has nonetheless taken some steps toward commercialization. Between 2004 and 2005, capitalization dropped by 14 percentage points to two thirds of assets while access to commercial funds rose from 11 to 16 percent of the loan portfolio. As with outreach, large scale institutions stood at the forefront of these developments. In addition to being the most leveraged, large scale MFIs source over 50 percent of their on-lending funds from commercial borrowings – twice the regional norm and not far behind global leverage. As a group, these institutions more closely resemble the global fold than their regional peers.

Figure 3 Modes of financing across the Arab region



Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results are peer group medians.

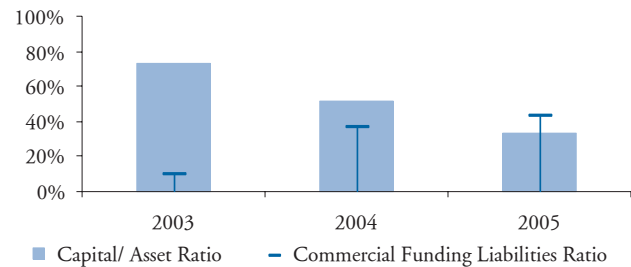
These results, however, essentially reflect developments in the Moroccan sector, which concentrates large scale institutions in the region. When Moroccan MFIs are excluded from the sample, capitalization jumps beyond two thirds of assets, and commercial funding plunges from 24 to below 15 percent of the portfolio. On the other hand, Moroccan institutions, led by large scale MFIs, epitomize the changing face of Arab microfinance, relying on capital for just one third of their assets and sourcing over 40 percent of their portfolios from commercial funds, indicating greater alignment with global norms and more rapid sector maturity.

While grants and donations were essential to the Moroccan sector's initial development, these have failed to keep pace with rapid growth within the country. As competition for scarce donor funds intensified, institutions turned to other financing alternatives, namely concessional credit lines from public entities and donor agencies. Large, well managed institutions additionally gained access to overdraft facilities and succeeded in raising commercial debt from local banks, despite their NGO status. While initially dependent on international donor guarantees, these MFIs are increasingly relying on their performance alone to attract commercial investments from both local and international markets. Over the last three years, institutional capital has steadily given way to debt that increasingly takes the form of commercial borrowings, a trend that *Figure 4* vividly brings to light. A favorable microfinance law provided an enabling environment for the sector and fostered the rapid development of the industry in the late 1990s. As the sector grows and best practice spreads to a number of well managed institutions, a critical number of MFIs has now pushed up against the boundaries of the current legal framework and seeks to transform and gain access to savings and other sources of funds. A revision of the regulation that governs microfinance activity may therefore be necessary to ensure that institutions can more efficiently intermediate commercial funds to expand their financial service offering and better fulfill their social missions.

Profitability

While on the slow track to commercialization, Arab microfinance has charged ahead of all other regions in the race to sustainability. At 2.8 percent of assets, the young sector generates solid returns well ahead of others. In the

Figure 4 Evolution of financing structure in Morocco



Source: Microfinance Information Exchange, Inc., 2003–05 data. Observations are medians and draw from panel data for six Moroccan MFIs in the 2003–05 sample.

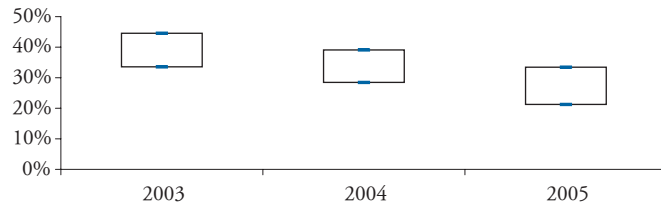
final sprint and with increasing competition, however, returns will likely level off. Evidence has shown that profits in more experienced sectors such as Latin America and the Caribbean are already beginning to peak. Indeed, Arab microfinance is still at an early stage of development and is able to boost profits thanks to its inexpensive funding structure and limited competition. Wide access to concessional funds combines with outstanding portfolio quality to diminish related costs and rein in the overall expense structure, providing institutions with healthy profit margins despite moderate portfolio yields and operational efficiency. At just 3.2 percent of assets, financial costs in the region amount to barely half the level incurred in other sectors and help maintain the overall expense structure at just 20 percent, so that modest revenues of 23 percent suffice to generate returns.

