



Benchmarking Arab Microfinance 2006



A report from Sanabel and MIX

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Introduction

The Arab microfinance sector increased investment in physical and human resources to achieve record growth in outreach and scale in 2006, despite various limitations imposed by the regulatory environment. While the sector is among the youngest in the world, it is showing signs of maturity as efficiency gains begin to taper and MFI returns hit a plateau. Technological innovation and service quality may well be the catalysts for enhancing efficiency and further expanding outreach to achieve the sector's goal of 10 million clients by 2010.

Benchmarking Arab Microfinance 2006 examines the performance of 37 Arab MFIs from nine different Arab countries. In addition, panel data from 23 institutions is used to illustrate performance trends over the 2005–2006 two-year period. For the benefit of comparability, the Arab benchmarks are also analyzed within the context of 704 global MFIs. Additional outreach data from a regional survey of 97 Arab microfinance providers completes the landscape view.

The report begins by outlining the outreach and scale of the sector before turning to an examination of the funding structure and financial performance of Arab MFIs. The conclusion points out some significant transformations taking place in the industry and highlights key challenges and opportunities for the region to reach its full potential.

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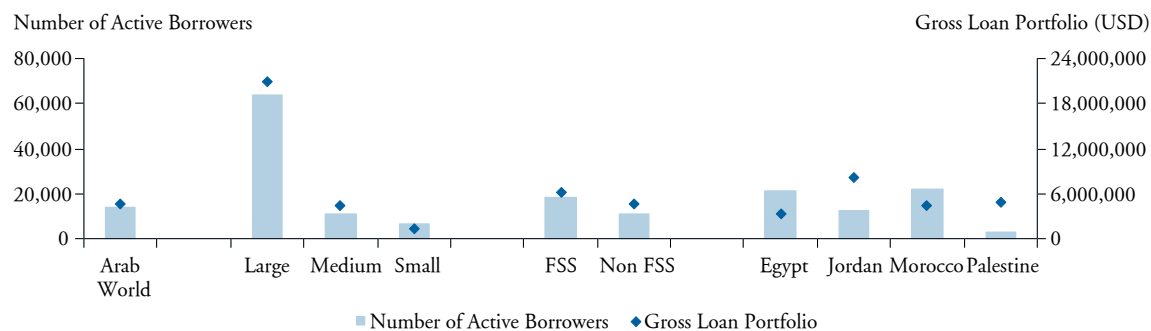
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Outreach and Scale

At year-end 2006, the Arab MFIs surveyed in this report collectively managed over USD 637 million in loans and reached more than 1.5 million borrowers, representing approximately 70 percent of total microfinance clients across the region.¹ With a mixed strategy combining both individual and group lending methodologies, regional productivity levels surpassed all other sectors and propelled the typical Arab MFI to second place on the outreach front. Leveraging its productivity of 162 borrowers per staff member, the typical institution in the region served well over 13,000 clients, outshining

¹ Based on Sanabel's 2006 Industry Survey of 97 Arab microfinance providers.

Figure 1 Outreach and Scale



Source: Microfinance Information eXchange, Inc., 2006 benchmark data. Results are peer group medians.

its more mature Latin American peers by about 3,000 clients despite its similarly low staffing levels.

Outreach levels, however, varied considerably across the Arab world. As demonstrated in *Figure 1*, large scale and sustainable MFIs were able to reach the most borrowers in 2006. While representing just half of the institutions sampled, sustainable MFIs served a disproportionate 77 percent of regional borrowers. Client concentration was even more acute when viewed through the scale lens as the 12 large scale institutions dominated the market and reached more than 80 percent of total borrowers. As *Figure 1* indicates, there was a considerable gap in outreach between large scale MFIs and their peers. While the typical medium scale institution reached 68 percent more borrowers than its small scale peer, outreach at the median large scale MFI topped six times the level attained by its medium scale counterpart. Large scale MFIs were partly boosted by their higher productivity, which, at 185 borrowers per staff member, exceeded medium MFI productivity by 75 percent.

From a geographical perspective, outreach was concentrated in Morocco and Egypt, which were better represented in the sample but were also home to many of the large scale institutions. Eight MFIs serving more than 50,000 borrowers each dominated the market and alone captured four fifths of clients across the region. These institutions were all based in Morocco and Egypt, where median outreach was 21,939 and 21,409 borrowers, respectively. Boasting the highest concentration of large MFIs, these two sectors stood unrivalled in the region as median outreach in other

countries barely topped 12,000. Local conflict and the lack of favorable microfinance legislation within some Arab countries may well explain lower outreach levels in these countries though population size may also have played a role.

As illustrated in *Table 1*, Egypt is home to the largest population in the region and moreover has one of the highest poverty rates, making it the largest potential microfinance market in the region. In smaller countries like Jordan, Lebanon, and Palestine, where population size does not hit the six million mark, MFIs typically reach fewer clients than their Egyptian peers. Yet despite the latter's achievements in outreach, there remains a sizable gap between potential demand for microfinance services and actual supply within the country.

A 2006 survey of 97 leading microfinance providers in the Arab region revealed mixed penetration rates, with the Egyptian and Yemeni markets ranking among the most under-served markets. The 27 Egyptian MFIs sampled served just over 2 percent of the poor, while the 14 Yemeni MFIs served less than 1 percent. With almost one fourth of the poor population served with microfinance loans, the Moroccan market enjoyed the highest penetration rate in the region. The introduction of the Microcredit Associations Law in Morocco during the early stages of sector development established a legal framework for the licensing of institutions within the country and promoted their growth.

On the other hand, Egyptian and Yemeni MFIs, like most institutions across the region, continue to operate under

Table 1: Potential Demand vs. Supply of Microfinance Loan Products in the Arab Region

| Country | Population* | Population under Poverty Line (\$2/day) | % Population under Poverty Line (\$2/day)** | # of MFIs Sampled | Sum of Borrowers of Sampled MFIs | Penetration Rate (Borrowers/Population under Poverty Line \$2/day) |
|--------------|-------------|---|---|-------------------|----------------------------------|--|
| Bahrain | 753,000 | NA | NA | 3 | 2,175 | NA |
| Egypt | 75,498,000 | 33,143,622 | 43.9 | 27 | 694,918 | 2.1% |
| Iraq | 28,993,000 | NA | NA | 2 | 16,353 | NA |
| Jordan | 5,924,000 | 414,680 | 7.0 | 8 | 77,780 | 18.76% |
| Lebanon | 4,099,000 | 1,176,413 | 28.7 | 9 | 46,416 | 3.95% |
| Morocco | 31,224,000 | 4,465,032 | 14.3 | 11 | 1,045,310 | 23.41% |
| Palestine | 4,017,000 | 1,655,004 | 41.2 | 9 | 28,258 | 1.71% |
| Saudi Arabia | 24,735,000 | NA | NA | 1 | 7,000 | NA |
| Sudan | 38,560,000 | 16,079,520 | 41.7 | 4 | 10,386 | 0.06% |
| Syria | 19,929,000 | 8,051,316 | 40.4 | 6 | 46,065 | 0.57% |
| Tunisia | 10,327,000 | 681,582 | 6.6 | 3 | 123,504 | 18.12% |
| Yemen | 22,389,000 | 10,119,828 | 45.2 | 14 | 36,918 | 0.36% |

Source: Sanabel 2006 Industry Survey. Results are based on 2006 outreach data from 97 Arab microfinance providers. Prior year figures were used when 2006 data was not available.

