

# BULLETIN HIGHLIGHTS

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## MFI Benchmark Analysis: An Industry Still Expanding, Despite Challenges

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### Overview of Benchmark Data

Nearly 900 MFIs submitted data for MIX's 2007 MFI benchmarks, representing a range of microfinance service providers, regions, sizes and stages of development. Compared to the 2006 series, coverage improved in all published peer groups. The survey expanded significantly its sample of non bank financial intermediaries, particularly those institutions allowed to mobilize deposits, with the addition of small, licensed intermediaries in Africa and Asia. Both regions also saw their numbers swell in this survey.

Even as this annual survey continues to expand coverage, it remains committed to providing broad, representative benchmarks for all microfinance institutions, beyond the subset of leading MFIs. As a result, new markets (five new countries), new institutions (144 less than five years old), and small institutions (311 serving fewer than 10,000 borrowers) all found a home in this year's benchmark dataset, allowing start-up MFIs to track their performance in this dynamic marketplace. Continued coverage of the mature (543) and the large (316) operations still provide reference points for the more established institutions of substantial scale.

Readers are reminded that expanded coverage also means that results are less comparable from one annual survey to another. Please refer to the trend lines benchmark series to capture growth trends on a smaller, core set of reporting institutions<sup>1</sup>. The next series will be published in Spring, 2009.

**M**IX 2007 benchmarking results capture an industry undergoing expansion, but with broader macroeconomic events at the doorstep. Client growth slowed, except in large and nascent markets, where another record year in commercial funding allowed MFIs to bolster portfolios. At the same time, rising costs and living standards pulled up loan sizes leading portfolio growth to outpace increased client access by a factor of two. Year end results also foreshadow the looming crisis. Profits continue to narrow and taper off, as portfolio risk increases and efficiency gains slow down.

The following *Highlights* offer a glimpse into this year's industry results. Panel data on one year trends draw on a sample of 716 MFIs reporting both 2006 and 2007 figures.

### Client Growth Slowed, Portfolio Size Increased

Surveyed MFIs reached 64 million borrowers through

32 billion USD in loans at the end of 2007, with deposit taking institutions capturing nearly half these amounts, as highlighted in **Figure 1**. A workforce of more than 360,000 employees operated through more than 40,000 offices to extend financial services to this client base.

Large Asian institutions continue to represent a major share of global microcredit outreach, with strong growth in India, Pakistan, Cambodia, and the Philippines reinforcing these results. High market concentration also underpins Asia's position, with a handful of organizations providing the majority of access across the region. In most regions of the world, between 15 and 20 percent of providers claim three-quarters of the market share, as the sloping line in **Figure 2** depicts. The tail of that line represents Asia, where a mere 6 percent of firms account for the same total market share. The ability to leverage infrastructure seems to reinforce this market concentration. Asian MFIs serve 50 percent more borrowers with each office than MFIs in other regions. Market size, population density and group lending models may all contribute to this effect. Smaller markets, sparsely populated regions, and a predominance of individual lending products may

<sup>1</sup> Trends Lines benchmarks can be found on [www.themix.org](http://www.themix.org) > All Publications > Global Level > MFI Trends Benchmarks.

**Figure 1: Scale of Global Microfinance Institutions**

	Offices ('000)	Employees ('000)	Borrowers ('000)	Deposit Accounts ('000)	Loan Portfolio (USD '000 000)	Deposits (USD '000 000)
Africa	4	35	5,183	8,036	2,419	1,948
Asia	23	200	43,294	11,769	6,744	1,163
ECA	3	39	2,387	3,891	7,776	3,296
LAC	9	77	11,374	9,816	13,820	8,637
MENA	2	16	2,244	9	1,040	55
<b>Globe</b>	<b>42</b>	<b>366</b>	<b>64,482</b>	<b>33,520</b>	<b>31,798</b>	<b>15,098</b>

Source: MIX 2007 MFI benchmarks.

Note: BRI is not included in this survey. Its inclusion would bring global deposits and deposits accounts to the same scale as the lending side.

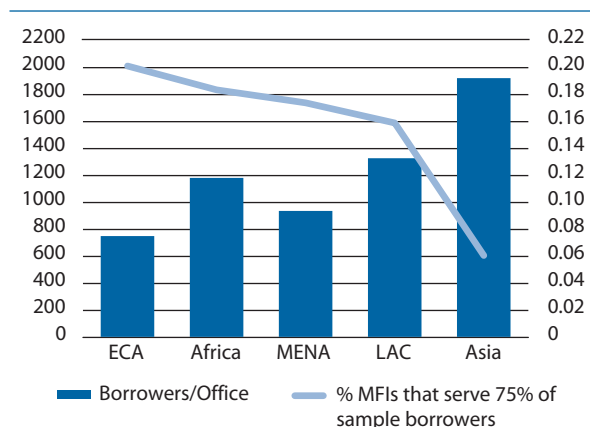
raise the costs for expansion and acquiring significant market share. Increased outreach in such markets, especially those with greater competition, would rely on extensive growth through setting up new offices. In Asia, by contrast, group lending, large markets and higher client density may lower such costs. These features would enable early movers to quickly take market leading positions, building their market share on intensive growth, through greater use of office infrastructure to expand to reach clients.