In the face of dwindling donor funds, however, financial costs are likely to rise and eat away at profit margins, requiring that the sector boost its operating efficiency to maintain its lead. Between 2004 and 2005, financial costs increased slightly for the region, from 2.8 to 3.1 percent of assets. Despite a decline in portfolio yields, returns nonetheless improved thanks to greater efficiency and improved asset management. Building on their excellent portfolio quality, Arab MFIs invested four fifths of their resources in their lending activity – up from three quarters in the previous year. Efficiency gains also contributed to profits as the cost of managing one dollar in loans dropped from 24 to 22 cents, bringing it in line with global norms. Reducing costs beyond this point, however, may prove quite challenging.

Over the last three years, Moroccan institutions made the greatest strides in efficiency, bringing the cost of managing one dollar in loans down from 34 cents in 2003 to just 21 cents at year-end 2005, as illustrated by *Figure 5*. Returns on assets, however, barely budged. Rather than feed these efficiency gains into profits, Moroccan MFIs chose instead to pass them on to clients in the form of reduced interest rates, lending further evidence to an emerging global trend: as institutions grow and shore up their financial position, they reduce the cost to clients, even in the absence of competitive pressure. Indeed, the Moroccan sector is far from saturation, and only recently have small pockets of competition begun to emerge. Instead, institutions are firmly committed to their social missions, but they also grasp the necessity of making profits to ensure the sustainability of their operations. The Moroccan sector was thus able to reduce the cost to clients precisely because it had become strongly sustainable.

As *Figure 6* demonstrates, sustainability moves hand-in-hand with operational scale. As portfolios expand beyond the two million dollar threshold, economies of scale begin to kick in, and the cost of managing loans drops by a third, from 32 cents per dollar outstanding to just 21 cents. Taking advantage of lower expense structures, medium scale institutions are able to offer more competitive prices on their loans than their small scale peers, generating ten points less in portfolio yields than the latter. Despite thinner profit margins, better asset management ensures that this group continues to enjoy healthy profits. Indeed, as institutions gain in scale, they invest more in productive

Figure 5 Evolution of yields and costs in Morocco



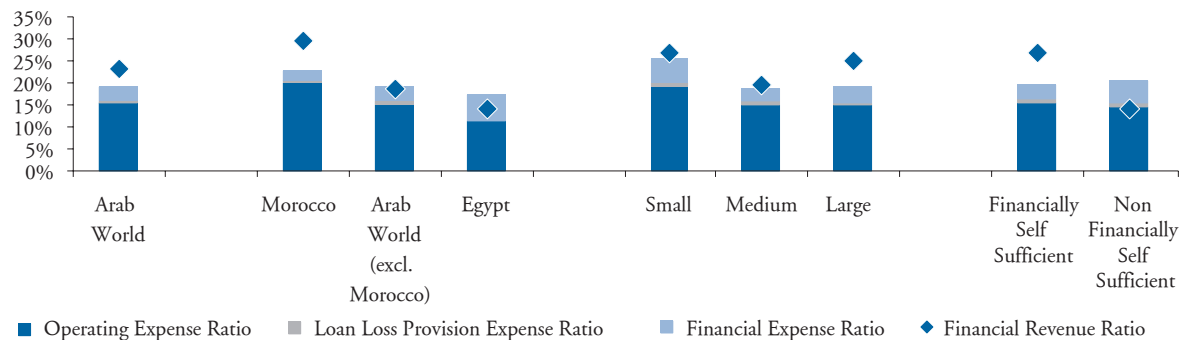
— Spreads of yield over operating expenses (shading indicates loss)

Source: Microfinance Information Exchange, Inc., 2003–05 data. Observations are medians and draw from panel data for six Moroccan MFIs in the 2003–05 sample.

assets and allocate an increasing share of resources to their lending activities. The share of non-earning assets drops from 16 percent in the case of small scale MFIs to under two percent among large institutions, at the same time as investment in the loan portfolio increases from two thirds to over four fifths of assets. Hence, while MFIs do not make any notable gains in efficiency past the eight million dollar mark, their greater focus on more productive activities ensures that they enjoy increasing returns.