* UN Estimates (based on most recent estimate or projection by the national census authority).

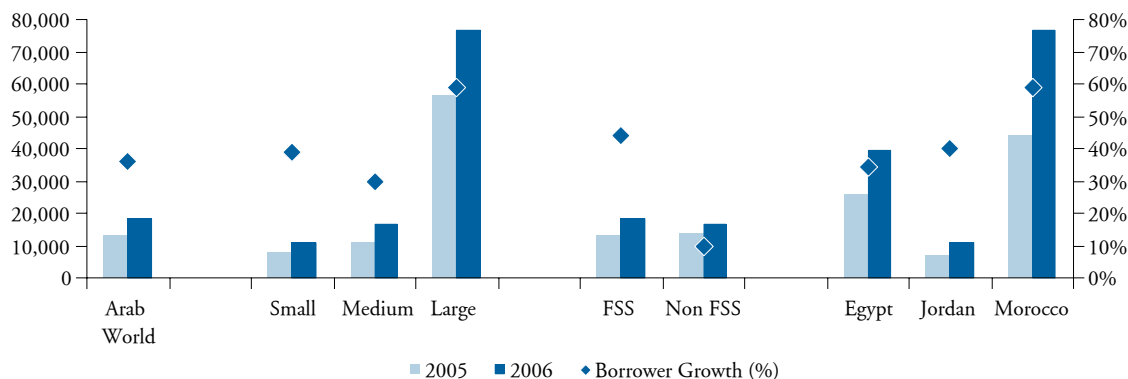
** World Bank. World Development Indicators 2006. CD-ROM. Washington, D.C. Figures in italics were estimated based on local GNI per capita and poverty data for other countries.

the limitations of all-encompassing NGO regulations that are not adapted to the provision of financial services and at times hinder MFI operations. Yet, even the Moroccan law is beginning to pose a challenge for further growth. In addition to tightly governing the product range, the law — as it stands today — has no provisions to allow MFIs to transform into companies with clear ownership and formal capital structures, thereby limiting the types and amounts of investment that can be availed for expanding outreach and boosting the loan portfolio. As banks begin to downscale in some countries, namely Egypt, MFIs will have to tackle additional obstacles to growth. With their efficient operations, access to low-cost funds, and ability to offer a wide range of products and services, downscaling banks could surpass MFI outreach and help shrink the demand-supply gap. Although penetration rates will rise, competition from commercial entrants may mean that only those MFIs that are able to provide market-driven quality services to their clients and effectively reach underserved areas will be able to maintain and boost their market share. They may also have to maintain, if not boost, their current rate of growth.

Globally, MFIs in the Arab region recorded the highest rate of growth in borrowers, with the typical institution in the panel data set expanding its client base by 36 percent over the course of 2006 and surpassing the 25 percent industry median. Together, Arab MFIs in the panel added 640,000 borrowers to increase their combined outreach by 72 percent, with an even greater 109 percent increase in the total loan portfolio. As in previous years, those groups that dominated outreach also led the growth in borrower figures, despite the challenge of achieving rapid growth while servicing larger client bases.

Moroccan MFIs alone added 82 percent of all new borrowers in the region, followed by Egyptian MFIs that were able to add 11 percent of new borrowers in 2006. As *Figure 2* illustrates, the typical Moroccan MFI achieved remarkable growth and boosted its outreach by 59 percent. Growth among Egyptian and Jordanian MFIs was solid and exceeded 30 percent, but given their smaller client base, the gap in outreach between these institutions and Moroccan MFIs in the panel increased even further over the course of the

Figure 2 Growth in Number of Active Borrowers



Source: Microfinance Information eXchange, Inc., 2005–06 benchmarks. Results are peer group medians and draw from panel data for MFIs in both years' data sets.

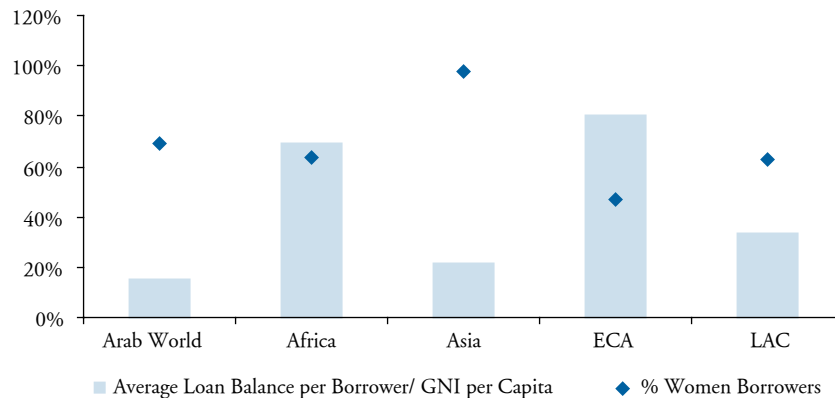
year. The growth differential was most pronounced when compared to the rates achieved in Palestine and Lebanon, where conflict and war disrupted MFI operations and made it difficult for many clients to adhere to their repayment schedules. The four MFIs sampled from these two countries saw their outreach drop from a combined 33,149 borrowers in 2005 to 30,932 in 2006. While one MFI succeeded in slightly expanding its operations, median growth among this group was –3 percent.

With the exception of MFIs in conflict-affected countries, most institutions saw a boost in outreach figures. Of the 23 panel MFIs, 17 grew by more than 20 percent, and of these, 10 expanded their client base by more than 40 percent. Among the top five performers, three were large scale institutions. Excluding borrowers added by newly sampled MFIs, large scale MFIs grew faster than any other group and accounted for 85 percent of growth in total outreach. These institutions saw their staff serve 35 more borrowers each than in the previous year, even as productivity levels dropped among both their medium and small scale peers. Additionally, large MFIs across the region are generally better able to secure commercial funding that allows them to invest more in expanding their operations and portfolios and eventually reach more borrowers. Sustainable MFIs are similarly adept at mobilizing commercial funds. With greater access to financing, the typical sustainable MFI grew by 44 percent while its loss-making peer only expanded its outreach by one tenth.