Growth in borrower outreach continued in 2007, but at a slower pace than in previous years. Compared with median growth rates from 2004 to 2006 of nearly 25 percent, the typical MFIs grew by one-fifth in 2007 in total borrowers. **Figure 3** shows growth levels that are lower than last year for most regions, with only fast growing MFIs in ECA breaking the 50 percent mark. On the whole just 156 MFIs – or less than 18 percent of the sample – experienced growth above 50 percent. Of these, only 56 ended the year with more than 25,000 borrowers, meaning that higher

growth rates were driven by many smaller, start-up organizations.

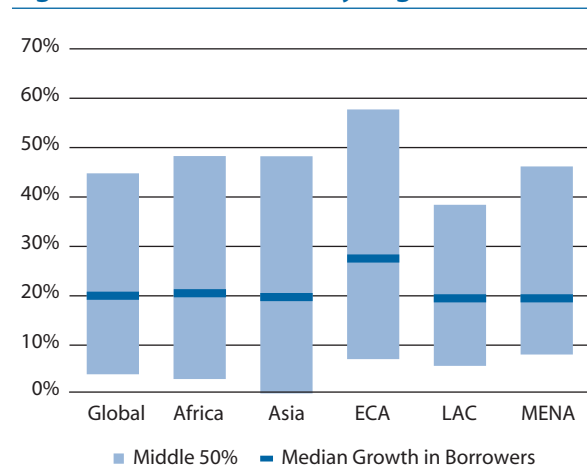
Despite the general trend, a number of MFIs and markets did manage to pursue high rates of growth in borrowers. Several ECA markets expanded rapidly, with more than 50 percent growth in total borrowers served. **Figure 4** lists countries that have aggregate growth in borrowers above the 20 percent global median. Some markets in Latin America also appear to buck the trend of slowed expansion. Most of Central America as well as two important markets in South America grew faster than the global norm. In both Colombia and Peru, national level competition across formerly geographically segmented markets has boosted client outreach. East Africa also expanded rapidly, even in Kenya, where, despite civil strife during the year, MFIs experienced growth in both lending and deposit taking. Interestingly, both large markets with a high number of start-up (India, Mexico) and smaller, more competitive markets (Cambodia, Bosnia) experienced above normal growth rates during the year.

**Figure 2: Infrastructure and Borrower Concentration**



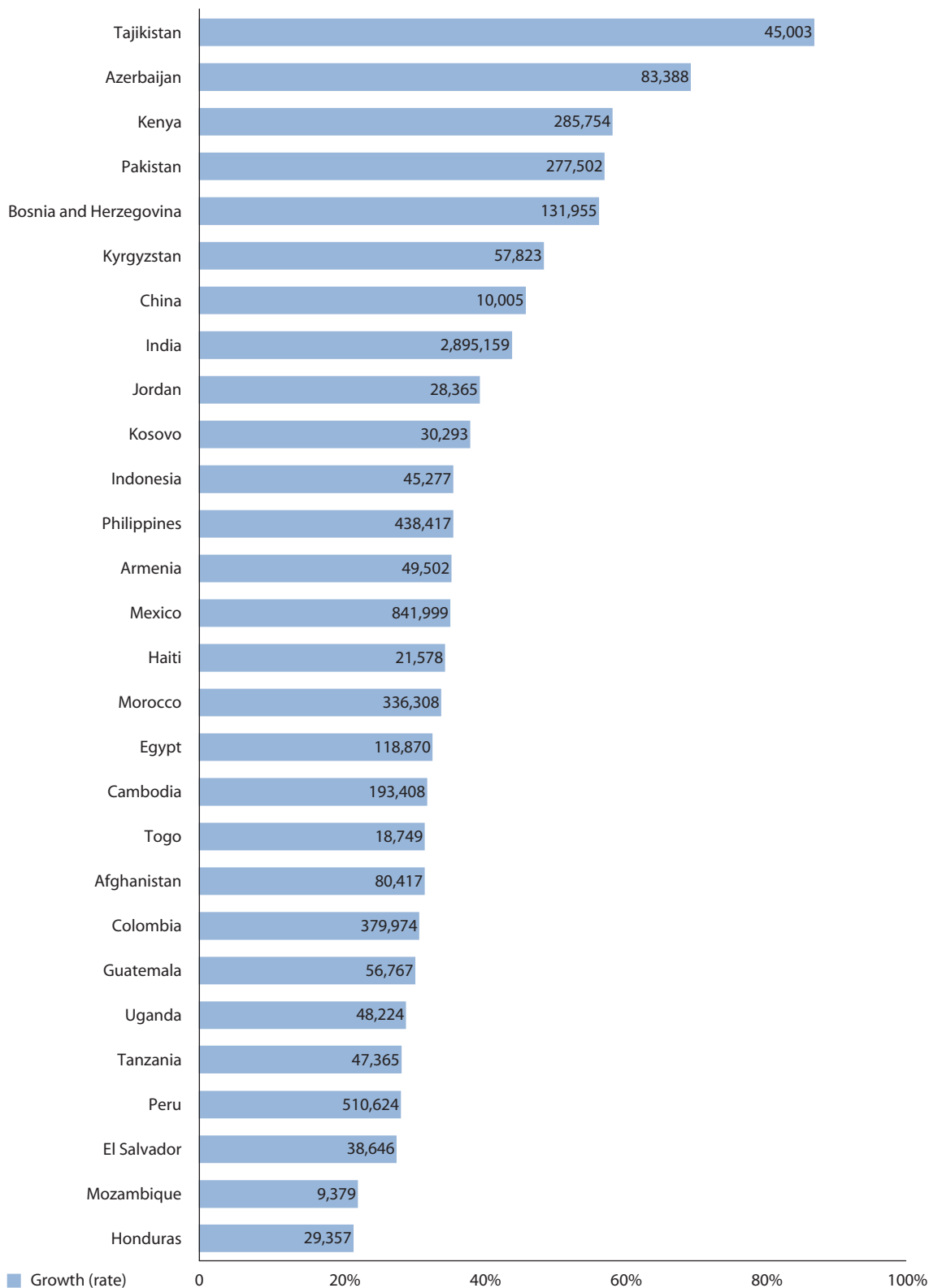
Source: MIX 2007 MFI benchmarks. Results represent medians. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

**Figure 3: Growth Varies by Region**

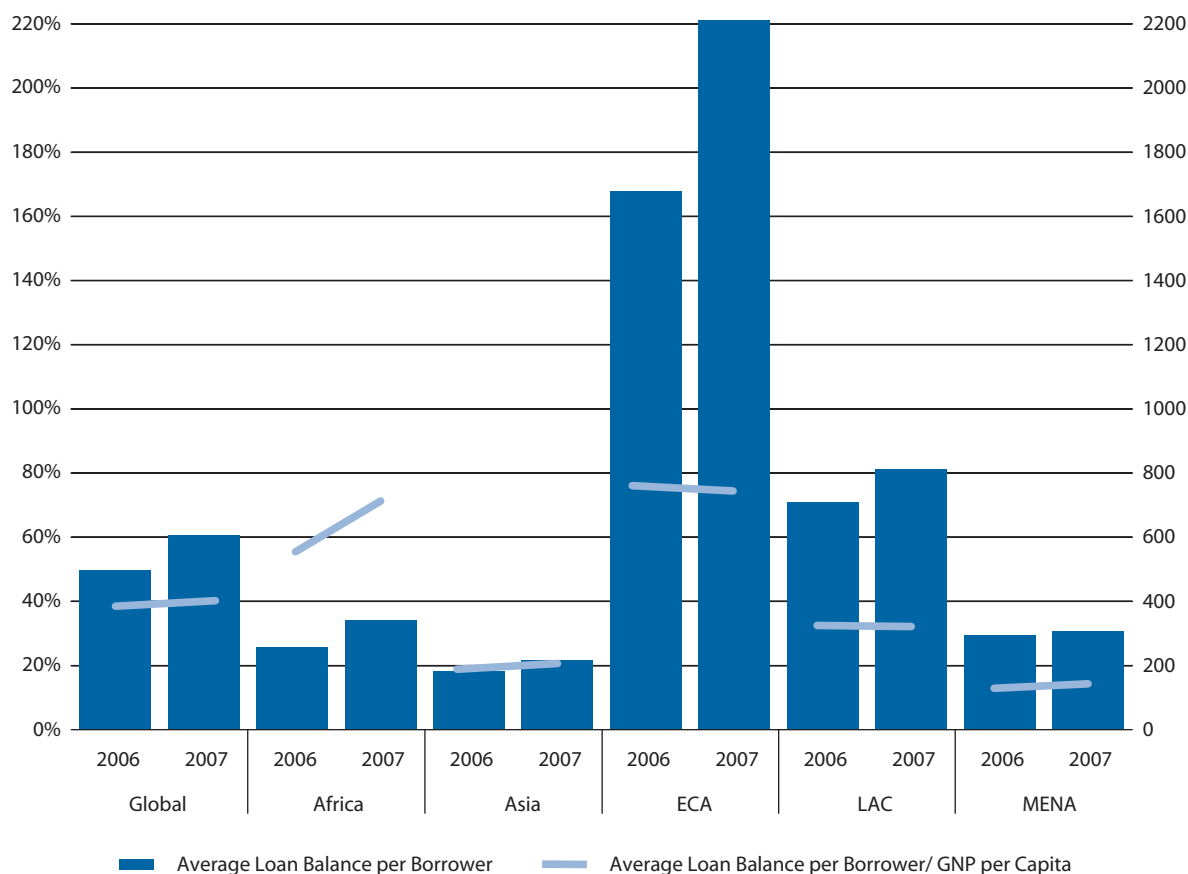


Source: MIX 2006-07 MFI benchmarks. Results represent medians. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

Figure 4: Fast Growing Microcredit Markets



Source: MIX 2006-07 MFI benchmarks. Results represent total growth and weighted average growth. Only countries with five or more MFIs in the sample are included. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa. Note: BRI is not included in this survey.

**Figure 5: Growth in Loan Size**

Source: MIX 2006-07 MFI benchmarks. Results represent medians. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

Globally, loan portfolios grew twice as fast as client outreach. The dark bars in **Figure 5** portray the absolute dollar increase in average balances. While loan balances increased in dollar terms in all regions, Latin America (LAC) and Eastern Europe and Central Asia (ECA) led the trend. Rising living standards and dollar depreciation over the period may explain much of this rise. When compared against average local per person income levels, which also account for changes in currency exchange rates, much of this growth dissipates. In other words, loan sizes grew, but broadly only kept pace with inflation and living standards. In fact, with the exception of Africa, relative loan sizes appeared stagnant over the 2006-07 period.

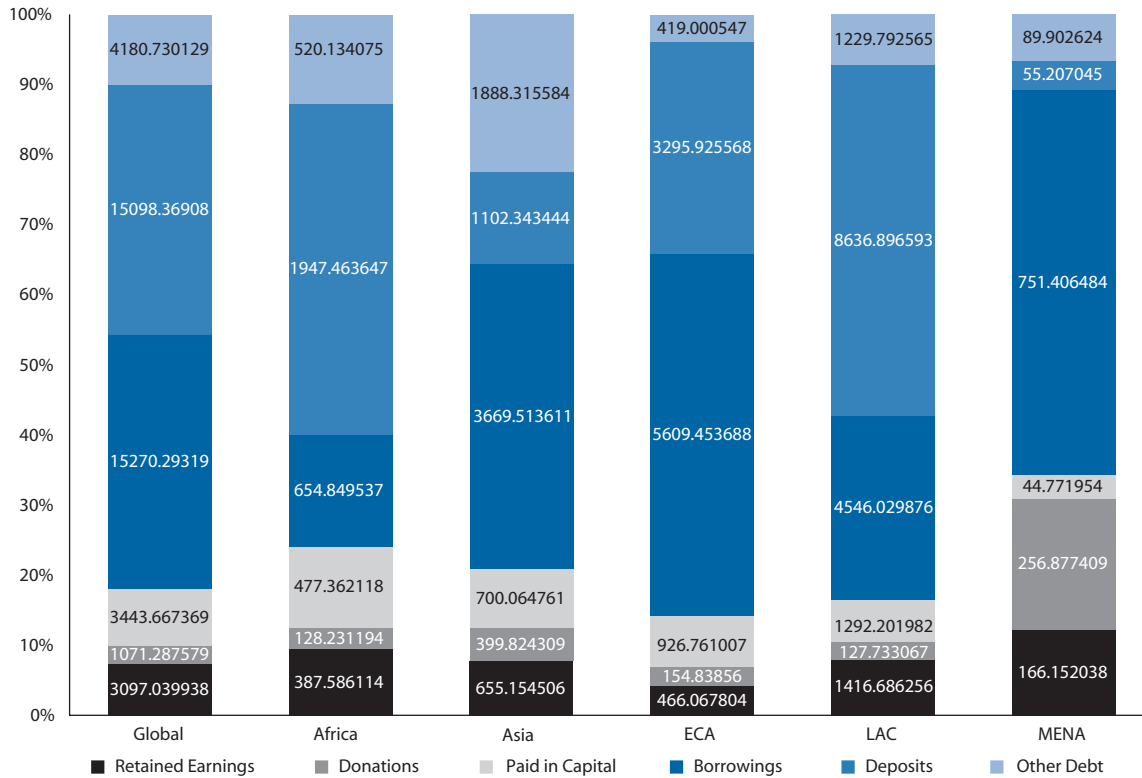
## Commercial Borrowings Grew Faster Than Other Sources

A changing set of funding sources has financed growth in the global microfinance loan portfolio. MFIs continue to draw increasingly from commercial

sources of funding, both debt and equity. MFIs in this benchmarking sample attracted an additional six billion USD from local and cross border commercial sources in 2007, doubling the funds from the same source in 2006. Similarly, existing deposit bases grew by 50 percent, from 10 to 15 billion USD in customer deposits. Both debt sources leveraged an additional two billion USD in capital (half from retained earnings, half from paid in capital) on the global microfinance balance sheet, shown in **Figure 6**.

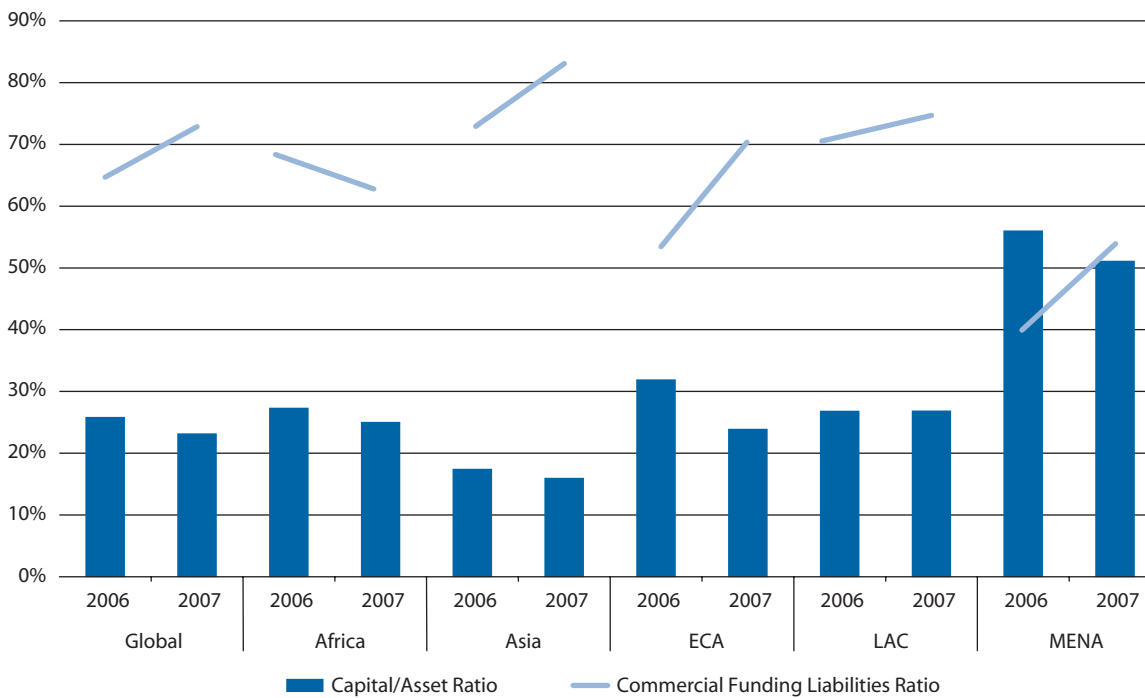
Commercial debt provided the single largest source of funding for growth in microcredit portfolios. The global commercial funding liabilities ratio – the percent of portfolio financing coming from deposits or commercially priced borrowings – shown in **Figure 7**, grew from 65 to nearly 75 percent. This represents a rapid transition in debt funding, given that this ratio passed the 50 percent mark for the first time in the 2005 results. In total, MFIs borrowings funded 60 percent of new portfolio growth. Portfolio funding continued to change most rapidly in ECA. As cross

Figure 6: MFI Funding Sources

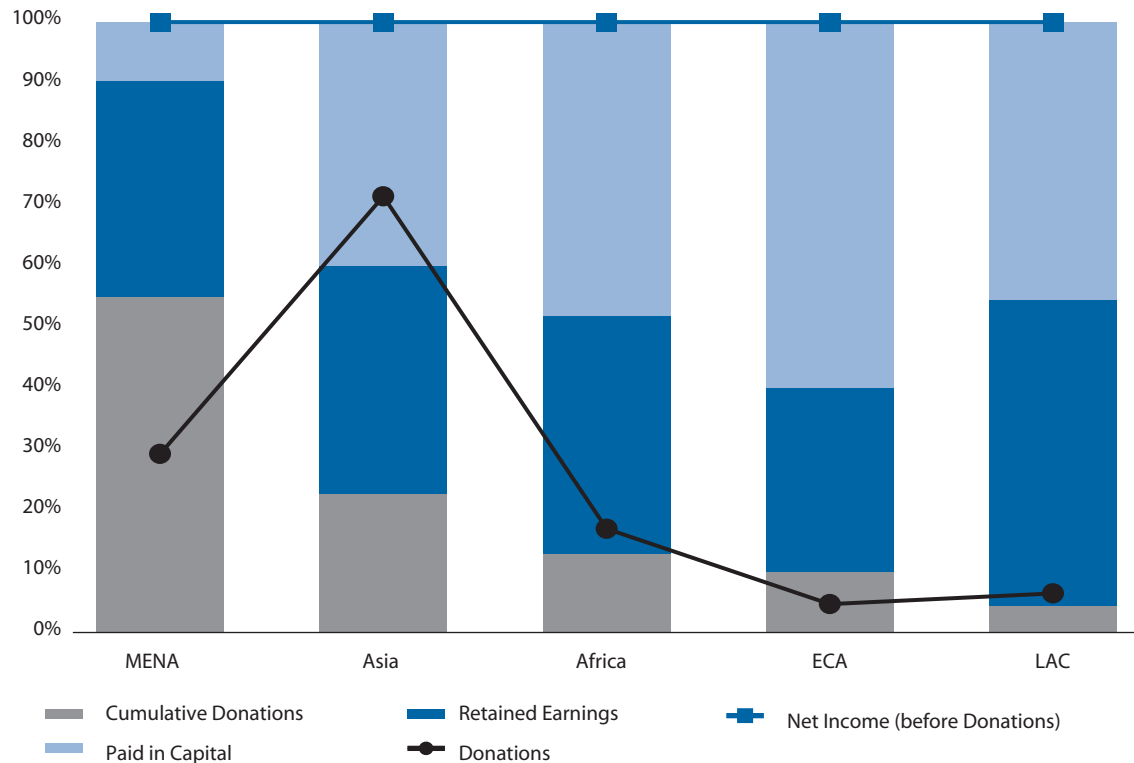


Source: MIX 2006-07 MFI benchmarks. Results represent totals. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

Figure 7: Leverage and Commercial Funding of MFI Portfolios



Source: MIX 2006-07 MFI benchmarks. Results represent medians. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

**Figure 8: MFI Capital Structure and Current Year Profits and Donations**

Source: MIX 2006-07 MFI benchmarks. Results represent totals. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

border investors poured money into the region, the typical portfolio funding profile in the region changed rapidly from half to 70 percent of loans financed through commercial borrowings and deposits.

On the capital side, microfinance institutions have largely surpassed the legacy of donor capital and retained earnings growth. **Figure 8** depicts capital structure by region at the end of 2007, and highlights the composition of current year profits and donations that contributed to MFI capital growth. Cumulative donations accounted for less than 20 percent of total MFI capital at the end of 2007. Current revenue flows match this capital profile. With few exceptions, net income (before donations) accounted for 90 percent of increases to equity in 2007, with 10 percent contributed by current period donations. In Latin America, the percentage is even higher, and these higher total earnings have also increased the share of retained earnings relative to share capital in the regional MFI capital structure. The Middle East and North Africa (MENA) represents a region in transition on capital composition. Historical donations have contributed to over 50 percent of the region's capital base. By 2007, current period donations contributed

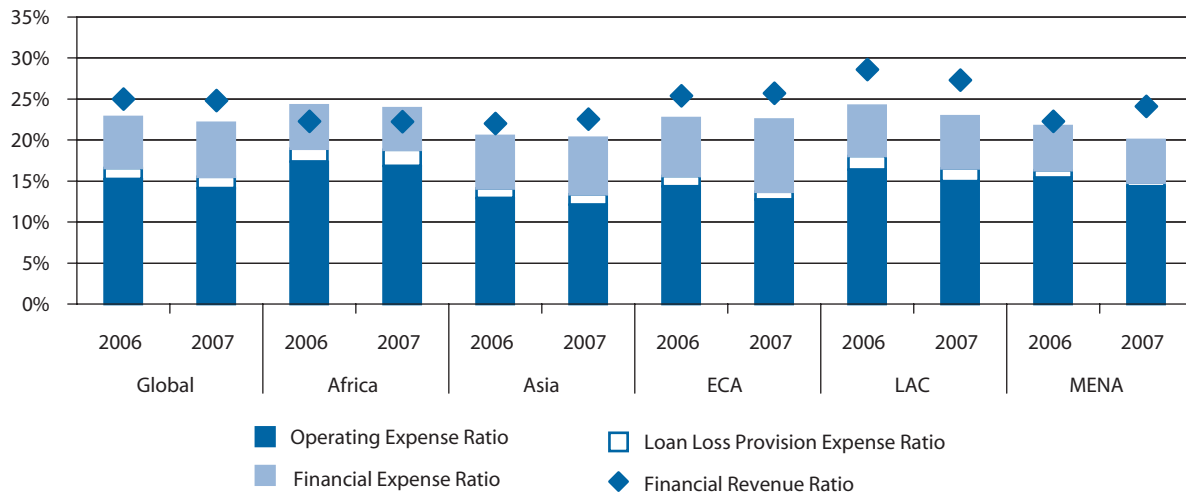
to only 30 percent of the annual increase in the equity base, with profits from financial services accounting for the rest.

## Profitability Levelled Off

Profit margins narrowed for most MFIs as efficiency gains slowed and portfolio revenues pursued a gentle decline, leading to a leveling off of returns from the past year. As **Figure 9** shows, median returns remained stagnant in most regions. The profit (space) between the revenues (dots) and expenses (stacked bars) moved little since last year. Only sub-Saharan Africa's position improved slightly thanks the greater expense management shown in **Figure 10**.

Low margins also impacted funding structure. With little profits to bolster equity, the razor thin margins of Asian MFIs pushed financial leverage further in a region that already relies heavily on debt and deposits to fund portfolio growth. Indeed, as **Figure 8** depicts, the small pool of profits generated by Asian MFIs contributed little to new equity in 2007. As a result, donations accounted for 60 percent of the change in the region's equity last year.

Figure 9: Breakdown of Returns

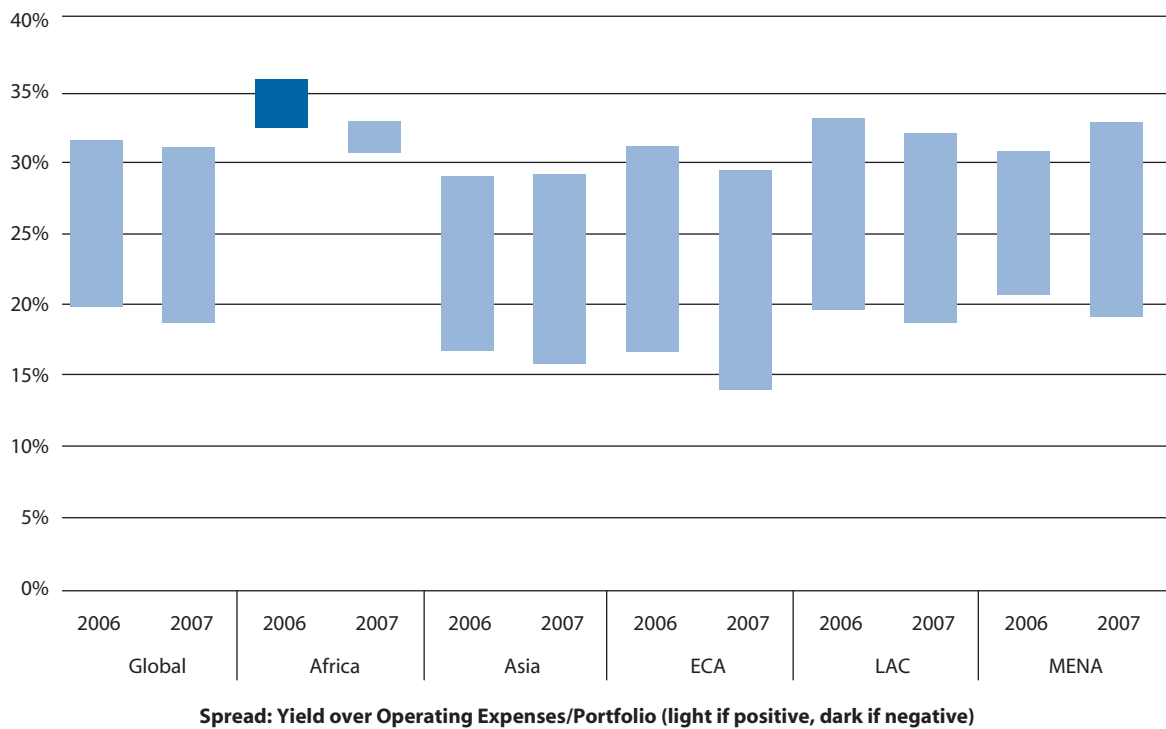


Source: MIX 2006-07 MFI benchmarks. Results represent medians. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

This link between financing and profits impacted returns in all regions. From one-tenth to one-half of a percentage point, financing expenses rose relative

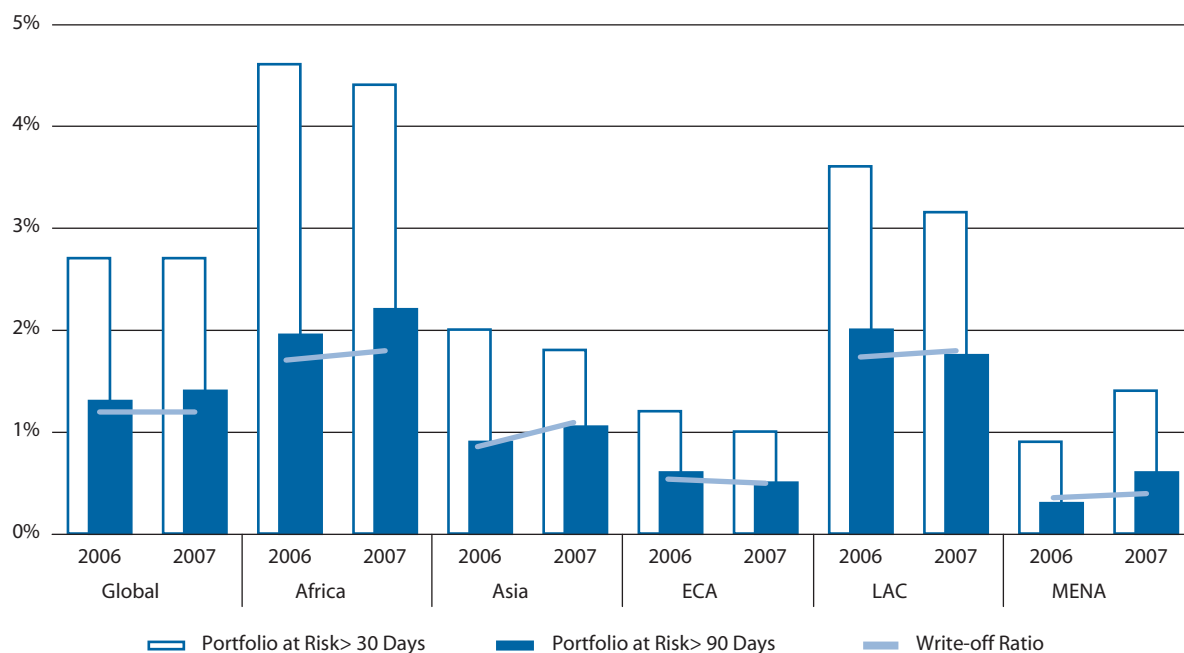
to average assets, eating away at MFI profits. Profits actually declined slightly in regions, like ECA, with the fastest growth in commercial borrowings.

Figure 10: Yield and Efficiency



Source: MIX 2006-07 MFI benchmarks. Results represent medians. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

Figure 11: Portfolio Quality



Source: MIX 2006-07 MFI benchmarks. Results represent medians. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

As many MFIs have matured, leveraged infrastructure and diversified portfolios across market segments, they have been able to improve operating efficiencies. Such gains in efficiency have typically provided a dual benefit to MFIs over the last half decade: reduce costs to clients, while still boosting profits. Increasing commercial debt and slowed client growth have drained much of this trend in 2007. Portfolio yields and operating costs remained largely flat between 2006 and 2007. Only Africa reaped gains from operating efficiencies during the year, moving from negative to positive operating spreads. Much of these gains, however, can be attributed to rising loan balances across all sub-regions and types of actors on the continent.

Increased loan loss provisioning also marked MFI profitability in 2007. While short term delinquency declined slightly over 2007, long term delinquency and portfolio write-off showed signs of increasing by the end of 2007. **Figure 11** shows that portfolios in Africa, Asia and MENA all experienced some

deterioration in repayment, while Latin American MFIs increased portfolio write-offs. These results seem to reflect the repayment performance of older arrears, since only Portfolio at Risk > 90 days and write-offs increased, while portfolio at risk > 30 days declined. These results may not yet reflect the impact of slower growth or the beginnings of greater inflation present at the end of 2007.

This last reflection serves as a reminder of how MFI performance may respond to changes in local environments. As MFIs rely increasingly on commercial sources for portfolio funding, rising inflation and tighter credit markets will likely lead to a higher cost of funds, less access to capital for funding portfolio expansion, or both. At the same time that inflationary pressure will put upwards demands on loan portfolio from existing clients and may increase portfolio risk. Taken together, these factors mean that MFIs will have to be even more vigilant in 2008 to stay profitable and sustain their growth in service. Readers can look back at these pages next year to see how they fared.