Regionally, the Moroccan sector shines by virtue of its vigorous revenue stream even as low expenses set the Arab sector apart from other regions. When Moroccan institutions are excluded from the analysis, the region’s profitability picture loses much of its glow, with returns plunging to nil. A focus on group-lending mechanisms

Figure 6 Breaking down return on assets



Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Observations are peer group medians.

across the country boosts staff productivity and combines with greater portfolio yields to raise the sector’s revenues to 29 percent of assets – ten points higher than regional norms. As improved access to financial markets drives up the cost of funds, these healthy revenues will be vital to maintaining the sustainability of the sector.

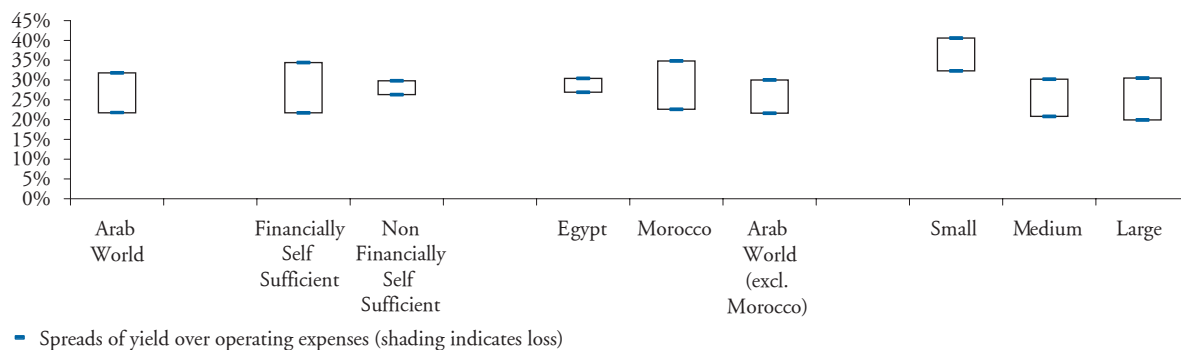
Indeed, across the region, it is revenues that set sustainable institutions apart from their loss-making peers. While their expense structures are more or less comparable, sustainable MFIs generate twice the level of revenues, boosting returns to a solid 5.6 percent. Greater asset allocation to the loan portfolio, together with a more aggressive pricing strategy, lie at the heart of the group’s strong revenues. Sustainable MFIs invest 80 percent of their resources in their portfolio and generate 34 percent in portfolio yields, whereas their unprofitable peers invest just half of their assets in their lending activity and only generate 20 percent in portfolio yields. As *Figure 7* illustrates, these yields are sufficient to cover the direct costs of managing the loan portfolio, but the margins are too narrow to cover costs on an adjusted basis. Investing more in the loan portfolios may require that institutions boost efficiency so as to better manage the additional portfolio, but institutional leadership will also have to revisit the pricing strategy in order to better align rates with costs.

Conclusion

While still enjoying the benefits of its youth, Arab microfinance is slowly starting to show signs of maturing. Access to concessional funds has thus far enabled the sector to largely ignore financing costs while pursuing profits for growth, but competition for these limited resources is intensifying. Financial costs are rising, albeit slowly, and institutions are outgrowing the pool of immediately available funds, driving many to push for authorization to mobilize public deposits or transform to ensure a legal capital base with which to leverage commercial debt. The sector is at a critical stage of its development, and current legislation may need to be revised to open the door to new financing opportunities, including savings and equity investments. But the region must necessarily undergo certain rites of passage as it transitions from youth to maturity. Institutions must incorporate sustainability as an essential element of their business plans and commit to improved financial management and pricing strategies. Some have already signed on to such changes and are leading the region towards a new phase. The challenge now is to ensure that no institution is left behind.

Hind Tazi, Analyst, Middle East and North Africa

Figure 7 Comparison of yields and costs on the loan portfolio



Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Observations are peer group medians.

Data and Data Preparation

For benchmarking purposes, MIX collects and prepares MFI financial and outreach data according to international microfinance reporting standards as applied in the *MicroBanking Bulletin*. Raw data are collected from the MFI, inputted into standard reporting formats and crosschecked with audited financial statements, ratings and other third party due diligence reports, as available. Performance results are then adjusted, using industry

standard adjustments, to eliminate subsidy, guarantee minimal provisioning for risk and reflect the impact of inflation on institutional performance. This process increases comparability of performance results across institutions.

MIX thanks all institutions participating in the 2005 industry benchmarks and extends its gratitude to Sanabel Microfinance Network of Arab Countries for facilitating data collection.