Total loan portfolio across the region grew even faster than outreach and increased by more than 100 percent, primarily the result of the 1.5x increase in lending within the Moroccan market. Jordan experienced the second highest total increase in scale at 48 percent followed by Egypt at 26 percent. The phenomenal increase in lending in Morocco was largely driven by the expansion of the client base, though average loan balances did increase by 34 percent. Amendments to the Microcredit Associations Law made it possible for Moroccan MFIs to introduce personal loans (i.e. housing and infrastructure loans). By expanding their loan product mix to include individual loans, Moroccan MFIs were able to increase their competitiveness and open up new market segments, hence contributing to growth in outreach. The expansion of individual lending may have also contributed to an increase in average loan balances from USD 197 in 2005 to USD 263 in 2006. Group lending, however, continues to dominate the Moroccan sector and accounts for most of the growth experienced over the course of the year. The increase in loan balances, hence, partly reflects the “graduation” of existing clients to higher loan cycles and moreover appears to be in keeping with changes in the economy. Average loan balance in 2006 amounted to 15 percent of local income levels, a negligible change from the 13 percent of the previous year.

Indeed, Arab microfinance continues to stand out in terms of depth of outreach. The sector maintains the lowest average loan balance in the industry relative to local income levels, and outreach to women is second only to the

Figure 3 Depth of Outreach



Source: Microfinance Information eXchange, Inc., 2006 benchmark data. Results are peer group medians.

Asian sector, as *Figure 3* shows. Within the region, Yemen, Egypt, and Jordan emerge as the most focused on reaching women borrowers at 97, 75, and 72 percent, respectively. In addition, Egypt and Yemen attain the greatest depth of outreach with average loan balances amounting to 10 and 15 percent of local income levels.

Across the region, average loan balances among panel institutions grew by just USD 47 and remained constant at 15 percent of local income. This overall stagnation, however, masks a marked reduction in the Jordanian market, where some MFIs have been actively working to deepen their outreach. Between 2005 and 2006, average loan balances among Jordanian institutions dropped from 54 percent of local income to 38 percent. Jordan also witnessed a 12 point rise in its outreach to women, from 67 percent to 79 percent over the course of the year.

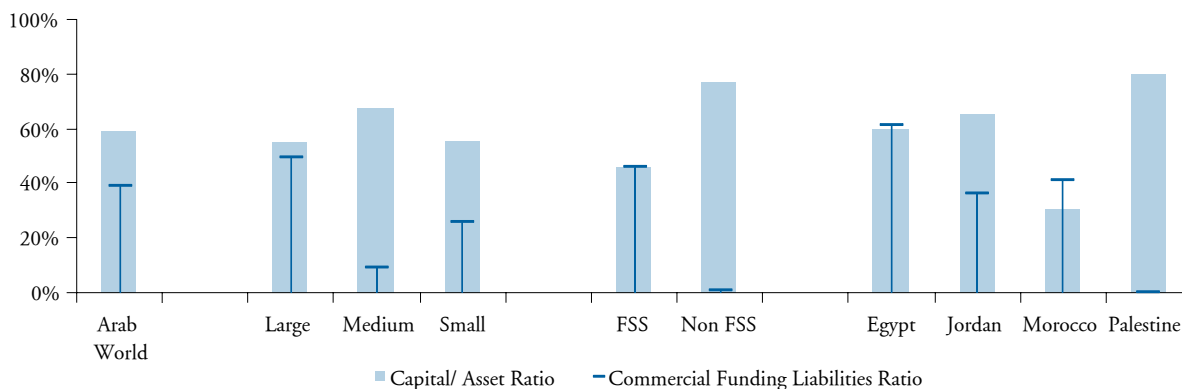
This increase in outreach to women was mirrored by the Egyptian sector, which in 2006 saw the female share of its borrowers surpass the regional norm as well as the median among Moroccan MFIs. The latter had traditionally focused on serving women with group loans but have recently been expanding their individual and housing products that favor male-dominated activities. Nonetheless, two thirds of all borrowers reached at year-end 2006 were women. As Arab MFIs continue to grow, they will need to align their expansion strategies with their proclaimed social missions to ensure that they are reaching their targeted groups.

Financing Structure

In the drive to expand outreach, Arab MFIs have typically been confined to donations and retained earnings for the financing of their portfolios. In 2006, the Arab microfinance sector remained by far the most capitalized in the world, funding more than 50 percent of its assets with equity compared to the 25 percent global norm. The vast majority of Arab institutions in the region are registered as NGOs, and even the handful that are chartered as companies and hold formal capital structures consist mostly of not-for-profit organizations, making it difficult for most MFIs to attract commercial investors. Nonetheless, some of the more profitable and sustainable MFIs have successfully secured funding from commercial banks, primarily in the form of short-term overdraft facilities and guaranteed loans. Led by these MFIs, the region is moving towards greater commercialization and is slowly transforming its relationship with lenders.

Panel data show that the extent to which market-priced funds are financing the median Arab loan portfolio increased by 15 points in 2006, reaching a ratio of 39 percent—almost two thirds the global median. Most institutions drew increasingly on commercial funds compared to 2005, but the typical loss-making MFI continued to rely entirely on grants and subsidized loans for its financing. As *Figure 4* indicates, capitalization among this group of institutions exceeded three fourths of assets while commercialization was nil, contrasting drastically

Figure 4 Modes of Financing across the Arab Region



Source: Microfinance Information eXchange, Inc., 2006 benchmark data. Results are peer group medians.

with the 46 percent commercialization level among their sustainable peers. Of the USD 341 million in non-deposit commercial funds outstanding in the Arab sector at the end of 2006, 92 percent was held on the balance sheets of profitable institutions. Large scale MFIs captured a similar share of commercial funds, indicating that “investable” institutions are those that have successfully demonstrated their operational and financial viability over time while maintaining the quality of their portfolios.

Variations in financing structures among individual countries also reflect differences in market and regulatory environments across the region. The Egyptian market stood out as the most commercialized, drawing on market-priced funds for 61 percent of the median portfolio. For several institutions, these loans were obtained by blocking USAID grants as fixed deposits and leveraging these funds to raise local commercial debt. Debt-equity ratios, however, typically remain below 1:1 as local lenders are generally reluctant to provide loans above the guarantee amount. Working with international organizations, Egyptian MFIs have begun to enhance their relationships with banks. With the backing of a partial guarantee from Grameen–Jameel Pan Arab Microfinance Limited, DBACD succeeded in leveraging a long-term, local-currency commercial loan from a private sector international bank at 1.25x. By the end of 2006, however, the total amount of commercial funds mobilized by the Egyptian sector was still relatively low and amounted to just 10 percent of commercial funds outstanding in the region, with a median leverage ratio of just 0.7.