Arab MFI Participants

2005 Benchmarks (23 MFIs)

2004-2005 Balanced Panel Data (19 MFIs) *names in italics*

ABA (Egypt), Al Amana (Morocco), Al Karama (Morocco), Al Majmoua (Lebanon), Al Tadamon (Egypt), AMC (Jordan), AMEEN (Lebanon), AMSSF (Morocco), CEOSS (Egypt), DBACD (Egypt), Enda (Tunisia), FBP (Morocco), Zakoura (Morocco), Fondep (Morocco), INMAA (Morocco), JMCC (Jordan), LEAD (Egypt), MFW (Jordan), MEMCO (Jordan), NMF (Yemen), FATEN (Palestine), SBACD (Egypt), UNRWA (Palestine)

Peer Groups	Definition	Description
FSS	MENA FSS (15)	MENA MFIs with Financial Self-sufficiency ratio > 100%
	MENA Non FSS (8)	MENA MFIs with Financial Self-sufficiency ratio ≤ 100%
Scale	MENA Large Scale (7)	MENA MFIs with Loan Portfolio < USD 2 million
	MENA Medium Scale (11)	MENA MFIs with Loan Portfolio ≥ USD 2 million and < USD 8 million
	MENA Small Scale (5)	MENA MFIs with Loan Portfolio ≥ USD 8 million
Countries	Egypt (6)	MENA MFIs from Egypt
	Morocco (6)	MENA MFIs from Morocco

Indicator Definitions

INSTITUTIONAL CHARACTERISTICS

Number of MFIs	Sample size of group
Age	Years functioning as an MFI
Total Assets	Total Assets, adjusted for Inflation and standardized loan portfolio provisioning and write-offs
Offices	Number, including head office
Personnel	Total number of employees

FINANCING STRUCTURE

Capital/Asset Ratio	Adjusted Total Equity/Adjusted Total Assets
Commercial Funding Liabilities Ratio	All liabilities with "market" price/Adjusted Gross Loan Portfolio
Debt/ Equity Ratio	Adjusted Total Liabilities/Adjusted Total Equity
Deposits to Loans	Voluntary Savings/Adjusted Gross Loan Portfolio
Deposits to Total Assets	Voluntary Savings/Adjusted Total Assets
Gross Loan Portfolio/ Total Assets	Adjusted Gross Loan Portfolio/Adjusted Total Assets

OUTREACH INDICATORS

Number of Active Borrowers	Number of borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/GNI per Capita	Adjusted Average Loan Balance per Borrower/GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio/Adjusted Number of Loans Outstanding
Average Outstanding Balance/GNI per Capita	Adjusted Average Outstanding Balance/GNI per Capita
Number of Voluntary Savers	Number of savers with voluntary savings demand deposit and time deposit accounts
Number of Voluntary Savings Accounts	Number of voluntary savings demand deposit and time deposit accounts
Voluntary Savings	Total value of voluntary savings demand deposit and time deposit accounts
Average Savings Balance per Saver	Voluntary Savings/ Number of Voluntary Savers
Average Savings Account Balance	Voluntary Savings/ Number of Voluntary Savings Accounts

MACROECONOMIC INDICATORS

GNI per Capita	US Dollars
GDP Growth Rate	Annual Average
Deposit Rate	%
Inflation Rate	%
Financial Depth	M3/ GDP

OVERALL FINANCIAL PERFORMANCE

Return on Assets	Adjusted Net Operating Income, net of taxes/Adjusted Average Total Assets
Return on Equity	Adjusted Net Operating Income, net of taxes/Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)

REVENUES

Financial Revenue Ratio	Adjusted Financial Revenue/Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income/Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio/Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/(1 + Inflation Rate)

EXPENSES

Total Expense Ratio	Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)/Adjusted Average Total Assets
Financial Expense Ratio	Adjusted Financial Expense/ Adjusted Average Total Assets
Loan Loss Provision Expense Ratio	Adjusted Net Loan Loss Provision Expense/Adjusted Average Total Assets
Operating Expense Ratio	Adjusted Operating Expense/Adjusted Average Total Assets
Personnel Expense Ratio	Adjusted Personnel Expense/Adjusted Average Total Assets
Administrative Expense Ratio	Adjusted Administrative Expense/Adjusted Average Total Assets
Adjustment Expense Ratio	(Adjusted Net Operating Income - Unadjusted Net Operating Income)/Adjusted Average Total Assets