Indeed, median leverage across the region fell short of 1:1, and only the Moroccan sector came close to global norms by raising just over two dollars in debt for every dollar in equity. The Moroccan market moreover held 84 percent of total commercial funds outstanding in the region. One institution alone accounted for 62 percent of those funds, and together with the next three MFIs held a combined 99 percent. While large scale MFIs have established close links with local commercial banks, the remaining institutions struggle to secure such financing. In an attempt to boost overall funding to the sector, a mix of local and international actors created a specialized microfinance fund that would initially focus on providing debt financing to the set of smaller Moroccan MFIs. As these MFIs prove their ability to appropriately manage these funds, investor attitudes will likely improve and hence increase the availability of commercial funds to the sector. Commercialization in the country is moreover expected to further increase following Al-Amana’s anticipated bond issuance.

Our discussion of the region’s financing structure has thus far overlooked deposits as a viable source of funding. Savings mobilization remains non-existent in the region with only a few scattered exceptions. Legal constraints placed on Arab MFIs have made it difficult to provide the full range of financial services currently offered by some of their global peers, such as savings deposits, transfers and remittances, and insurance products. The picture, however, may be changing as countries such as Syria and Yemen adopt new provisions that would allow the establishment of more formalized, deposit-taking institutions.

Profitability and Sustainability

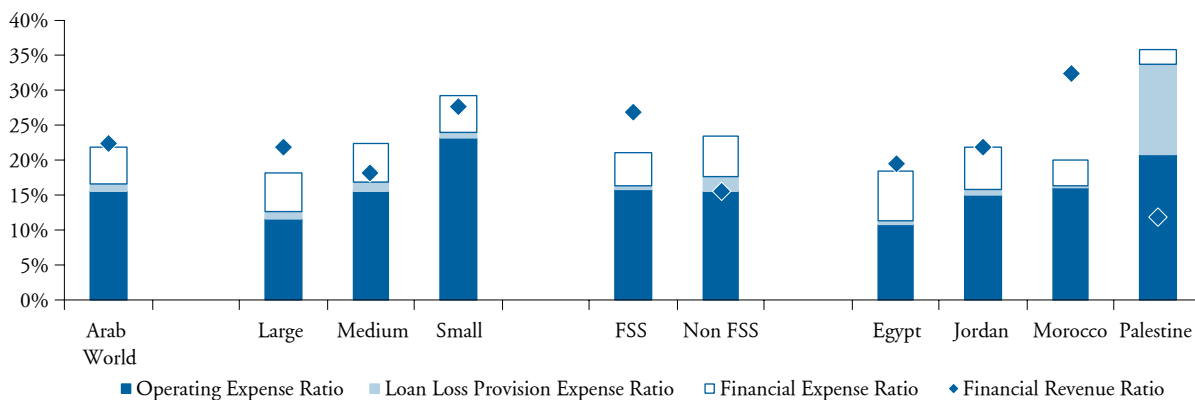
The Arab microfinance sector recorded negative returns in 2006, as a result of low revenues. The median asset base yielded 0.5 percent in losses, compared to a global median of 0.9 percent in profits. Despite maintaining the lowest expense levels for the industry, the Arab sector was outshone by the more mature Asian and Latin American regions, but also by its equally young Eastern European/Central Asian counterpart. Arab MFIs are less efficient than their peers in Eastern Europe/Central Asia (ECA) because their smaller loan balances are more costly to manage, but their high productivity levels and greater access to concessional financing help keep overall costs in check, leading to a median 21.8 percent expense level compared to 25.5 percent in ECA. Nonetheless MFIs in ECA succeeded in generating a 1.3 percent return on assets thanks to their stronger revenue streams. These institutions do not typically charge more on their loans than their Arab peers, but they do allocate more resources to their lending activities—85.2 percent compared to 80.1 percent. With lower investment in their loan portfolios, financial revenues among Arab MFIs were lower than the global median at 22.3 percent of assets.

Within the Arab region, a similar pattern arises between profitable and loss-making MFIs. In keeping with prior year observations, sustainable institutions maintained a tighter lid on expenses than their peers but generated

72 percent more in revenues, as *Figure 5* shows, largely thanks to greater investment in the loan portfolio—88.6 percent compared to 62.2 percent. As loss-making MFIs adjust their asset mix in favor of their lending activities, however, they will have to pay special attention to improving their systems and processes in order to boost efficiency and enhance portfolio quality. At 5.7 percent, the share of the portfolio at risk of default is much greater for this group of MFIs than both the regional and global norms of 1.4 percent, and unless performance improves in this area, rapidly expanding operations could hurt returns.

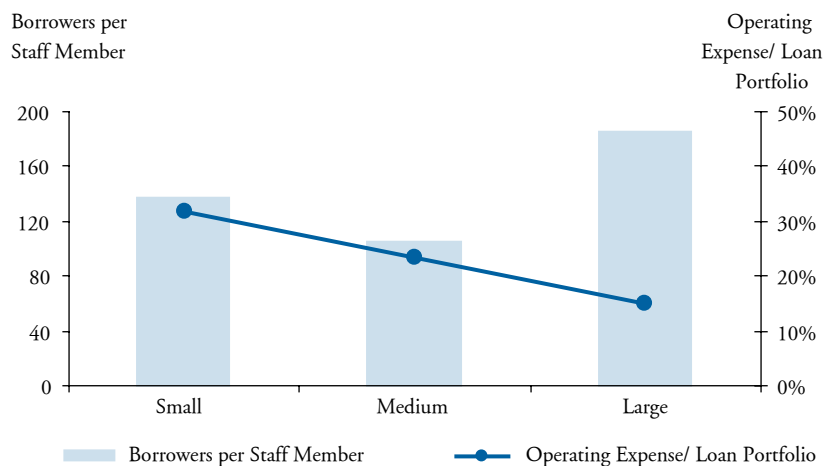
Nonetheless, there does seem to be a mutually reinforcing relationship between profitability and operational scale. Large scale Arab MFIs achieved profitability and sustainability levels that were much higher than the global median, with ROA recording 3.2 percent—compared to -2.0 percent and -3.9 percent for medium and small scale MFIs, respectively. Thanks to cost efficiencies that come with scale, large MFIs were able to tighten their grip on operating expenses when compared to their medium and small peers. As shown in *Figure 6*, the cost of managing one dollar in loans dropped from 32 cents among small institutions to 24 cents among their medium counterparts and just 15 cents for large MFIs. These efficiencies gave a boost to returns, but instead of using these efficiency achievements to maximize profits, large Arab MFIs opted to pass on some of these gains to clients in the form of lower interest rates. Small scale

Figure 5 Profitability across the Region



Source: Microfinance Information eXchange, Inc., 2006 benchmark data. Results are peer group medians.