EFFICIENCY

Operating Expense/ Loan Portfolio	Adjusted Operating Expense/Adjusted Average Gross Loan Portfolio
Personnel Expense/ Loan Portfolio	Adjusted Personnel Expense/Adjusted Average Gross Loan Portfolio
Average Salary/ GNI per Capita	Adjusted Average Personnel Expense/ GNI per capita
Cost per Borrower	Adjusted Operating Expense/Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense/Adjusted Average Number of Loans

PRODUCTIVITY

Borrowers per Staff Member	Adjusted Number of Active Borrowers/Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding/Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding/ Number of Loan Officers
Voluntary Savers per Staff Member	Number of Voluntary Savers/Number of Personnel
Savings Accounts per Staff Member	Number of Saving Accounts/Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/ Number of Personnel

RISK AND LIQUIDITY

Portfolio at Risk > 30 Days	Outstanding balance, loans overdue > 30 Days/Adjusted Gross Loan Portfolio
Portfolio at Risk > 90 Days	Outstanding balance, loans overdue > 90 Days/Adjusted Gross Loan Portfolio
Write-off Ratio	Value of loans written-off/Adjusted Average Gross Loan Portfolio
Loan Loss Rate	Adjusted Write-offs, net of recoveries/Adjusted Average Gross Loan Portfolio
Risk Coverage	Adjusted Loan Loss Reserve/ PAR > 30 Days
Non-earning Liquid Assets as % Total Assets	Adjusted Cash and banks/ Adjusted Total Assets
Current Ratio	Short Term Assets/Short Term Liabilities

Arab

	Arab MFIs	Egypt	Morocco	Arab MFIs (excl. Morocco)	Arab FSS
INSTITUTIONAL CHARACTERISTICS					
Number of MFIs	23	6	7	16	15
Age	7	7.5	8	7	8
Total Assets	6,993,610	9,879,752	12,237,425	6,835,365	6,677,120
Offices	13	9	54	10	13
Personnel	80	321	237	77	80
FINANCIAL STRUCTURE					
Capital/ Asset Ratio	68.4%	59.7%	33.6%	72.5%	53.1%
Commercial Funding Liabilities Ratio	24.2%	80.8%	43.0%	12.6%	24.2%
Debt/ Equity Ratio	0.5	0.7	2.0	0.4	0.9
Deposits to Loans	0	0	0	0	0
Deposits to Total Assets	0	0	0	0	0
Gross Loan Portfolio/ Total Assets	75.0%	42.5%	83.7%	60.6%	80.2%
SCALE AND OUTREACH					
Number of Active Borrowers	12,935	32,600	43,897	11,962	12,935
Percent of Women Borrowers	66.0%	65.8%	66.6%	65.9%	66.6%
Number of Loans Outstanding	12,935	32,600	44,297	11,962	12,935
Gross Loan Portfolio	5,586,641	3,730,567	10,876,254	5,404,729	5,586,641
Average Loan Balance per Borrower	248	136	197	272	248