Figure 6 Efficiency and Productivity by Scale



Source: Microfinance Information eXchange, Inc., 2006 benchmark data. Results are peer group medians.

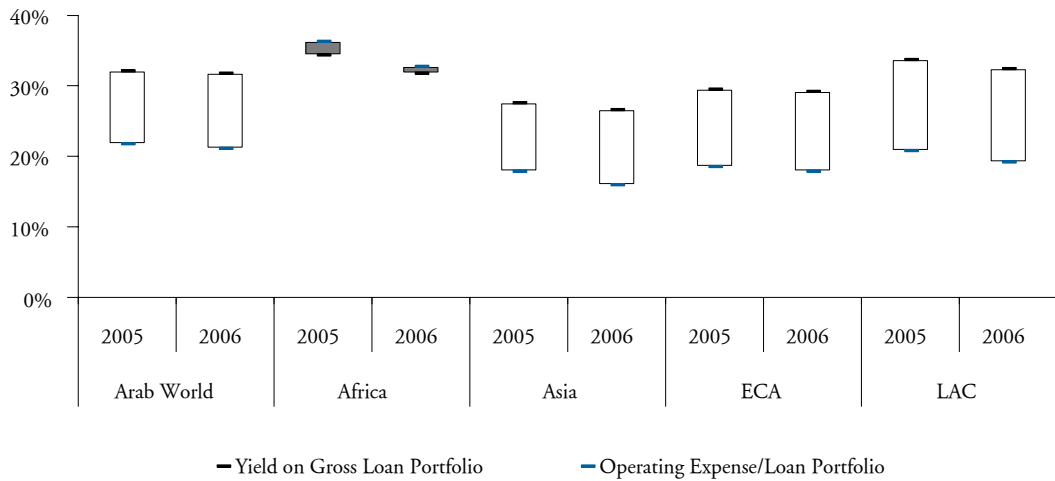
MFIs, because of their high cost structure, tend to charge higher interest rates and generate portfolio yields of 39 percent –10 points above the figure generated by large MFIs. As scale pushed up profits, profitability in turn helped expand scale. Sustainable MFIs were able to secure the commercial funding needed for further growth and, on average, reached 7,000 more borrowers than their non-profitable peers and managed USD 1.6 million more in loans.

Until 2006, the Arab sector was dominated by sustainable MFIs and recorded positive median returns. The region's losses for the year, however, do not reflect a drop in performance but are testament to the increase in participation levels and the spread of transparency beyond the set of top performing MFIs. Hence, while the region as a whole recorded negative returns, the median return on assets among panel MFIs remained fixed at a solid 2.8 percent. Portfolio yields and financial revenues remained fairly stable over the course of the year, but there was a slight 1.5 point increase in the level of expenses as an increase in loan loss provisioning and financial expenses drove up the overall cost structure. The Arab region continues to boast outstanding portfolio quality in the industry, but conflicts in Palestine and Lebanon contributed to a doubling of portfolio at risk over 30 days and an increase in provisioning costs from 0.6 percent to 0.9 percent of assets.

The greatest increase, however, came from rising financial costs propelled by increased commercialization and leverage. MFIs in Morocco and Jordan spent an additional 2.1 percent and 2.7 percent of assets, respectively, as commercialization levels rose from 43 percent to 51 percent in the case of the former and 20 percent to 36 percent in the case of the latter. Financing costs, however, also increased in countries that did not experience a rise in commercialization. Egyptian MFIs saw their cost of funds rise from 5.6 percent to 7.4 percent despite a 19-point drop in commercialization. Interest rates generally run higher in the Egyptian economy than they do in Jordan and Morocco, but these costs may also partly reflect the difficulty in accessing competitively priced funds and negotiating better terms in a market where banks are generally reluctant to lend to MFIs.

These rising costs, however, were partly countered by a decline in administrative expenses. Slight improvements in operational efficiency helped cut the cost on every dollar lent from 22 to 21 cents. Despite this gain, efficiency appears to be tapering among panel institutions, suggesting that their margins may become thinner as increased competition places downward pressure on interest rates. As *Figure 7* indicates, in the mature Asian and Latin American markets, growing competition has made it harder for MFIs to increase

Figure 7 Comparison of Yields and Costs on the Loan Portfolio



Source: Microfinance Information eXchange, Inc., 2005–06 benchmarks. Results are peer group medians and draw from panel data for MFIs in both years’ data sets.

yields and has driven these below the 30 percent mark. Similarly, as the Arab sector matures and competition intensifies between new and existing MFIs, interest rates are expected to drop, driving down returns. Thus, Arab MFIs will need to introduce innovations as a means of reducing costs and enhancing their efficiencies in the face of rising competition. One of the challenges will be to do so while maintaining the low average loan balances that distinguish the sector from other regions.

Conclusion

The Arab region’s 2006 achievements in terms of outreach and scale were impressive, despite funding constraints posed by institutional form and skeptical investor attitudes in many countries. Greater sector visibility and international investments helped boost commercialization levels, but many institutions continue to rely on short-term loans and overdraft facilities for growing their operations. These financing types not only pose a challenge for cash flow management but also come at a high cost, raising financial costs even as the region remains highly capitalized. Legislative reform and technological development in particular could open up new funding channels and help increase efficiency and profitability to the levels needed for achieving the exponential growth to which the sector aspires. While

change has thus far been slow in the region, the Arab microfinance landscape is clearly evolving.

Outreach in Egypt and Jordan will increase notably as banks begin to downscale and the likes of Bank of Alexandria and Cairo Amman Bank bring their extensive infrastructure, hands-on local knowledge, and existing operational efficiencies to the market. In Yemen, the introduction of financial services at the Post and Postal Savings Corporation may prove to be a novel way to reach borrowers through an existing and well-established network. The introduction of ATM cards and mobile banking is currently underway in Lebanon and Jordan and will enable MFIs to reach currently under-served clients in remote areas. The ratification of new microfinance legislation in Syria in 2007 and the consequent awarding of the first license for the establishment of a specialized microfinance bank have prompted MFIs in the country to initiate the process for transformation into formal banking institutions. In Morocco, Al-Amana will set precedence in the region through a much anticipated bond issuance that would allow the MFI to tap even further into the local capital market.

These changes are revolutionizing the sector as it moves towards higher efficiency and sustainability levels and will allow MFIs to expand their outreach and better

fulfill their social missions of reaching those currently unable to access financial services. At the same time, such changes will also create greater competition for existing MFIs as more commercial institutions decide to enter a profitable and relatively low-risk sector. Increased competition, both from existing MFIs and new commercial service providers, is expected to drive down interest rates on loan products and put pressure on Arab MFIs to increase their efficiencies and broaden their product offering to meet client demand and achieve higher sustainability levels.

To this effect, the introduction of technological innovations may well become a key driving factor behind the advancement and growth of the industry in the near future, especially in terms of cost reduction and extending outreach to previously untapped remote areas. Moreover, constructive regulatory environments will be crucial for Arab MFIs to diversify their product offering and mobilize savings as an inexpensive source of funding. Customer-driven MFIs that are able to quickly evolve to meet changing market needs while

providing quality services to their borrowers will shape the direction of the Arab microfinance sector in the immediate and near future.

*Ranya Abdel-Baki, Sanabel, Transparency Unit Head
Hind Tazi, MIX, Lead Analyst*

Data and Data Preparation

For benchmarking purposes, Sanabel and MIX collect and prepare 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.

Arab MFI Participants

2006 Benchmarks (37 MFIs) 2005–2006 Balanced Panel Data (23 MFIs) *names in italics*

ABA (Egypt), ABWA (Egypt), ACAD (Palestine), Al Amana (Morocco), Al Awael (Yemen), Al Karama (Morocco), Al Majmoua (Lebanon), Al Tadamun (Egypt), Alwatani (Jordan), AMC (Jordan), Ameen (Lebanon), AMOS (Morocco), AMSSF/MC (Morocco), ARDI (Morocco), ASALA (Palestine), Azal (Yemen), CEOSS (Egypt), DBACD (Egypt), DEF (Jordan), Enda (Tunisia), ESED (Egypt), FATEN (Palestine), FBPMC (Morocco), FMF (Egypt), FONDEP (Morocco), IDDA (Egypt), INMAA (Morocco), JMCC (Jordan), Lead Foundation (Egypt), MCF - SYR (Syria), MEMCO (Jordan), MFW (Jordan), NMF (Yemen), PASED (Sudan), SBACD (Egypt), UNRWA (Palestine), Zakoura (Morocco)

| Peer Groups | Definition | Description |
|-----------------------|------------------------|--|
| Countries | Egypt (10 MFIs) | Arab MFIs from Egypt |
| | Jordan (6 MFIs) | Arab MFIs from Jordan |
| | Morocco (9 MFIs) | Arab MFIs from Morocco |
| | Palestine (4 MFIs) | Arab MFIs from Palestine |
| Sustainability | Arab FSS (18 MFIs) | Arab MFIs with Financial Self-sufficiency ratio > 100% |
| | Arab Non FSS (19 MFIs) | Arab MFIs with Financial Self-sufficiency ratio < 100% |
| Scale | Arab Small (11 MFIs) | Arab MFIs with Gross Loan Portfolio < US\$ 2 million |
| | Arab Medium (14 MFIs) | Arab MFIs with Gross Loan Portfolio between US\$ 2 and US\$ 8 million |
| | Arab Large (12 MFIs) | Arab MFIs with Gross Loan Portfolio between US\$ 8 and US\$ 15 million |
| Outreach | Arab Small Outreach | Arab MFIs with Number of Active Borrowers < 10,000 |
| | Arab Medium Outreach | Arab MFIs with Number of Active Borrowers between 10,000 and 30,000 |
| | Arab Large Outreach | Arab MFIs with Number of Active Borrowers > 30,000 |
| Age | Arab New (7 MFIs) | Arab MFIs with Age < 5 years |
| | Arab Young (16 MFIs) | Arab MFIs with Age between 5 and 8 years |
| | Arab Mature (14 MFIs) | Arab MFIs with Age > 8 years |

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 |
| 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 |
| 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 |

OVERALL FINANCIAL PERFORMANCE

| | |
|------------------------------|---|
| Return on Assets | Adjusted Net Operating Income, and net of taxes/Adjusted Average Total Assets |
| Return on Equity | Adjusted Net Operating Income, and 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) | (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/GNP per Capita | Adjusted Average Personnel Expense/GNP per capita |
| Cost per Borrower | Adjusted Operating Expense/Adjusted Average Number of Active Borrowers |

Indicator Definitions

PRODUCTIVITY

| | |
|----------------------------|---|
| Borrowers per Staff Member | Adjusted Number of Active Borrowers/Number of Personnel |
| Borrowers per Loan Officer | Adjusted Number of Active Borrowers/Number of Loan Officers |
| 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/Adjusted Gross Loan Portfolio |
| Portfolio at Risk > 90 Days | Outstanding balance, loans overdue > 90 Days, adjusted/Adjusted Gross Loan Portfolio |
| Write-off Ratio | Adjusted 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 a % of Total Assets | Adjusted Cash and banks/Adjusted Total Assets |

| Arab | | | | | | | | |
|--|----------------------|--------------|---------------|----------------|------------------|-----------------|---------------------|-------------------------|
| | All Arab MFIs | Egypt | Jordan | Morocco | Palestine | Arab FSS | Arab Non FSS | Arab Small Scale |
| INSTITUTIONAL CHARACTERISTICS | | | | | | | | |
| Number of MFIs | 37 | 10 | 6 | 9 | 4 | 18 | 19 | 11 |
| Age | 7 | 7 | 7.5 | 7 | 4 | 7.5 | 6 | 5 |
| Total Assets | 7,313,705 | 7,726,822 | 8,816,109 | 4,651,604 | 7,411,782 | 6,974,007 | 7,313,705 | 1,577,369 |
| Offices | 12 | 9 | 13 | 37 | 13 | 28 | 9 | 9 |
| Personnel | 90 | 264 | 79 | 116 | 43 | 100 | 78 | 38 |
| FINANCIAL STRUCTURE | | | | | | | | |
| Capital/Asset Ratio | 59.2% | 59.7% | 65.3% | 30.6% | 79.8% | 46.1% | 77.4% | 55.7% |
| Commercial Funding Liabilities Ratio | 39.2% | 61.3% | 35.9% | 41.0% | 0.0% | 45.9% | 0.8% | 25.5% |
| Debt/Equity Ratio | 0.7 | 0.7 | 0.5 | 2.3 | 0.3 | 1.2 | 0.2 | 0.5 |
| Gross Loan Portfolio/Total Assets | 80.1% | 54.1% | 90.5% | 90.2% | 59.3% | 88.6% | 62.2% | 77.0% |
| SCALE AND OUTREACH | | | | | | | | |
| Number of Active Borrowers | 13,796 | 21,409 | 12,167 | 21,939 | 3,140 | 18,096 | 10,937 | 6,367 |
| Percent of Women Borrowers | 68.9% | 75.4% | 72.4% | 65.0% | 58.4% | 71.7% | 67.4% | 93.0% |
| Gross Loan Portfolio | 4,579,609 | 3,256,275 | 8,057,168 | 4,355,824 | 4,791,136 | 6,159,419 | 4,579,609 | 1,282,142 |
| Average Loan Balance per Borrower | 263 | 126 | 1,069 | 262 | 1,187 | 263 | 330 | 134 |
| Average Loan Balance per Borrower/GNI per capita | 15.1% | 10.0% | 43.5% | 15.0% | 96.6% | 14.3% | 15.6% | 13.1% |
| PROFITABILITY/ SUSTAINABILITY | | | | | | | | |
| Return on Assets | -0.5% | -0.9% | 2.4% | 5.0% | -19.7% | 3.8% | -4.7% | -3.9% |
| Return on Equity | -0.6% | -1.0% | 3.1% | 14.4% | -24.8% | 10.6% | -10.4% | -4.1% |
| Operational Self-Sufficiency | 125.8% | 129.0% | 141.7% | 126.6% | 52.4% | 132.3% | 102.6% | 114.0% |
| Financial Self-Sufficiency | 96.3% | 95.0% | 110.7% | 118.7% | 36.7% | 118.2% | 80.3% | 89.0% |
| REVENUE | | | | | | | | |
| Financial Revenue Ratio | 22.3% | 19.6% | 21.9% | 32.4% | 11.8% | 26.8% | 15.6% | 27.6% |
| Profit Margin | -3.8% | -5.3% | 9.6% | 15.7% | -178.0% | 15.4% | -24.5% | -12.4% |
| Yield on Gross Portfolio (nominal) | 30.0% | 30.4% | 24.5% | 38.3% | 15.8% | 33.5% | 28.3% | 38.7% |
| Yield on Gross Portfolio (real) | 21.4% | 21.2% | 17.2% | 33.9% | 12.9% | 26.3% | 19.0% | 21.4% |
| EXPENSE | | | | | | | | |
| Total Expense Ratio | 21.8% | 18.1% | 20.6% | 21.1% | 30.6% | 20.7% | 24.2% | 32.3% |
| Financial Expense Ratio | 5.4% | 7.0% | 5.9% | 3.6% | 2.1% | 4.6% | 5.9% | 5.2% |
| Loan Loss Provision Expense Ratio | 1.0% | 0.6% | 0.8% | 0.4% | 13.0% | 0.6% | 2.2% | 0.7% |
| Operating Expense Ratio | 15.5% | 10.8% | 15.1% | 16.0% | 20.8% | 15.8% | 15.4% | 23.2% |
| Personnel Expense Ratio | 10.5% | 7.5% | 9.7% | 10.9% | 12.2% | 10.7% | 9.4% | 14.0% |
| Administrative Expense Ratio | 5.3% | 3.2% | 4.9% | 5.3% | 7.1% | 5.2% | 5.5% | 8.7% |
| Adjustment Expense Ratio | 3.9% | 3.9% | 4.6% | 0.7% | 7.5% | 2.4% | 5.6% | 2.8% |
| EFFICIENCY | | | | | | | | |
| Operating Expense/Loan Portfolio | 21.1% | 18.6% | 19.2% | 17.0% | 31.5% | 17.2% | 29.4% | 31.6% |
| Personnel Expense/Loan Portfolio | 13.8% | 15.5% | 13.0% | 11.6% | 16.9% | 12.2% | 17.1% | 19.7% |
| Average Salary/GNI per Capita | 3.8 | 2.4 | 4.2 | 3.9 | 8.6 | 3.9 | 3.8 | 3.8 |
| Cost per Borrower | 62 | 33 | 152 | 54 | 247 | 58 | 94 | 52 |
| PRODUCTIVITY | | | | | | | | |
| Borrowers per Staff Member | 162 | 167 | 166 | 220 | 64 | 185 | 125 | 137 |
| Borrowers per Loan Officer | 245 | 251 | 305 | 279 | 111 | 280 | 192 | 209 |
| Personnel Allocation Ratio | 62.7% | 54.2% | 59.8% | 74.1% | 58.4% | 67.6% | 58.7% | 56.5% |
| RISK AND LIQUIDITY | | | | | | | | |
| Portfolio at Risk > 30 days | 1.4% | 0.5% | 1.9% | 0.6% | 47.9% | 0.6% | 5.7% | 2.1% |
| Portfolio at Risk > 90 days | 0.4% | 0.3% | 0.8% | 0.2% | 39.1% | 0.3% | 1.4% | 0.8% |
| Write-off ratio | 0.5% | 0.1% | 0.3% | 0.5% | 13.4% | 0.4% | 0.6% | 0.1% |
| Loan Loss Rate | 0.2% | 0.1% | 0.0% | 0.2% | 10.6% | 0.1% | 0.6% | 0.1% |
| Risk Coverage | 0.8 | 0.8 | 2.1 | 0.8 | 0.5 | 0.9 | 0.7 | 0.6 |
| Non-earning Liquid Assets as % Total Assets | 4.5% | 1.5% | 4.9% | 4.4% | 22.6% | 4.5% | 5.4% | 11.0% |

| Arab | | | | | | | | |
|--|-------------------|------------------|-----------------------|------------------------|-----------------------|-----------|------------|-------------|
| | Arab Medium Scale | Arab Large Scale | MENA Small (Outreach) | MENA Medium (Outreach) | MENA Large (Outreach) | Arab New | Arab Young | Arab Mature |
| INSTITUTIONAL CHARACTERISTICS | | | | | | | | |
| Number of MFIs | 14 | 12 | 14 | 14 | 9 | 7 | 16 | 14 |
| Age | 8 | 10.5 | 7 | 6.5 | 10 | 3 | 6.5 | 11 |
| Total Assets | 7,039,512 | 34,469,364 | 2,599,118 | 4,552,610 | 30,437,292 | 2,408,324 | 4,542,359 | 15,841,430 |
| Offices | 11 | 37 | 10 | 11 | 43 | 7 | 13 | 28 |
| Personnel | 73 | 372 | 44 | 96 | 500 | 78 | 63 | 218 |
| FINANCIAL STRUCTURE | | | | | | | | |
| Capital/Asset Ratio | 67.6% | 55.2% | 68.8% | 46.1% | 51.2% | 46.7% | 63.6% | 54.7% |
| Commercial Funding Liabilities Ratio | 9.4% | 49.2% | 13.1% | 21.4% | 63.0% | 57.8% | 22.1% | 45.2% |
| Debt/Equity Ratio | 0.5 | 0.8 | 0.4 | 1.2 | 1.0 | 0.5 | 0.6 | 0.8 |
| Gross Loan Portfolio/Total Assets | 69.1% | 88.0% | 79.3% | 79.9% | 82.5% | 77.0% | 80.9% | 80.5% |
| SCALE AND OUTREACH | | | | | | | | |
| Number of Active Borrowers | 10,700 | 64,219 | 4,207 | 16,046 | 76,378 | 11,741 | 7,117 | 22,850 |
| Percent of Women Borrowers | 66.1% | 64.7% | 67.2% | 78.7% | 67.4% | 84.9% | 66.1% | 68.4% |
| Gross Loan Portfolio | 4,468,983 | 21,011,634 | 1,999,925 | 4,167,099 | 15,272,878 | 1,855,320 | 2,901,118 | 10,163,086 |
| Average Loan Balance per Borrower | 690 | 363 | 731 | 198 | 263 | 94 | 296 | 323 |
| Average Loan Balance per Borrower/GNI per capita | 14.6% | 19.4% | 22.5% | 14.4% | 15.1% | 15.1% | 14.1% | 15.4% |
| PROFITABILITY/ SUSTAINABILITY | | | | | | | | |
| Return on Assets | -2.0% | 3.2% | -3.6% | 0.3% | 3.7% | -5.9% | 3.0% | 0.6% |
| Return on Equity | -3.5% | 6.6% | -7.6% | 1.0% | 6.7% | -11.7% | 5.4% | 1.2% |
| Operational Self-Sufficiency | 109.8% | 152.7% | 107.7% | 127.2% | 156.2% | 95.7% | 127.4% | 126.2% |
| Financial Self-Sufficiency | 90.3% | 113.1% | 85.5% | 100.2% | 116.3% | 76.9% | 114.5% | 100.7% |
| REVENUE | | | | | | | | |
| Financial Revenue Ratio | 18.2% | 21.9% | 23.1% | 22.0% | 20.5% | 21.3% | 23.6% | 21.4% |
| Profit Margin | -10.8% | 11.6% | -17.2% | 0.0% | 14.0% | -30.0% | 12.7% | 0.5% |
| Yield on Gross Portfolio (nominal) | 29.8% | 28.2% | 32.4% | 30.4% | 29.4% | 31.2% | 30.9% | 29.4% |
| Yield on Gross Portfolio (real) | 23.9% | 20.4% | 18.1% | 21.2% | 22.3% | 15.4% | 22.4% | 23.6% |
| EXPENSE | | | | | | | | |
| Total Expense Ratio | 22.3% | 18.4% | 26.0% | 21.5% | 17.1% | 22.8% | 21.5% | 22.2% |
| Financial Expense Ratio | 5.5% | 5.5% | 4.2% | 5.9% | 5.0% | 7.7% | 4.4% | 5.2% |
| Loan Loss Provision Expense Ratio | 1.5% | 1.0% | 1.2% | 1.2% | 0.9% | 1.5% | 0.6% | 1.4% |
| Operating Expense Ratio | 15.5% | 11.7% | 21.1% | 15.8% | 12.6% | 15.4% | 15.7% | 14.7% |
| Personnel Expense Ratio | 9.7% | 7.5% | 12.5% | 10.9% | 7.5% | 9.4% | 10.9% | 9.8% |
| Administrative Expense Ratio | 4.7% | 4.4% | 6.2% | 5.0% | 4.2% | 6.1% | 5.5% | 4.6% |
| Adjustment Expense Ratio | 4.2% | 3.9% | 4.8% | 3.4% | 3.8% | 4.7% | 3.0% | 3.7% |
| EFFICIENCY | | | | | | | | |
| Operating Expense/Loan Portfolio | 23.5% | 14.9% | 29.7% | 22.0% | 15.4% | 31.6% | 19.2% | 20.5% |
| Personnel Expense/Loan Portfolio | 14.9% | 10.5% | 15.9% | 15.3% | 10.8% | 19.7% | 13.0% | 13.7% |
| Average Salary/GNI per Capita | 3.5 | 4.0 | 4.3 | 3.8 | 3.6 | 3.8 | 3.8 | 3.9 |
| Cost per Borrower | 155 | 61 | 155 | 46 | 40 | 44 | 71 | 61 |
| PRODUCTIVITY | | | | | | | | |
| Borrowers per Staff Member | 105 | 185 | 92 | 173 | 189 | 150 | 154 | 166 |
| Borrowers per Loan Officer | 167 | 289 | 173 | 284 | 283 | 283 | 227 | 224 |
| Personnel Allocation Ratio | 64.4% | 65.9% | 63.2% | 53.3% | 74.0% | 53.2% | 65.9% | 60.2% |
| RISK AND LIQUIDITY | | | | | | | | |
| Portfolio at Risk > 30 days | 2.9% | 0.5% | 2.3% | 2.5% | 0.4% | 0.7% | 1.9% | 2.3% |
| Portfolio at Risk > 90 days | 1.1% | 0.3% | 1.5% | 0.3% | 0.2% | 0.3% | 0.8% | 0.4% |
| Write-off ratio | 0.4% | 0.5% | 0.6% | 0.2% | 0.5% | 0.0% | 0.2% | 1.2% |
| Loan Loss Rate | 0.2% | 0.4% | 0.2% | 0.2% | 0.3% | 0.0% | 0.1% | 1.1% |
| Risk Coverage | 0.6 | 2.9 | 0.6 | 0.9 | 1.0 | 1.6 | 0.7 | 0.7 |
| Non-earning Liquid Assets as % Total Assets | 5.2% | 1.9% | 7.2% | 5.2% | 1.8% | 5.4% | 7.2% | 2.6% |

Benchmarking Arab Microfinance 2006

About Sanabel

The Sanabel Microfinance Network of Arab Countries was established in 2002 by 17 members in 7 Arab countries as a membership-driven regional network for microfinance institutions (MFIs) in the Arab world. Currently, there are 53 members in 11 countries, serving more than 90% of the total active microfinance clients in the region.

Sanabel's mission is to maximize outreach to microentrepreneurs in the Arab world by providing microfinance institutions with a forum for mutual learning and exchange of information, capacity building services, and advocacy for best practices in microfinance.

To learn more, visit www.sanabelnetwork.org.

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The Microfinance Information eXchange (MIX) is the leading provider of business information and data services for the microfinance industry. Dedicated to strengthening the microfinance sector by promoting transparency, MIX provides detailed performance and financial information on microfinance institutions, investors, networks and service providers associated with the industry. MIX does this through a variety of publicly available platforms, including MIX Market (www.mixmarket.org) and the MicroBanking Bulletin. To learn more, visit www.themix.org.

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