Average Loan Balance per Borrower/ GNI per capita	15.1%	10.4%	13.0%	15.5%	13.7%
Average Outstanding Balance	246	136	197	259	246
Average Outstanding Balance/ GNI per capita	15.1%	10.4%	13.0%	15.5%	13.0%
Number of Voluntary Savers	0	0	0	0	0
Number of Voluntary Savings Accounts	0	0	0	0	0
Voluntary Savings	0	0	0	0	0
Average Savings Balance per Saver	0	0	0	0	0
Average Savings Account Balance	0	0	0	0	0
MACROECONOMIC INDICATORS					
GNP per Capita	1,520	1,310	1,520	1,310	1,520
GDP Growth Rate	4.3%	4.3%	3.5%	4.3%	4.3%
Deposit Rate	4.6%	7.2%	3.5%	7.2%	3.5%
Inflation Rate	3.0%	4.9%	1.0%	3.5%	2.0%
Financial Depth	110.1%	110.1%	93.8%	110.1%	93.8%
PROFITABILITY/ SUSTAINABILITY					
Return on Assets	2.8%	-1.6%	6.4%	0.0%	5.6%
Return on Equity	6.8%	-2.4%	16.6%	-0.3%	11.2%
Operational Self-Sufficiency	130.1%	114.1%	130.1%	123.2%	142.1%
Financial Self-Sufficiency	117.3%	87.8%	128.0%	99.9%	128.0%
REVENUE					
Financial Revenue Ratio	23.4%	13.9%	29.4%	18.4%	26.7%
Profit Margin	14.8%	-13.9%	21.9%	-0.1%	21.9%
Yield on Gross Portfolio (nominal)	31.8%	30.4%	34.8%	30.0%	34.4%
Yield on Gross Portfolio (real)	25.7%	24.3%	33.5%	24.1%	31.3%
EXPENSE					
Total Expense Ratio	19.6%	16.4%	23.0%	18.6%	20.0%
Financial Expense Ratio	3.2%	5.6%	2.1%	3.4%	3.1%
Loan Loss Provision Expense Ratio	0.7%	0.3%	0.7%	0.7%	0.7%
Operating Expense Ratio	15.4%	11.2%	19.8%	15.1%	15.6%
Personnel Expense Ratio	9.3%	6.9%	12.4%	9.2%	9.8%
Administrative Expense Ratio	6.1%	4.0%	7.4%	5.4%	6.4%
Adjustment Expense Ratio	1.9%	2.8%	0.4%	2.4%	1.8%
EFFICIENCY					
Operating Expense/ Loan Portfolio	21.7%	26.9%	22.6%	21.6%	21.7%
Personnel Expense/ Loan Portfolio	13.9%	15.8%	14.1%	13.7%	13.4%
Average Salary/ GNI per Capita	3.5	2.0	3.9	2.9	3.7
Cost per Borrower	60	37	48	68	65
Cost per Loan	60	37	48	63	62
PRODUCTIVITY					
Borrowers per Staff Member	156	150	191	131	185
Loans per Staff Member	156	150	191	131	185
Borrowers per Loan Officer	219	190	280	190	280
Loans per Loan Officer	219	190	280	190	280
Voluntary Savers per Staff Member	0	0	0	0	0
Savings Accounts per Staff Member	0	0	0	0	0
Personnel Allocation Ratio	74.5%	80.2%	76.2%	66.3%	75.0%
RISK AND LIQUIDITY					
Portfolio at Risk > 30 days	0.4%	0.2%	0.3%	0.9%	0.4%
Portfolio at Risk > 90 days	0.2%	0.0%	0.1%	0.4%	0.1%
Write-off ratio	0.3%	0.1%	0.3%	0.3%	0.3%
Loan Loss Rate	0.2%	0.0%	0.3%	0.1%	0.3%
Risk Coverage	1.2	1.8	1.0	1.4	1.2
Non-earning Liquid Assets as % Total Assets	7.8%	3.9%	2.1%	8.7%	3.7%

	Arab Non FSS	Arab Large Scale	Arab Medium Scale	Arab Small Scale
INSTITUTIONAL CHARACTERISTICS				
Number of MFIs	8	7	11	5
Age	6.5	8	7	6
Total Assets	9,879,752	35,254,180	6,677,120	1,628,764
Offices	12	54	10	13
Personnel	146	433	79	44
FINANCIAL STRUCTURE				
Capital/ Asset Ratio	73.1%	38.4%	69.4%	43.4%
Commercial Funding Liabilities Ratio	0.6%	54.8%	15.7%	15.0%
Debt/ Equity Ratio	0.4	1.6	0.4	1.3
Deposits to Loans	0	0	0	0
Deposits to Total Assets	0	0	0	0
Gross Loan Portfolio/Total Assets	49.8%	83.7%	76.1%	62.4%
SCALE AND OUTREACH				
Number of Active Borrowers	13,675	56,370	10,655	7,872
Percent of Women Borrowers	65.8%	59.7%	77.0%	81.0%
Number of Loans Outstanding	13,675	56,370	10,669	7,872
Gross Loan Portfolio	5,200,673	12,514,216	5,222,817	1,220,873
Average Loan Balance per Borrower	208	252	490	115
Average Loan Balance per Borrower/ GNI per capita	15.5%	19.2%	15.8%	11.7%
Average Outstanding Balance	208	252	490	115
Average Outstanding Balance/ GNI per capita	15.5%	19.2%	15.8%	11.7%
Number of Voluntary Savers	0	0	0	0
Number of Voluntary Savings Accounts	0	0	0	0
Voluntary Savings	0	0	0	0
Average Savings Balance per Saver	0	0	0	0
Average Savings Account Balance	0	0	0	0
MACROECONOMIC INDICATORS				
GNP per Capita	1,310	1,520	2,140	1,310
GDP Growth Rate	4.3%	3.5%	6.3%	3.5%
Deposit Rate	7.2%	3.5%	4.6%	7.2%
Inflation Rate	4.9%	1.0%	3.5%	4.9%
Financial Depth	110.1%	93.8%	128.6%	93.8%
PROFITABILITY/ SUSTAINABILITY				
Return on Assets	-4.0%	5.6%	2.8%	2.3%
Return on Equity	-4.9%	11.0%	4.7%	13.0%
Operational Self-Sufficiency	97.8%	130.5%	115.8%	111.1%
Financial Self-Sufficiency	81.3%	128.0%	109.1%	108.4%
REVENUE				
Financial Revenue Ratio	13.9%	25.0%	19.7%	26.7%
Profit Margin	-23.4%	21.9%	8.3%	7.7%
Yield on Gross Portfolio (nominal)	29.8%	30.5%	30.2%	40.6%
Yield on Gross Portfolio (real)	23.0%	26.0%	24.1%	39.2%
EXPENSE				
Total Expense Ratio	17.8%	19.4%	17.8%	27.2%
Financial Expense Ratio	5.1%	3.3%	2.7%	5.8%
Loan Loss Provision Expense Ratio	0.6%	0.6%	0.9%	0.7%
Operating Expense Ratio	14.7%	15.0%	15.0%	19.1%
Personnel Expense Ratio	8.1%	8.6%	9.3%	10.0%
Administrative Expense Ratio	5.0%	6.4%	5.5%	9.1%
Adjustment Expense Ratio	2.0%	0.8%	1.9%	3.0%
EFFICIENCY				
Operating Expense/ Loan Portfolio	26.3%	19.9%	20.8%	32.3%
Personnel Expense/ Loan Portfolio	15.7%	11.5%	13.4%	17.0%
Average Salary/ GNI per Capita	2.6	3.9	3.5	3.1
Cost per Borrower	48	48	99	42
Cost per Loan	48	48	99	42
PRODUCTIVITY				
Borrowers per Staff Member	101	185	133	185
Loans per Staff Member	101	187	133	185
Borrowers per Loan Officer	164	222	185	285
Loans per Loan Officer	164	223	185	285
Voluntary Savers per Staff Member	0	0	0	0
Savings Accounts per Staff Member	0	0	0	0
Personnel Allocation Ratio	66.3%	81.6%	65.3%	70.4%
RISK AND LIQUIDITY				
Portfolio at Risk > 30 days	1.2%	0.3%	1.0%	0.0%
Portfolio at Risk > 90 days	0.4%	0.1%	0.4%	0.0%
Write-off ratio	0.1%	0.3%	1.1%	0.1%
Loan Loss Rate	0.0%	0.3%	1.0%	0.0%
Risk Coverage	1.3	1.4	1.0	2.5
Non-earning Liquid Assets as % Total Assets	12.7%	1.4%	9.5%	15.6%

MIX 2005 Benchmarks

This publication is part of a series of regional industry benchmarking reports presented by the Microfinance Information Exchange, Inc. (MIX):

- Benchmarking African Microfinance 2005
- Benchmarking Asian Microfinance 2005
- Benchmarking Arab Microfinance 2005
- Benchmarking Latin American Microfinance 2005
- Benchmarking Microfinance in Eastern Europe and Central Asia 2005

The five regional 2005 performance reports are based on the 2005 benchmark data, collected from 446 microfinance institutions from 78 countries, located in Sub-Saharan Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, as well as the Middle East and North Africa. The series represents the most methodologically consistent and in-depth reports on the performance of microfinance providers produced to date.

The Microfinance Information Exchange, Inc. is a non-profit company dedicated to improving the information infrastructure of the microfinance industry in developing countries, by promoting standards of financial and operational reporting, offering readily accessible data, and providing specialized information services.



Microfinance Information Exchange, Inc.
1901 Pennsylvania Avenue NW - Suite 307
Washington, DC - 20006, USA
Tel +1 202 659 9094, Fax +1 202 659 9095
Email: info@themix.org
www.themix.org

The Benchmarking Arab Microfinance 2005 report was produced with help from:

