

THE MICROBANKING BULLETIN

SPECIAL EDITION ON FINANCING

The Scope of Funding Mechanisms

ISSUE NO. 11
AUGUST 2005

A PUBLICATION DEDICATED TO THE PERFORMANCE OF
ORGANIZATIONS THAT PROVIDE BANKING SERVICES FOR THE POOR

We would like to thank the following microfinance institutions for their participation in this issue:

Region	Country	N	Name of Participants
Africa (57 Participants)	Benin	4	Finadev, PADME, PAPME, Vital Finance
	Ethiopia	15	ACSI, ADCSI, AVFS, Buusa Gonofa, DECSI, Eshet, Gasha, Meklit, Metemamen, OCSSC, PEACE, SFPI, Sidama, Wasasa, Wisdom
	Ghana	16	Adansi RB, Ahantaman RB, Akuapem RB, AKRB, CRAN, Enowid Fdn., First Allied S&L, Garden City S&L, Johnson S&L, KSF, Lower Pra RB, Mepe Area RB, Midland S&L, MTA, Nwabiagya RB, Sikaman S&L
	Guinea	1	CRG
	Kenya	2	EBS, K-Rep
	Madagascar	1	OTIV Sava
	Malawi	1	FINCA – MWI
	Mali	1	Kafo Jiginew
	Mozambique	1	Tchuma
	Senegal	2	ACEP SENEGAL, PAMECAS
	South Africa	1	SEF – ZAF
	Tanzania	5	Akiba, FINCA - TZA, PRIDE - TZA, PTF, SEDA
	Togo	1	WAGES
Uganda	6	CERUDEB, Faulu - UGA, FINCA - UGA, FOCCAS, UMU, UWFT	
Asia (Pacific) (40 Participants)	Cambodia	7	ACLEDA Bank, AMK, AMRET, CREDIT MFI, HKL, Prasac, TPC.
	Indonesia	12	BRI, BPR AK, LPD Bedha, LPD Buahana, LPD Celuk, LPD Ketewel, LPD Kukuh, LPD Kuta, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung
	Philippines	20	BCS, CARD NGO, CARD RB, CMEDFI, FICCO, FCBF, KC, KMBI, MMPC, Norfil, NWTF, OMB, PCCC, RBKV, RBTC, RBV, SCMPC, TSKI, TSPI, USPD
	Vietnam	1	CEP
Asia (South) (17 Participants)	Bangladesh	4	ASA, BRAC, BURO Tangail, IDF
	India	6	GV, BASIX, GK, SHARE, Spandana, SKS
	Nepal	1	Nirdhan
	Pakistan	6	Bank of Khyber, DAMEN, FMFB, Kashf, SAFWCO, Sungi
ECA (49 Participants)	Albania	2	BESA, PSHM
	Armenia	3	AREGAK, FINCA - ARM, Kamurj
	Azerbaijan	2	FINCA – AZE, Normicro
	Bosnia & Herzegovina	8	EKI, MI-BOSPO, MIKRA, Mikro ALDI, MIKROFIN, Partner, PRIZMA, Sunrise
	Bulgaria	1	USTOI
	Croatia (Hrvatska)	2	DEMOS, NOA
	Georgia	7	BAI, BBK, Constanta, Crystal Fund, FINCA - GEO, GEF, SBDF
	Kazakhstan	2	ACF, KLF
	Kosovo	2	BZMF, Kosovo Enterprise Program
	Kyrgyzstan	1	FINCA – KGZ
	Mongolia	1	XAC Bank
	Montenegro	2	Agroinvest, OBM
	Poland	1	FM
	Romania	4	Capa, CHF - ROM, Integra, OMRO
	Russia	6	Alternativa, FINCA - Tomsk, FORA, KMB, SODEYSTVIE, Voronezh
Tajikistan	2	ASTI, NABWT	
Ukraine	1	HOPE Ukraine	
Uzbekistan	1	Barakot	
Yugoslavia	1	OIS	
LAC (52 Participants)	Bolivia	6	BancoSol BOLIVIA, CRECER, FIE, Los Andes FFP, Pro Mujer - BOL, PRODEM FFP
	Chile	1	Bandesarrollo Microempresas
	Colombia	6	ACTUAR – Tolima, CMM - Bogota, CMM - Medellin, Finamérica, FMM - Popayán, WWB - Cali
	Costa Rica	2	ADRI, CREDIMUJER
	Dominican Republic	1	Banco Ademi
	Ecuador	9	Banco Solidario ECUADOR, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, Credi Fe, ECLOF - ECU, FED
	El Salvador	6	ACCOVI, AMC, Apoyo Integral, ASEI, Genesis, REDES
	Guatemala	1	FINCA – GTM
	Haiti	2	ACME, FINCA – HAI
	Mexico	1	Compartamos
	Nicaragua	6	ACODEP, FAMA, FDL, FINDESA, José Nieborowski, Pro Mujer - NIC
	Paraguay	2	El Comercio Financiera, Fundación Paraguaya
	Peru	8	Banco del Trabajo, CMAC - Arequipa, CMAC - Sullana, EDPYME Edyficar, EDPYME Proempresa, FINCA – PER, MiBanco, Pro Mujer - PER
Venezuela	1	BanGente	
MENA (16 Participants)	Egypt	3	AI Tadamon, ABA, DCACD
	Jordan	2	JMCC, MFW
	Lebanon	2	AI Majmoua, AMEEN
	Morocco	6	AI Karama, AMSSF, AI Amana, FBPMC, Zakoura, FONDEP
	Palestine	2	FATEN, UNRWA
	Tunisia	1	Enda

Abbreviations: ECA = Eastern Europe & Central Asia; MENA = Middle East & North Africa; LAC = Latin America & the Caribbean.

The MicroBanking Bulletin (MBB)

The *MicroBanking Bulletin* is one of the principal outputs of the MIX (Microfinance Information eXchange). The MIX is a non-profit organization that works to support the growth and development of a healthy microfinance sector. The MIX is supported by the Consultative Group to Assist the Poor (CGAP), Citigroup Foundation, Deutsche Bank Americas Foundation, Open Society Institute, Rockdale Foundation and others. To learn more about the MIX, please visit the website at www.themix.org.

MBB Purpose

By collecting financial and portfolio data provided voluntarily by leading MFIs, organizing it by peer groups, and reporting this information, the MIX is building infrastructure that is critical to the development of the microfinance sector. The primary purpose of this database is to help MFI managers and board members understand their performance in comparison to other MFIs. Secondary objectives include establishing industry performance standards, enhancing the transparency of financial reporting, and improving the performance of MFIs. Although it has traditionally focused analyzing the performance of microfinance institutions (MFIs), this issue of the *Bulletin* introduces benchmarks for MFI funders.

Benchmarking Services

To achieve these objectives, the MIX provides the following benchmarking services: 1) the *Bulletin* publication; 2) customized financial performance reports; and 3) network services.

MFIs participate in the *Bulletin* on a *quid pro quo* basis. They provide the MIX with information about their financial and portfolio performance, as well as details regarding accounting practices, subsidies, and the structure of their liabilities. Participating MFIs submit substantiating documentation, such as audited financial statements, annual reports, program appraisals, and other materials that help us understand their operations. With this information, we apply adjustments for inflation, subsidies and loan loss provisioning in order to create comparable results. Data are presented in the *Bulletin* anonymously within peer groups. *We do not independently verify the information.*

Neither the MIX nor its funders can accept responsibility for the validity of the information presented or consequences resulting from its use by third parties.

In return, we prepare a confidential financial performance report for each participating institution. These reports, which are the primary output of this project, explain the adjustments we made to the data, and compare the institution's performance to its peer group as well as to the whole sample of project participants. These reports are essential tools that enable MFI managers and board members to benchmark their institution's performance.

The third core service is to work with networks of microfinance institutions (i.e., affiliate, national, regional) and central banks to enhance their ability to collect and manage performance indicators. This service is provided in a variety of ways, including training these networks to collect, adjust and report data at the local level, collecting data on behalf of a network, and providing customized data analysis to compare member institutions to peer groups. This service to networks and regulatory agencies allows us to help a wider range of MFIs improve their financial reporting.

New Participants

Past issues of the *Bulletin* have focused on MFI benchmarks. As we are now introducing benchmarks for MFI funders, both MFIs and their funders that wish to participate in the *Bulletin* should contact: info@mixmbb.org, Tel 1 202 659 9094, Fax 1 202 659 9095. Currently, the only criterion for participation is the ability to fulfill fairly onerous reporting requirements. We reserve the right to establish minimum performance criteria for participation in the *Bulletin*.

Bulletin Submissions

The *Bulletin* welcomes submissions of articles and commentaries, particularly regarding analytical work on the financial performance of microfinance institutions. Submissions may include reviews or summaries of more extensive work elsewhere. Articles should not exceed 2,500 words. We also encourage readers to submit responses to the content of this *Bulletin*, as well as previous issues.

To Subscribe

You can receive the *Bulletin* by:

- Signing-up online at www.mixmbb.org (click on "Receive MBB Issue" and fill-in the appropriate information);
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The MicroBanking Bulletin is housed within the MIX (Microfinance Information eXchange).

To learn more about the MIX, please visit the MIX website at www.themix.org.

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From the Editor

The eleventh edition of the *MicroBanking Bulletin* marks two significant innovations. The first is the introduction of a “supply side” edition that focuses on the financial markets that are the source of capital for most MFIs (domestic and international). This edition allows us to unveil a new series of peer group tables for microfinance funders which we hope will mark the beginning of a process for stimulating the development of improved reporting standards and transparency on the part of these investment vehicles; and offer the industry an opportunity to understand how well they are performing and evolving over time.

The second innovation is the use of a guest editorial committee organized around a theme of interest to the industry. We are particularly grateful to Marc de Sousa Shields who pulled the articles together around the theme of capital markets. This mechanism – which serves as a new opportunity for interested industry practitioners to interact with the *MicroBanking Bulletin* and help us steer a course towards areas of industry innovation, interest and relevance for our readers – may be used in future editions as well.

Didier Thys
Formerly Executive Director, MIX – Microfinance Information eXchange, Inc.

Foreword: Making the Transition to Private Capital

Marc de Sousa-Shields

“The ‘truth’ lies in the reality that capital is a limited commodity.” – Clement Wan (Taken from a Microfinance Practitioners listserv discussion)

It is common knowledge that microfinance is perhaps one of the most successful development finance interventions ever. It is so successful, in fact, that it has clearly outstripped the global supply of donor capital that gave birth to it and has nurtured it through its early years. Increasingly, the sector is turning to private sources of capital for financing. Financial market integration is in fact the only conceivable way the sector will meet the ambitious goal of providing a significant number of the world’s poor with permanent financial services. The sector’s longstanding emphasis on asset management has led to a dramatic and rapid advancement of institutional best practices. Still, if the sector is to continue growing, it will need to respond further to the requirements of private sources of capital. These requirements are dramatically different from those of donors or socially motivated NGOs, which to date have dominated the traditional microfinance sector.

A significant number of barriers exist between microfinance institutions and private-sector funding, the most significant of which is the relative scarcity of capital, particularly equity capital. There are also many other fairly basic barriers, such as information asymmetries between investors and MFIs, incomplete adoption of transparent accounting practices, a lack of standardized reporting, insufficient engagement with credible auditing, rating, and supervisory institutions, a host of problematic issues related to banking and investment regulation, a lack of best practices in investor relations, poor finance negotiating skills, underdeveloped investor net-

works ... the list goes on. Even more daunting than these essentially technical barriers is the sector’s need to shed some of the residual effects of its NGO and social development origins, which now impede access to private capital. This implies fully adopting a private sector culture, language and governance style, including a stronger focus on maximizing profitability. Still more challenging is the transition toward greater openness to mergers, acquisitions, and other forms of entrepreneurial dynamics that, in turn, create more attractive investment opportunities of the kind that investors seek, particularly in young and growing industries.

Savings must play the largest role in the financing of the sector. But as the discourse between Malcolm Harper and Robert Vogel illustrates, it will be far from simple, particularly in low-income markets, to reach the point where 85% to 90% of the industry is funded through savings, as is the case with mature, niche banks. Ann Miles, in her study of 25 transformed MFIs, concurs. Savings may be key, according to Miles, but even successful MFIs can find it a struggle to fund significant portions of their portfolios that source. She argues that other options may also show promise, such as tapping commercial capital markets by issuing bonds or equity shares; but only for a few, more sophisticated MFIs, in relatively well developed markets.

Clearly, a variety of sources of capital are required to fuel sector growth, particularly in the transition to more private funding. Private and quasi-commercial, dedicated investment funds that focus on microfinance continue to be critically important and are growing in size and scope. Erik Heinen highlights the importance of these funds, their

limitations and the challenges they face, in a detailed review of Oikocredit's singularly impressive 20 years of experience financing MFIs. Bradley King's benchmarking piece sets out many of the investment-pricing challenges faced by private investors as they consider MFI opportunities.

Donors

Non-commercial capital will continue to play a critical role, even though it represents only a small fraction of MFIs current capital supply (less than 5% worldwide), and despite the fact that the microfinance sector needs to evolve further toward purely private sources of funding. For one, non-commercial capital can function as a vital catalyst in the search for private funds. Current donor allocation patterns tend to concentrate the bulk of subsidized capital in a small number of MFIs, many of which probably could source a great deal more of their capital needs (or even all) from the commercial sector. This "picking the winner" strategy by donors has been very successful in developing and showcasing the viability of a handful of MFIs. The strategy has its roots in past years when best practices in asset management were scarce among MFIs. But given the current, more advanced status of the sector's knowledge and practice, and donors' interest in expanding the sector's access to private capital, picking a winner and "riding it to the finish line" may not maximize donor capital impact. In addition to undercutting market-priced loans, some donor actions discourage savings mobilization and can discourage MFIs from fully adopting the kinds of business models that private-sector investors like to see.

These observations are clearly and fruitfully debatable. They are by their nature over-generalizations, since so many institutions and countries are not yet ready to take the full leap to private capital. Donors still have much work ahead, to help MFIs prepare and the sector for that eventual, inevitable leap.

In a case study of MFI financing in Ecuador, Joe Dougherty shows that, sometimes, donors do more by doing less. Keen capital supply and demand analysis in Ecuador lead to recommendations for a modest, short term MFI liquidity facility over the larger ideas around a new national apex fund.

Cheryl Frankiewicz and Marc de Sousa-Shields explore the financing history of XacBank in Mongolia, showing how donors – in this case UNDP MicroStart – can help small, relatively new institutions design effective strategies to access private capital. XacBank's strong, entrepreneurial, growth-oriented management and ownership were central to its success. But equally important was its planning for

long-term access to private, local capital, which ultimately allowed more rapid expansion and greater funding options.

A balance between social mission and private, investor interest is critical if the MFI industry is to keep growing, and if the decades of hard work fighting poverty with microfinance are to continue. Beth Rhyne argues that the microfinance sector's owners need to meet the private sector's financial and risk-management requirements while at the same time continuing to meet social development goals. Doing so will require devoting energy and attention to the development of safeguards that ensure adherence to social mission.

Final Words

*When shown a good business opportunity, banks – and we would add any investor – will take it regardless of the client group as long as it fits their investment objectives.*¹ Robert Peck Christen

The transformation to private capital, viewed from the perspective of an individual MFI or from that of the sector as a whole, can and must be made with confidence that the low-income market will be served better by a transformed, highly competitive industry. This confidence can be derived from the fact that MFIs around the world are satisfying millions of customers, to a degree that many never dreamed possible. These MFIs have proven that the microfinance market is viable and profitable. If many millions more are to be served, the requirements of private capital must be fulfilled, but in a way that ensures the sector does not stray from serving the poor with permanent financial services. In the eyes of investors, there is no better way to ensure this than by showing microfinance is a profitable and expanding industry, one that can successfully compete for scarce private investment capital.

Marc de Sousa-Shields Marc de Sousa-Shields is Director of Capital Markets and SME for Enterprising Solutions Global Consulting and author of Financing Microfinance Institutions: Transitions to Private Capital mdess@esglobal.com. The author would like to thank Nimal Fernando from the Asian Development Bank and Tor Jansson from the International Finance Corporation for their participation in the creation of this issue of the MicroBanking Bulletin.

¹ Christen, R. P., "Commercialization and Mission Drift: The Transformation of Microfinance in Latin America", CGAP, page 35.

PART I

FEATURE ARTICLES

The Role of Savings as a form of MFI Funding: Debate

Malcolm Harper and Robert Vogel

Introduction

Savings is commonly viewed as a key, integral part of the future of microfinance, not only as an important service for the poor, but also as a means to fund MFIs. In this article, Malcolm Harper and Robert Vogel, both well known advocates of savings for the poor and microfinance, square off to debate whether “savings will be the primary and most important source of funding for lending to microentrepreneurs.” The debate took place by correspondence between July and August of 2004.

M. Harper: First, let me be boringly academic. I shall define and even slightly modify the terms of the proposition we are to debate, perhaps in the process making my own case a little harder but I believe more useful.

I should like to qualify ‘savings’ by saying that this refers to money saved mainly by the same socio-economic group, and often the very same people, as those who borrow. And, these savings not only ‘will be’ but ‘should be’ the source of funding. And, perhaps a little more contentiously, I should like to broaden the word ‘microentrepreneurs’ to include all the people whom microfinance is designed to assist, including day labourers, small-scale farmers, housewives who do not themselves earn any money, and so on. For simplicity’s sake, I shall refer to these people as ‘the poor’.

The proposition seems obviously true to me, but let me try to summarize the reasons why it might *not* be correct; then I shall deal with each one in turn:

- The poor cannot or do not need to save;
- The poor save enough to fund the loans they need;
- Not enough people can save;
- The timings of their deposits and withdrawals do not match the timings they need when borrowing;
- The poor do not want to, or should not, save with the same institutions where they borrow; and
- It is too expensive to mobilize and deal with poor people’s savings.

It should not be necessary to devote much space to the issue of whether the poor can save or need to save. One major insight of the sustainable-livelihoods approach to poverty is its stress on vulnerability. People whose incomes are uncertain and who have no savings are very vulnerable, even if their income is sufficient to live on. But can they save enough, and at the right times?

Individually, probably not, although many people, perhaps including you and me, and many microfinance clients too, save and borrow at the same time, and owe less than they are saving. But most people, including the poor, want to have savings nearly all the time and to be in debt less frequently. It is in the nature of financial intermediation that it should intermediate between quite large numbers of people, whose household cash flows are not all the same. This avoids co-variant risk, but it also ensures that some clients are in surplus while others are in debt.

As for amounts, institutions that serve the poor and market their savings products as effectively as they do their loans have found that their clients save more than they borrow. Just to give a sample from the case studies that Sukhwinder Singh Arora and I have collected for the recently published book, *Small Customers, Big Market*.² In March 2004, the Rudrapur microfinance branch of Oriental Bank of Commerce in India, which serves only the poor, had a loan portfolio of US\$ 644,000 and an outstanding savings of US\$ 645,000. This is a little tight. Ag Bank in Mongolia is owed US\$ 49 million by its customers, but owes them US\$ 60 million. The Village Units of BRI in Indonesia owe their customers US\$ 3.5 billion, more than twice the amount the Units are borrowing. We have collected many other examples, all of which tell the same story.

As for the suitability of the institutions, and the cost of mobilizing poor savers’ money, perhaps I can leave these points to be addressed in the next installment of our debate. Rest assured, however: the arguments are equally powerful.

R. Vogel: It is almost always crucial to begin by defining concepts, and I would like to go even one

² Arora, Sukhwinder Singh and Malcolm Harper, “Small Customers, Big Market – Commercial Banks in Microfinance”, ITDG Publications, London and TERI publications, New Delhi, 2005.

step further back than you have to be sure all our readers understand we are talking about financial savings (a stock concept), and not savings as the portion of income not spent on consumption (a flow concept).³ There are, of course, relationships between saving out of the flow of income and the accumulation of a stock of financial savings, but these two concepts must be carefully distinguished at the outset for a logical discussion.

With respect to the definitions you propose, I think it is needlessly restrictive to require that savings be provided by the same socio-economic group that borrows and, likewise, to talk about what will be or should be the source of funding. All this depends, I think, primarily on the incentives facing a given financial institution, together with the "market niche" that the institution chooses to serve (much more about this later).

On the other hand, I have no trouble at all with broadening the definition of microfinance to include as clients all types of low-income individuals and not just those engaged in some sort of microentrepreneurial activity. In fact, one aspect of risk management (a key incentive for the poor to save, as you emphasize) is a diversified set of economic activities within the immediate family and, certainly, within the extended family. Moreover, any successful lender in this market has to understand the cash flow situation of the family unit and not look just at the activity that is supposedly being financed.

With respect to your list of potential barriers to low-income individuals' having savings, I agree in most cases that these barriers are myths. Put most simply, as I did years ago in my "Forgotten Half" paper, if the poor did not have savings there would be no poor because each one would have died with the onset of the first emergency (and even the evil, usurious moneylender is not interested in clients without savings, either actual or potential). However, given that low-income individuals do have savings, these savings are not necessarily in financial form (no need here to list all the well-known alternatives),

³ As a professor of economics for many years, I was always frustrated by the high percentage of second-year students in my "Money and Banking" or "Intermediate Macroeconomics" classes who confused these two concepts, including many whom I had taught the previous year in "Introductory Economics." Even worse, I recently commented on a paper about savings in rural Peru – for which the Inter-American Development Bank had paid a lot of money to a prestigious European consulting firm – and found that the paper, which was supposed to be about financial savings, in fact discussed patterns of saving out of income. The authors were quite distressed when the best I could say about their research effort was that they had collected a lot of data that might be useful, sometime.

nor do they necessarily amount to enough to fund the demand for loans.⁴

Furthermore, timing can be a very serious problem when there is a lack of sufficient possibility for diversification (particularly in the places where most of the poor actually live). Achieving the kind of financial intermediation that you envision where there is adequate diversification so that cash flows are not highly synchronized (and co-variant risks are avoided) is not so simple. Localized institutions must have effective links to obtain finance elsewhere, while diversified institutions with widespread branch networks must have effective mechanisms for local decision-making coupled with central controls. While the latter has been achieved in such well-known success stories as Indonesia's BRI and Mongolia's Ag Bank, these seem to me the exception rather than the rule.

Two other barriers that you mention also seem to me not trivial. One of the leader's in microfinance, Claus Peter Zeitinger, has traditionally advocated avoiding the high costs of dealing with small deposits, though perhaps his view has changed somewhat with the extraordinary profitability of the deposits at his Micro Enterprise Bank (MEB) in Kosovo. Likewise, the approach to cost calculations proposed by the Consultative Group to Assist the Poor (CGAP) is not friendly to small deposits. It is also questionable whether the poor should be encouraged to deposit where they borrow. An important reason for relying on savings for funding is that this implies market discipline. However, safety is one of the main attributes that poor savers seek, and I am not sure that I would deposit my own savings in many microfinance institutions, whether or not they are regulated.

To summarize, I would say that there is definitely a strong demand for deposit services by the poor and that the problem is on the supply side. Specifically, few banks – the regulated institutions that are able to take deposits legally in most countries – have shown any serious interest in this clientele, perhaps because of the cost factor, but as likely because this clientele is not compatible with their chosen market niche. Moreover, few microfinance institutions that have transformed themselves to regulated deposit takers have successfully focused on their natural clientele for deposits.

Here is where I think short-run incentives have dominated the longer-run requirements of their clientele. Many microfinance institutions transform

⁴ The sufficiency of savings to fund loans goes to the heart of whether the poor are poor primarily because they lack resources or because they lack productive opportunities.

into regulated entities not to offer more services or to fund themselves through deposits, but rather because donor agencies want them to transform so that donors' due diligence responsibilities can be passed to a given country's regulatory agency. Though transformed and able to take deposits, such MFIs still may view subsidized donor funds as much more attractive. And there is a further practical explanation for the failure of transformed microfinance institutions to pursue their normal clientele for deposits: their salary levels are below those of banks, so that they are able to attract only mediocre, ex-bank employees to manage their new activities, employees who can hardly be expected to introduce the types of innovative deposit products and services that might be attractive to the poor.

M. Harper: Thank you for your important clarification on the two types of savings. I have neither taught nor even studied economics of any kind, but I hope I understand a little about what microfinance customers want and how they behave. You suggest that poor people's savings may not be enough to fund the demand for loans, and that timing may be a problem for localized institutions. You also say that dealing with poor people's savings may be too expensive, and that some MFIs may not be secure.

On the amount and timing of savings, let me add to my previous examples. The Krishna Bhima Samruddhi Local Area Bank, Ltd. (KBSLAB), a wholly owned subsidiary of BASIX Ltd., in India, has operated since early 2001. For four years before that, until BASIX' banking license was obtained, it had run a more typical microfinance operation in the same area without being able to mobilize demand deposits. The KBSLAB subsidiary therefore started with a customer base of borrowers only. But that soon changed. Over the next few years, the ratio of loans to savings evolved as follows: in 2001, it was 10.2 to 1; in 2002, 6.4 to 1; in 2003, 1.6 to 1; and in 2004, it was 1.3 to 1. We expect this ratio to reach 1 to 1 before the end of this year, and thereafter savings will almost certainly exceed loans by a wide margin. Another local bank had defaulted on its obligations shortly before KBSLAB started, so the climate for a new savings institution was not good, and there was also other competition. Nevertheless, KBSLAB's customers have shown that they want to save and that their saving exceeds their borrowing. There are some seasonal variations in the savings and the loans, but they are not sufficient to radically alter the ratios.

As for the transaction costs of small savings, let me also adduce some evidence from KBSLAB. In May 2003, it started a pilot daily-saving scheme in which collectors gather small savings from market traders and others every day, and savers qualify for a loan

after making 100 daily savings payments. The Bank pays 4 percent interest on savings balances and charges 24 percent on loans. This is a very expensive way to mobilize deposits, but the scheme is profitable, even after accounting for the full costs of the process and including all overhead. I have also studied the operations of many cooperative banks, and microfinance accounts do indeed involve more staff time than these cooperatives' other business lines. But poor clients repay without being chased, and the staff of such banks are often underemployed; the opportunity cost of their time is close to zero. Finally, and most critically, you express some lack of confidence in the safety of many MFIs (I would go further and say "most" MFIs). If we ourselves would not save with them, we should be all the more concerned about protecting poor people from loss. Indeed, if we go back to the original proposition that I am defending, and we interpret "institutions lending to microentrepreneurs" to mean *today's* MFIs, I concede.

But the proposition posited that savings "*will*" be their major source of funding. I would argue that microfinance has now reached a level of maturity where the bold (and risky) pioneers, the 'new-generation institutions', should be and will be displaced by stronger and better-equipped institutions, ones that are usually much older; namely, commercial banks. Some MFIs, like KBSLAB, will themselves become banks, and some may have to merge to be big enough to do this. Others will be driven out of business or will sell their portfolios to existing banks that realize they are missing an opportunity.

Eventually, as is already happening in India (where commercial banks account for about 80 percent of the microfinance market) and elsewhere, microfinance clients will be able to save in – and borrow from – secure, regulated institutions, just as you and I can. Donors and international development bankers may lose some conveniently compliant clients, but poor people will save more than they borrow, in the same banks, and the proposition will be proven.

R. Vogel: To begin by summarizing, I think we both agree that it is important for MFIs eventually to become regulated so that they can capture savings, not just for funding but because deposit services are crucially important for micro-clients, be they microentrepreneurs in particular or the poor in general. Deposits are important to micro-clients for two basic reasons: (1) as a reserve not only for emergencies but also for opportunities that come along unexpectedly and must be acted upon immediately; and (2) for everyday liquidity management, since transactions can be more cheaply handled with cash and deposits rather than by running to secure

a loan or convert non-liquid savings (e.g., cattle) into liquid form.

Furthermore, because of economies of scope, I think MFIs that do not offer deposit services along with loans (and possibly other financial services as well, such as remittances) will die when effective competition eventually arrives in response to the growing realization that microfinance can be profitable, even for banks. However, I do not agree with your apparent final conclusion that we are moving quickly along the road to offering deposit services for the poor, via commercial banks in particular. I would also like to reassert my objection to your point that micro-deposits need to be adequate to fund micro-loans fully; nor does your evidence show this, because we are not told exactly where the deposits are coming from. Whether micro-deposits exceed or fall short of micro-loans, as I indicated before, is simply an outcome that will depend on whether microentrepreneurs, and the poor in general have more resources available for savings or more investment opportunities requiring resources beyond their savings. When the inability of an MFI to capture enough savings from its micro-clients is the result of offering unattractive deposit products and services, this is clearly problematic; but not when the demand for loans by these clients just happens to exceed their demand for holding deposits.

For me, the key issue for savings opportunities for the poor is to understand why so few banks have entered the microfinance market, and why so few MFIs have become regulated and then gone on to mobilize deposits successfully. Let me reiterate and expand on some points that I made earlier, which, unlike your points are based primarily on observations from Latin America and a variety of Asian countries, but not including India and its environs. First, for banks' lack of interest in the microfinance market, my observations suggest a number of highly plausible explanations. Micro-clients may be incompatible with a bank's traditional clientele. Charging the high interest rates required for micro-lending can damage a bank's reputation. Micro-lending techniques can appear so dissimilar to a bank's existing lending techniques that they seem implausibly risky, or at least require costly innovations with subsequent staff training. Banks will eventually move into this market if they see enough profit potential to overcome these obstacles, just as some of the largest corporate banks have moved (or been pushed) into consumer lending. But this will not occur so rapidly as you suppose.

Earlier I summarized some reasons why MFIs that have transformed into regulated, deposit-taking institutions have often had only limited success in

capturing deposits, especially from their traditional target clientele. As I indicated, I do not think the alleged high cost of mobilizing small deposits is the true issue, because there are already enough examples of success – on this, both you and I agree. Moreover, many of these costs are offset by economy-of-scope benefits, from offering a variety of products and services simultaneously. The key issue, I would argue, is rather an “inbred” lack of transparency, leading to problems of credibility, with credibility typically being the primary factor that influences the poor in selecting institutions for their deposits. Unfortunately, in addition to promoting subsidy dependency (inadvertently), donors have rarely required transparency even in the modest form of standardized accounting for the MFIs that they support. The most constructive requirement would simply be to have MFIs abide by the same accounting and disclosure standards that are required for banks and other regulated entities in their countries.⁵ With this move, MFIs would take a major step toward the transparency and credibility required to attract potential depositors and other commercial sources of funding. However, as stated in my earlier comment, continued access to subsidized funding from donors can severely blunt incentives for deposit mobilization. And as also noted before, the successful implementation of deposit mobilization will not be easy for most MFIs, especially when it comes to finding staff for leadership roles who understand both deposit techniques and micro-client requirements.

Finally, I would like to reiterate the special challenge posed by rural deposit mobilization stemming from the lack of diversification in most local areas. In countries where there is limited outreach by well-diversified banks into rural areas, rural deposit mobilization necessarily will fall largely to regulated MFIs, which often will operate only locally. Such MFIs will inevitably need access to external liquidity at critical moments to honor their commitments to depositors, but access to this liquidity should be limited to MFIs that fulfill strict standards related to a credible promise of long-run viability.

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⁵ Searching for some perfect set of international accounting standards for MFIs is unnecessary. Moreover, using a country's own standards is an essential first step in preparation for formal regulation, which will be necessary when MFIs begin to take deposits but not before.

Financial Intermediation and Integration of Regulated MFIs

Ann Miles

Introduction

Since 1992, several microfinance NGOs have transformed into regulated financial institutions in order to serve more clients, to diversify sources of funding, and to respond to client demand for different types of retail products.⁶ It is widely held that financial intermediation and integration are critical for becoming a full-service, profitable financial institution with a range of services.

In order to provide its network information on intermediation and integration, WWB undertook an internal research project in 2002 and 2003, examining the pre- and post-transformation experiences of 25 micro finance NGOs that had become regulated financial institutions. The project focused on key indicators of success, including outreach, profitability, product development and funding diversification. This paper reports on the findings related to savings mobilization and local financial market integration.

Scope of the Research

As shown in Figure 1, most of the MFIs studied were in Latin America and some were in Asia. Only one was in Africa, where far less MFI transformation has occurred.⁷ The average amount of time that the MFIs had been operating as regulated institutions was approximately seven years, with the first transformation, of BancoSol, Bolivia, taking place in 1992. Institutions in Latin America generally had a longer track record (their average was approximately eight years). But this is not a long period of experience and suggests that it is still premature to assess the full effects of transformation for these institutions.⁸

⁶ Today, the WWB core network is comprised of 32 MFIs, of which six are regulated. Transformation processes are underway in Russia and Uganda and three other institutions are evaluating whether or not they will become regulated in the near term.

⁷ It should be noted that it was difficult to obtain consistent trend data for each of these institutions dating to the time of their transformation. In all cases WWB used published research data from MicroRate, the MIX Market, annual reports, local supervisor databases and, when possible, internal information from the MFI. WWB has not verified this data or made any adjustments. In addition, WWB acknowledges that this group is not complete and that there are other NGO MFIs that have transformed that are not in our current database. This sample, however, includes the majority of the significant transformations that have taken place in the industry. WWB research did not include transformations in Eastern Europe where there have been only a few cases and they have been somewhat unique.

⁸ For an excellent overview and assessment of transformations see: Fernando, Nimal, "Micro Success Story? Transformation of

Figure 1: Regional Distribution of MFIs

Region	Number of Regulated MFIs	%
Africa	1	4
Asia	9	36
Latin America	15	60
Total	25	100

Degree of Financial Intermediation

*Mobilization of Savings*⁹

One of the key objectives of transformation is to make an MFI able, where permissible, to intermediate funds by mobilizing savings from its clients and the public. In most cases, none of the 25 MFIs in this group mobilized voluntary savings before transformation. But by December 2003, 17 of the 25 MFIs were mobilizing savings, with total outreach of approximately 470,000 savers and an average of 28,000 savers per institution. This compares with total *borrower* outreach of 1.2 million, with only four institutions, Compartamos, Mibanco, CARD and Share Microfin Ltd., achieving outreach of more than 100,000 borrowers. Both Compartamos and Share Microfin Ltd. are aiming for outreach of 1 million borrowers by 2008. Of these four larger MFIs, only two, Mibanco and CARD, actively mobilize savings.¹⁰ Both institutions are serving approximately the same number of borrowers, but Mibanco has been more successful in introducing savings products. Its ratio of borrowers to savers is 2.04 (equivalent to a deposit-to-loan ratio of 48 percent) compared with 5.14 percent for CARD (equivalent to a deposit-to-loan ratio of 35 percent). Within this group, not one institution has yet mobilized savings from more than 100,000 clients.

In one interesting trend, seven regulated MFIs now have more savers than borrowers, and three others are seeing their number of savers approach the number of borrowers: together these 10 MFIs

Non-Government Organizations into Regulated Financial Institutions," Asian Development Bank, June 2004.

⁹ This subject is treated comprehensively in Nimal Fernando's recent article, "Micro Success Story? Transformation of Non Government Organizations into Regulated Financial Institutions", pp. 17 to 22.

¹⁰ In some cases regulated MFIs are not allowed to mobilize retail savings or deposits. Non-bank finance companies such as Share Microfin Ltd. in India are not allowed to mobilize savings until they receive an 'A' rating from Crisil, an established rating agency in India. Similarly, Compartamos operates as a SOFOL, that is, a "Sociedad Financiera de Objeto Limitado," which is not permitted to mobilize deposits.

Figure 2: Transformation Experiences

Name of MFI	Date of Transformation	Borrowers (at Transformation)	Borrowers (Dec. 2003)	Savers (at Transformation)	Savers (Dec. 2003)	Deposit/ Loan Ratio
BancoSol, Bolivia	1992	22,743	56,707	n/a	53,341	78%
Banco Los Andes ProCredit, Bolivia	1995	12,662	49,700	n/a	39,253	60%
Prodem, Bolivia,	1992	47,130	25,250	n/a	61,858	64%
Finamerica, Colombia	1996	32,022	18,281	n/a	20,734	26%
Banco Ademi, Dom. Republic	1998	18,000	26,414	n/a	39,630	5%
Banco ProCredito, El Salvador	1995	7,769	43,000	n/a	39,789	53%
Fincomun, Mexico	1994	n/a	14,181	n/a	24,187	24%
Nirdhan Utthan, Nepal	1997	15,382	29,065	3,220	30,001	26%
First Microfinance Bank, Pakistan	2002	3,558	3,558	n/a	10,151	596%
Opportunity Micro-finance Bank, Philippines	2000	n/a	17,000	n/a	35,500	n/a

represent nearly half the MFIs in the sample, confirming that good progress is being made by at least some institutions. Of these 10 MFIs with savings close to or exceeding borrowing, WWB collected more detailed information from eight to determine the composition of institutional and individual savings.¹¹ In six of these institutions, individual savings accounted for more than 50 percent of the number of savings accounts (not deposit volume) and in most cases more than 85 percent. Prodem, Bolivia is the most successful in this area, mobilizing 98 percent of its savings accounts from individuals. However, while it is important for MFIs to offer savings products to individual microentrepreneur clients, institutional deposits are also important because they offer MFIs a cost-efficient way to mobilize savings and fund portfolio growth.

Degree of Financial Integration

Leverage

In December 2003, the average leverage (defined as total funding liability divided by total equity) for this global group of 25 MFIs was 4.2, with 16 of the MFIs at or below that level.¹² This is slightly lower than the average leverage by a factor of 4.6 as reported by MicroRate.¹³ It is also lower than the

¹¹ In most cases, MFIs provided data on breakout of savings between term and individual savings accounts but did not always provide data on whether or not the clients were institutional or retail.

¹² Nirdhan Utthan's leverage by a factor of 32 was excluded from the calculation because it distorted the average results.

¹³ This includes 13 of the MicroRate 30 that transformed from

average of 6.52 reported for banks in Peru and 7.68 reported for banks in Bolivia.¹⁴

The average debt-to-total-equity ratio for this group was 3.95 indicating savings mobilization has contributed to increased leverage, especially for the MFIs in Latin America. Overall, however, there is room and need for regulated MFIs to increase their leverage either by improving their access to funding or by increasing their savings deposits.

Figure 3: Leveraging of Transformed MFIs

Leveraging Range	Number of MFIs*
0.1-5.41x	16
≥5.41x	7

* For two MFIs, WWB was not able to obtain recent data on total-funding-liability-to-equity ratios.

Access to Capital Markets

The circumstance of being "under-leveraged" stems partly from typical local banks' lack of capacity or willingness to provide MFIs funding. Banks do not necessarily provide unsecured credit facilities even to regulated MFIs, so becoming regulated does not always result in increased leverage. For example, current regulations in the Philippines require that banks fully secure their loans to MFIs with hard collateral, regardless of legal structure. Any unsecured portion requires that the lending bank maintain higher reserves.

NGOs into regulated MFIs. These are Latin American MFIs only.

¹⁴ Source: Banking Superintendency in Peru and Bolivia respectively.

Figure 4: Capital Markets: Recent Bond Issues of MFIs

Capital Markets: Recent Bond Issues of MFIs				
Issuer	Compartamos			
Issue Date	July 5, 2002	November 8, 2002	April 29, 2003	July 30, 2004
Amount	100,000,000 pesos (USD10,000,000)	50,000,000 pesos (USD5,000,000)	50,000,000 pesos (USD5,000,000)	190,000,000 pesos (USD17,000,000)
Term	3 years	3 years + one quarter	3 years	5 years
Interest Rate	CETES* + 2.5%	CETES* + 2.5%	CETES* + 2.9%	TIIE** + 1.5%
Interest Rate 1st Period	13.57%	13.02%	11.17%	8.96%
Rating	mxA+ (S&P)	mxA+(S&P)	mxA+(S&P)	AA(mex) / mxAA (Fitch / S&P)
Guarantee	Unsecured	Unsecured	Unsecured	IFC for 34% of the principal
Issuer	Mibanco			
Issue Date	December 2002	September 2003	October 2003	
Amount	S/. 20,000,000 (USD6,000,000)	S/. 20,000,000 (USD6,000,000)	S/. 10,000,000 (USD3,000,000)	
Term	2 years	2 years and 3 months	1 year and 6 months	
Interest Rate	12%	5.75%	5.75%	
Rating	AA/AA (Class& Assoc./Equilibrium)	AA/AA (Class& Assoc./Equilibrium)	AA-/AA+ (Class& Assoc./Equilibrium)	
Guarantee	USAID for 50% of the principal	CAF for 50% of the principal	Unsecured	

* 91-day Mexican Treasury Bills
** Interbank Rate

The lack of bank financing and the search for less expensive financing has motivated some MFIs to look to capital markets for funds. While not yet widespread, some MFIs, especially in Latin America, are beginning to raise such funds successfully. BancoSol in Bolivia first tapped the international capital markets in 1996 with three separate bond issuances of US\$1 million each. These issues were 50 percent guaranteed by USAID and privately placed with Bolivian institutions.¹⁵ Since 1996, BancoSol has not issued any more bonds, though it did place US\$ 11 million in Certificates of Deposit in international capital markets in 1998.

However, two MFIs in this WWB sample have regularly accessed local capital markets: Mibanco in Peru and Compartamos in Mexico. In 2002, Mibanco and Compartamos both issued their first bonds for the local equivalent of US\$ 6 million and US\$ 10 million respectively. Both institutions have since issued additional bonds and have experienced improved terms and pricing.

In the case of Mibanco, USAID and CAF guaranteed 50 percent of the bond issue. The third issue was unsecured. It is interesting to note that while pension funds were significant investors in the first issue, public entities and mutual funds bought more of the following issues. The diversity of investors in

¹⁵ "To Market, To Market" by Lucy Conger, Microenterprise Americas, 2003 pp. 22-25.

local capital markets could signal increasing market acceptance of Mibanco.

The first three issues for Compartamos were not guaranteed and received an 'mxA' rating (investment grade) from Standard & Poor's. In July 2004, Compartamos issued MXP 190 million (approximately US\$ 17 million) of an MXP 500 million program targeting local institutional investors. The bonds were issued for five years and received an 'AA' local rating by Standard & Poor's and Fitch. The IFC provided a partial guarantee of 34 percent for principal and interest payments, which helped enhance access to the institutional market. The cost for the IFC guarantee was offset by the improved pricing achieved, with a two-notch improvement in rating. The real motivation for the guarantee, however, was to gain access to an institutional investor base and the ability to issue longer-maturity bonds.

These successes, in terms of improved pricing and diversity of investors for both Mibanco and Compartamos, and lengthening of term for Compartamos, indicate the markets are prepared to invest in these institutions and have developed an understanding of MFI risk.

Public bond issuances have, however, been largely limited to Latin America and have yet to be used by regulated MFIs in other regions. IPC GmbH issued bearer bonds for a total of 6 million Euros in October 2004, using the proceeds to increase their

Figure 5: Investors in Mibanco's Bond Issues

	First Issue	Second Issue	Third Issue
Class of Investors	Pension funds 82.5%	Mutual funds 32.5%	Public entities 59.40%
	Mutual funds 17.5%	Public entities 28.8%	Mutual funds 21.15%
		Pension funds 26.2%	Pension funds 19.45%
		Banks 10.0%	
		Insurance companies 2.5%	

Source: Mibanco documents at WWB Capital Markets Workshop, Nov. 2003.

equity stake in ProCredit Holding AG. These bonds were sold in 10,000-Euro amounts, available to retail investors. This is a different approach from direct issuance at the MFI level, as financing is spread throughout the IPC bank network instead of

going to a specific institution. There are other instances where MFIs have accessed debt funding in capital markets, although the investors are not the public institutional markets but banks or existing shareholders.

Figure 6: Capital Markets and MFIs

MFI	Date	Type of issuance	Amount	Investor(s)
Finamérica, Colombia*	2001	Convertible Bond	US\$ 2 million	Existing shareholders
BASIX (Samruddi), India	2003	Securitization	US\$ 1 million	ICICI Bank
Share Microfin Ltd., India	2004	Securitization	US\$ 4.3 million	ICICI Bank

* "To Market, To Market" by Lucy Conger, Microenterprise Americas, 2003 pp. 22-25.

Conclusions

Modest success, though not widespread, is being achieved in financial intermediation and integration, primary objectives for transformation. The data show savings have been mobilized by many of the regulated MFIs analyzed (17 of the 25), and retail clients account for more than 50 percent of the deposits (in number of accounts) in six of those institutions for which WWB had available data.

Total leverage remains relatively low and there is significant capacity for regulated MFIs to access bank funding and local capital markets if the conditions are favorable. MFIs need to explore what steps they must take to access these markets, including discussions with rating agencies, lenders and potential investors. In certain countries, MFIs are increasing their savings mobilization, and this will also contribute to higher leverage.

Overall progress on financial intermediation and integration is slow but the direction is positive. After allowing for some time to operate as regulated MFIs, these institutions should, where regulations permit, begin to develop retail savings capacity (as in the case of Bolivia where regulators initially discouraged savings mobilization from retail clients until confidence was gained in the transformed MFIs) and on a more limited basis should begin to access local capital markets. On both fronts, the regulatory environments need to be favorable, allowing for savings mobilization for well-capitalized MFIs, and removing collateral requirements or charges for banks financing of MFIs. Local capital

market investment will take time. Guarantees have played an important role in the early stages of local capital market funding and could be an effective way to support MFIs that are exploring alternative financing options beyond bank loans.

What do these findings imply for the sector? Transformation is only one way for MFIs to achieve increased outreach, diversify funding and respond to client demand for different types of products. The transformation process itself is time-consuming, expensive and difficult for NGOs. Alternative models must be explored, and the sector is seeing the emergence of "downscaling," "greenfield banks" and partnerships with banks to establish service companies. Mergers are not yet prevalent but can be expected to begin occurring increasingly, given the heightened competition in some markets. Credit unions and cooperatives are also important models that merit consideration. The challenge for the sector will be to build the capacity of MFIs and other financial actors to expand their services for micro-entrepreneurs. A diversity of approaches will be required because, alone, the transformation of NGOs into regulated MFIs is too limited.

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Maintaining the Bottom Line in Investor-Owned Microfinance Organizations

Elisabeth Rhyne

*Neither locks had they to their doors nor bars to their windows;
But their dwellings were open as day and the hearts of the owners;
There the richest was poor and the poorest lived in abundance – Longfellow*

What will happen to microfinance when the owners change? Will the new – private – owners still hold fast to the social mission, opening their doors to the poor? This long-debated and, until recently, largely theoretical, question is now demanding an answer, because microfinance is moving into private hands at an accelerating pace. Among the recent developments:

- New equity funds for microfinance: The Council of Microenterprise Equity Funds, a private group founded in 2003, now has 17 member funds;
- For the first time, some of these funds are attracting private, socially responsible investors, not just public development banks. This potential source of funds is growing rapidly;
- The first microfinance equity fund, Profund, is in its exit phase. It will sell MFI shares to a range of next-generation shareholders;
- Private commercial banks, both local and international, are entering microfinance, some as wholesalers, some as retailers;
- As consumer finance grows, the lines between consumer lending and microfinance continue to blur.

Until now, the advocates of microfinance commercialization (and here I include myself) could speak of commercialization as the end of the microfinance development story, arguing that commercialization would yield maximum scale and longevity and therefore the greatest benefit to the poor. No one could challenge that maxim as long as the commercialization process was incomplete and microfinance remained primarily in public and/or non-profit hands. But the moment of proof is now within sight.

Many in the microfinance community, both advocates and critics of commercialization, are nervous about handing over their beloved institutions to the private sector. They wonder whether to trust purely private investors to maintain the social mission.

Microfinance as an industry has made itself attractive to private investors, focusing on meeting the financial and risk management hurdles set by the private sector. But it has not devoted equal energy to developing safeguards that ensure adherence to social mission. The challenge is to find tools and mechanisms strong enough to perpetuate the positive impact of microfinance on poverty alleviation, even as profits become the driving force behind corporate decision-making. The field is only now beginning to develop such tools. This article discusses the status of these efforts.

Challenges to Microfinance's Social Mission

As a starting point, it is important to consider exactly what kinds of challenges to social mission arise as ownership of microfinance is turned over to private hands. With a clear understanding of the challenges to mission, it should be easier to identify the safeguards needed.

This question can be addressed with reference to social responsibility among corporations in today's private sector. Debates on corporate social responsibility sometimes overlook the fact that the inherent social content of enterprises varies widely. Some companies are socially neutral: their businesses do not have an especially strong social impact. For these companies, corporate responsibility may focus on corporate foundations, or on treating employees fairly. Some companies create social problems, such as environmental damage. For these, social responsibility focuses on compensating for the damage or correcting it. For some lucky corporations, social benefits are intrinsic to the business itself and, for them, the challenge is to conduct their business in a way that enhances that intrinsic benefit.¹⁶

Microfinance institutions are in this latter category. Compartamos, a leading Mexican microfinance institution, recently recognized this distinction in revising its mission statement: it now calls itself a *social enterprise* rather than a socially responsible enterprise. Because providing financial services to the

¹⁶ For a full treatment of social investment and corporate social responsibility in emerging markets, see "Sustainable and Responsible Investment in Emerging Markets," by Enterprising Solutions, published by the World Bank's International Finance Corporation and available at <http://esglobal.com/resources.htm>.

poor is in itself the main social good that microfinance advocates seek, we can rest assured that as long as an institution is providing microfinance services well, the main social objective is being reached. And we know that as long as providing such services are profitable, there will be institutions providing them. This fact is the rock we are grounded on. If not for that, we would never contemplate turning microfinance over to the private sector.

But, of course the picture is not so simple. Though the intrinsic social nature of microfinance gets us most of the way to the social goals sought, it does not get us all the way there. That is because of a number of threats of varying seriousness to the microfinance social mission.

One of the possible threats is abandonment of microfinance, which can happen if private owners fail to understand the business of microfinance and run it badly, or if they see better opportunities for profits elsewhere. Some commercial banks have entered the microfinance field and then left it.

A more pervasive threat is mission drift: the possibility that privately-owned microfinance providers gradually move away from the low end of the market, serving only the easiest clients. This "creaming" phenomenon appears in many business and social service areas, wherever the goal is to serve difficult or marginal population groups or markets.

Or, service providers may exploit clients through unscrupulous practices, a problem that has plagued the financial services industry throughout its history. Financial services seem to be particularly susceptible to this kind of problem, perhaps because providers, usually more powerful than customers, can manipulate complex, ongoing relationships. A less inflammatory but also serious problem could be that privately owned microfinance providers may not invest in research and development, or risky innovations, because of their concern with short-term profitability. Finally, in microfinance, as in any business, unethical behavior by staff or management can jeopardize institutions.

Responding to the Challenges

If these are the challenges to social mission, what are the mechanisms to help protect commercially-owned microfinance from them? Threats to institutions are dealt with by prudential regulation and threats to customers are dealt with by consumer protection and closely linked consumer education. Commercialization and competition make consumer protection increasingly central to microfinance. We

cannot assume that private companies will always have the best interests of the consumers at heart, given abundant examples to the contrary. Prudential supervision and consumer protection are thus key pieces to the overall puzzle of protecting the social mission of microfinance.

But it would be a sad day if regulation were the only force keeping social mission in the forefront of microfinance decision-making. The first line of defense must lie within the company itself. Managers and boards determine how diligently microfinance providers will pursue social goals. Decision-makers inside institutions face real boardroom dilemmas involving how much weight to give social goals: should an institution reduce interest rates, institute a new loan product for a less proven market segment, pay out dividends, or plow profits into expansion? In all these examples, decision-makers must weigh real tradeoffs between profitability and social goals, even in a context in which the business of microfinance is broadly aligned with social mission.

Effective structures for keeping focus on social mission will include both the tools and the hands to apply the tools. Both are equally important.

Tools for Tracking Social Performance

In the very active field of corporate responsibility, many concepts are emerging for use in the measurement of social performance. The thinking about this issue in microfinance borrows liberally from concepts now fashionable in the corporate sector, developed to hold corporations accountable for the social impact of their activities.

Social return on investment (SROI) is an alluring phrase because it appears to offer an exactly equivalent measure to return on equity.¹⁷ It turns out to be a complex application of cost benefit analysis, which adds social pluses and minuses on top of the financial performance of an institution. While conceptually elegant, SROI depends on indicators of social pluses and minuses that the microfinance field lacks. It is essentially another name for impact assessment.

Social accounting is a somewhat more practical concept. "Social accounting and reporting...is based upon assessing the degree to which corporate performance matches the stated values of the organization."¹⁸ This concept focuses on the process through which a company defines and carries

¹⁷ Roberts Enterprise Development Fund.

¹⁸ Andrew Wilson, "Social Reporting: Developing Theory and Current Practice," Ashridge Centre for Business and Society. www.acbas.org.uk.

out its social mission. It allows each organization to have a different stated goal, and it also allows for measures of accomplishment that, while they may not address ultimate impact, are practical and available. The analogy to accounting invites the related concept of the social audit, whereby an external group assesses how well the organization conforms to its stated social goals, by examining both process and results.

A still simpler approach is the social scorecard: a brief report that tracks key social indicators as part of the regular reporting and decision-making between management and board. The social scorecard ensures that information about social mission is in the boardroom whenever key decisions are made. Institutions looking to design social scorecards should recognize that the development of workable indicators for social performance in microfinance is only beginning, and may take a long time to mature.

Measuring social return is a much more difficult technical challenge than measuring financial return, for the following reasons:

- Return cannot be captured adequately in a single number or even five key indicators the way financial performance can be captured. Social benefits take many forms: giving access to previously excluded people, immediate increases in income, micro-business expansion, employment generation, better quality of life, risk minimization, even intergenerational effects and empowerment. Any decision to focus on one set of indicators will necessarily omit major portions of the total social return.
- Return is not the same for each institution because goals and setting differ. Therefore, social scorecards cannot be standardized across microfinance the way financial scorecards can. One institution may aim to reach landless peasants, while another is focused on enterprise development. Each would judge success differently.
- While financial returns measure processes inside the financial institution, social returns occur outside the institution. They do not accrue to the MFI itself, but to its clients. That's why economists call them externalities. The external aspect of social returns means that, with some exceptions, the information used to determine social return is not an integral part of business operations and must be collected separately. External

data collection raises issues of cost and reliability.

- Social indicators are notoriously hard to measure. As microfinance practitioners have begun to connect with professional poverty "measurers," they have discovered a world of methodological wrangling due to the inherent difficulty in finding out reliably how well-off people are. Since the poverty-measuring experts are busily sparring with each other, they do not speak with one voice when advising microfinance practitioners, and microfinance practitioners are left adrift to some degree.

Despite these unavoidable challenges, many people concerned with social return inside microfinance are struggling gamely on, attempting to produce something of practical utility. The important message for institutions looking for tools to measure social return is to have realistic expectations about how good the tools will be.

The social scorecard is an appealing tool because it employs three characteristics essential for practical use:

1. Alignment: Useful measures of social return must reflect the social mission of the microfinance institution, which may differ from one institution to another;
2. Availability: The information used to track social return should be readily available or possible to be collected at low cost; and
3. Actionable: If a social scorecard is to be useful in guiding decisions, it must be within the scope of action of an institution's management. If not actionable, it will not help decision-makers sort out trade-offs between profits and returns.

ACCION International has been working to develop simple, robust social scorecards for a couple of years and attempting to apply the above criteria. With these criteria in mind, ACCION's approach focuses on who the clients are rather than on client impact. In this way, the approach stops short of measuring ultimate social return, and instead focuses on the central social element that management can control: client selection. A social scorecard focused on who the clients are can help an institution observe whether it is drifting from its mission or determine whether its outreach to a new market segment is working.

ACCION's approach is to use readily available data, collected through the loan application process and entered in a given MFI's management information system (MIS), to monitor trends over time. As this data differs in important ways from the household survey data used to determine national poverty lines, ACCION is advising institutions to supplement the monitoring of routine client data with special client surveys from time to time. The surveys, which can be modeled on the household surveys just mentioned, allow MFIs to compare their clients against national populations. ACCION has now conducted poverty assessment studies at four institutions and is assisting them in developing and using social scorecards.¹⁹

Several other microfinance network organizations, notably Opportunity International, FINCA and Freedom from Hunger, have been working to develop poverty assessment methods that use easily observable proxy indicators to measure poverty among group loan clients (where detailed income and expenditure information is not available). The IRIS Project in the U.S. and the Impact Project in the U.K. are also involved. The process of developing and validating proxy indicators is ongoing. Results should emerge over the next one to two years. Once successful indicators of client poverty levels are available, they can be applied to microfinance institution decision-making in many different ways. Some institutions intend to use them as client selection devices, while others see them as monitoring tools. For the purposes of this article, the interest is in using these indicators in a social scorecard or social reporting framework.

Despite the difficulties, the practice of measuring social performance, even with very simple tools, should proceed with urgency, supported by research to improve the quality of tools.

Who Will Hold MFIs Accountable for Social Performance?

Tools do not apply themselves, however, and therefore it is essential to ask who will use the tools, and how key players will hold privately-owned institutions accountable for social performance. A phalanx of entities holds institutions accountable for financial performance: shareholders, banking authorities, rating agencies, and creditors, to name perhaps the most important. These entities, with the possible exception of some shareholders, do not typically address social performance. Donors have historically been the main source of oversight of social

¹⁹ ACCION's InSight series of downloadable publications provides results of ACCION's work to date in poverty assessment. Available at www.accion.org.

performance, but their influence is not great among private, shareholder-owned institutions.

In the broader private sector, the lack of strong entities to demand accountability helps explain why corporate responsibility remains a lesser aspect of most corporate operations. In the case of large corporations, corporate watchdog groups have evolved to monitor social performance. These groups appear to have more teeth when social issues capture the attention of the public. Many corporate responsibility movements cut their teeth opposing South African apartheid and continue to successfully pursue other issues in developing countries such as labor rights and conditions, mining and the environment, etc. Nevertheless, even the strongest corporate responsibility movements seldom compete with profits as a force determining corporate behavior.

In microfinance, groups that represent major segments of the industry – microfinance networks, the Consultative Group to Assist the Poor (CGAP) or microfinance rating agencies – could take on a watchdog role, and indeed, this process seems to be starting. At this point it is unlikely that much help will come from broader groups or general public opinion, given that microfinance is not well-known outside its own circles. Any group deciding to act as a social performance watchdog would have to bear in mind that it should not impose a one-size fits all measure, particularly when the science of measurement is so weak. Instead, it should ask institutions to develop their own measures and then monitor how well institutions use these measures. The social performance measurement standard should simply state that any best-practice microfinance provider will monitor social performance regularly and use that information in management and governance deliberations.

Even though such an emerging, industry-wide agreement to hold institutions accountable for social performance would be helpful, it alone would be insufficient to keep social return high on MFIs' agenda. Stronger incentives are needed to balance the strength of the profit motive. One of these could be public policy, which is used in countries as different as Colombia, India, Nigeria and Chile to encourage the entry of commercial banks into microfinance. Such policies run counter to financial liberalization orthodoxy and are essentially updated versions of the old, counterproductive directed credit policies. Because microfinance is on the cusp of commercialization, however (in this way differing from the old days of directed credit), such policies now appear to be bringing private players into microfinance and keeping them there.

Finally, however, we return to the owners themselves. Evaluating the range of mechanisms for holding MFIs accountable for social performance, it appears that, although there are several useful mechanisms, none are strong enough to ensure that social return carries the same weight as financial return in MFI decision-making. And so we conclude that now, and for some time to come, socially responsible investors – owners with open hearts – will have a special role in the ownership and governance of MFIs, arguing the case for social performance when MFIs face difficult corporate choices. Socially responsible investors include

NGOs, public sector development banks, private equity funds, microfinance networks, individuals and others whose motivation is to pursue a double bottom line. Such investors may be able to share ownership of microfinance institutions increasingly with purely profit-driven investors, but their voices will be very important for some time to come. The implications of this conclusion for the ownership structures of MFIs are profound.

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TALKING ABOUT PERFORMANCE RATIOS

The Microfinance Profitability Index

Julie Abrams

A number of microfinance institutions exceed the profitability of the world's largest and strongest banks.

Microfinance Meets Wall Street

Microfinance – lending small amounts of money to the poor – has been shown to be an effective means of providing financial services for the poor. There are now numerous examples of successful microfinance programs that have scaled up, transformed into non-bank financial institutions or commercial banks and become commercially viable. Yet there is still skepticism on Wall Street and in capital markets around the world that microfinance is a large-scale, viable business proposition or sound investment vehicle.

Microfinance is an emerging asset class. However, it does not yet have formal, private-sector-based benchmarks. Most microfinance benchmarks currently compare microfinance institutions to others in the industry. Yet many microfinance institutions are non-governmental organizations, typically non-profits. Capital markets would not view them as formal financial institutions. Thus, while an industry-based comparison is appropriate in that it compares similar institutions, it does not fully address the need to compare microfinance with purely profit-making financial institutions.

What is missing in the industry is a comparison of MFIs against mainstream, commercial financial institutions engaged in lending. This is the objective of the Microfinance Profitability Index. This paper will introduce the Index, describe the methodology for its calculation and present initial findings.²⁰

²⁰ The Microfinance Profitability Index (MPI)TM is a new index that measures microfinance institutional profitability against that of the world's leading global commercial banks. The purpose of the MPI is to create a rigorous, industry-wide metric that quantifies, in purely commercial terms, the profitability of microfinance institutions. The MPI will compare microfinance institutions' profitability – as measured by return on average equity (ROE) – to the world's largest and soundest commercial banks. The MPI will be updated annually.

The launch of the MPI will examine microfinance profitability for the three years 2001, 2002 and 2003. Subsequent releases of the MPI may add additional MFIs to the 2001-2003 Index as additional data become available, following time lags in the filing of rating reports.

The Benefits of the Microfinance Profitability Index

As the microfinance sector matures, a number of its institutions have become quite profitable. Documenting this profitability is of interest to microfinance institutions seeking to attract fresh capital, to microfinance investment funds wishing to show the sector as an attractive investment option, and to bankers wanting to demonstrate to senior management that microlending can be a lucrative business segment. Demonstration of MFI profitability in purely commercial terms is an important step forward in improving microfinance industry transparency and providing a direct link between capital markets and MFIs. The Index is a fully market-based measure that shows that lending to the poor can indeed be profitable.

Methodology

The MFIs

To assure the highest level of confidence in the quality of data, only statistics from MFIs rated professionally and independently are included in the MPI. A microfinance rating company's team typically spends 5-10 days on site at an MFI and does a comprehensive review of the institution's audited and unaudited financial data as part of the assessment process. Thus, all MFI data used in the Microfinance Profitability Index have been rigorously reviewed and verified by a third party. The return-on-equity figures are compiled from independent raters' reports; no self-reported figures are used. Independent ratings are underwritten by the Microfinance Rating and Assessment Fund, launched and funded by the Consultative Group to Assist the Poor (CGAP) and the Inter-American Development Bank (IDB).²¹ Verified profitability data were available from 125 MFIs for at least one of the three years during 2001-2003. Rating reports were produced by Acción International (CAMEL), Apoyo & Asociados, CRISIL, Fitch Ratings, Microfinanza, MicroRate and

²¹ The European Union also joined as a co-sponsor of the Rating Fund as of September 2004.

PlanetRating (GIRAFE).²² Because M-CRIL, the main microfinance rating agency for Asia, does not currently track ROE, Asian MFIs, particularly those in India, are underrepresented. Later updates of the Index will include any Asian MFI that provides rated ROE data.

Figure 1: Top 10 Global Banks as Measured by Tier One capital

Rank in (year)	2001	2002	2003
Citigroup	1	1	1
Credit Agricole Group	7	5	2
HSBC Holdings	5	3	3
Bank of America	2	2	4
JP Morgan Chase	4	4	5
Mizuho Financial Group	3	6	6
Mitsubishi Tokyo Financial Group	8	9	7
Royal Bank of Scotland	N/A	7	8
Sumitomo Mitsui Banking Corp.	6	8	9
BNP Paribas	N/A	10	10
UFJ Holding	9	N/A	N/A
Industrial and Commercial Bank of China	10	N/A	N/A
Total Tier One capital (US\$ billion)	345.1	348.2	440.5

The global commercial banks

Data from the world's leading commercial banks was compiled from "Top 1000 World Banks," published annually by *The Banker*,²³ which has rated the world's top banks since 1970. Initially, banks were ranked according to asset size. However, while assets measure size, they do not necessarily reflect the strength or soundness of a financial institution. In 1988, the Bank for International Settlements (BIS) agreed upon a set of supervisory regulations governing the capital adequacy of international banks.²⁴ Since then *The Banker* has ranked bank "strength" as measured by BIS Tier One²⁵ capital. The MPI identifies the top-rated banks as measured by the amount of Tier One capital they hold, based on Basel capital adequacy standards. Once the Top 10 world banks are identified,

²² All of the raters make adjustments to the MFIs' data. These include adjustments for inflation, write-offs, loan-loss provisioning, subsidies and accrued interest. Adjustments vary somewhat among different rating agencies, as a function of their specific methodologies.

²³ July 2002, July 2003, July 2004.

²⁴ The Basel Capital Accord of 1988, followed by Basel II in 2001-2006.

²⁵ Tier One capital includes common stock, disclosed reserves and retained earnings, and in the case of consolidated accounts, minority interests in the equity of subsidiaries that are less than wholly owned. It excludes cumulative preference shares, revaluation reserves, hidden reserves and subordinated and other long-term debt.

their ROE performance is compiled from primary sources.²⁶

The MPI compares the profitability of banks to MFIs, using the Top 5 and Top 10 of the world's 1,000 strongest banks as a weighted-average reference index²⁷ in each of the three years analyzed. In 2003, the Top 5 banks held a total of US\$ 264 billion in Tier One capital, while the Top 10 held nearly US\$ 441 billion, as can be seen in Figure 1. The MPI thus compares microfinance profitability to the strongest and soundest banks in the world, banks that collectively hold nearly half a trillion dollars in capital.

Clearly, pure financial theory would dictate that it is most appropriate to compare MFIs with similar institutions, as is typically done in mature industries. And certainly, these top banking institutions operate on a different scale, and with a different type of lending from that of MFIs. Yet, precisely because of the fundamental strength of these top banks among "The World's Top 1,000 Banks," it is particularly impressive that a number of MFIs exceed their relative profitability in terms of ROE. As more and more MFIs are rated and tracked by the MPI, it is anticipated that the number of MFIs exceeding the top global banks' profitability will increase.

Findings

A number of microfinance institutions have profitability levels that compare very favorably with the world's strongest global banks.

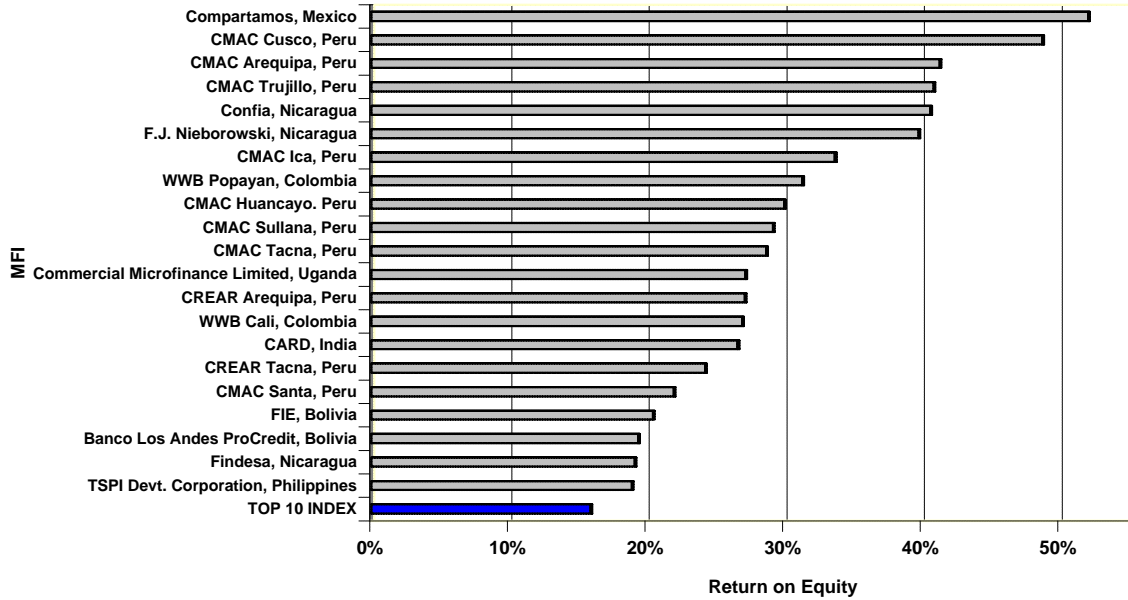
Figure 2: MFIs Exceeding the MPI

	2001	2002	2003
Number of rated MFIs with ROE data	99	110	92
Top 5 global bank ROE index (%)	8.1	14.2	16.2
MFIs with ROEs exceeding Top 5 global bank index	31	26	21
Rated MFIs with ROE exceeding Top 5 banks (%)	31	24	23
Top 10 global bank ROE index (%)	2.1	4.7	15.9
MFIs with ROEs exceeding Top 10 global bank index	43	51	21
Rated MFIs with ROE exceeding Top 10 banks (%)	43	46	23

Fifty-one MFIs were more profitable than the weighted average of the Top 10 banks in the world in 2002. Twenty-one MFIs were more profitable

²⁶ Primary sources include SEC 10-K and 20-F Reports, as well as corporate Annual Reports. When available, international commercial bank ROE figures conform to US GAAP accounting guidelines.

²⁷ Based on the weighted average Tier One capital of each of the participating banks.

Figure 3: 2003 Most Profitable MFIs Compared to Top 10 Microfinance Profitability Index

than the Top 5 banks in 2003, as seen in Figure 2 above. The Figure highlights the number of MFIs that exceeded top commercial bank profitability in each of the three years.

Figure 3 compares MFI profitability to the blended Top 10 bank ROE rates. It should be noted that the number of MFIs exceeding the Top 5 and Top 10 global bank ROE each year varies primarily as a function of how many MFIs were rated that year. Thus, 2003 has fewer MFI data points, as it is a more recent year; 2003 rating data will become increasingly available over the next two years. At the same time, global bank ROE varied greatly as a result of a number of trends, including, but not limited to, a number of mergers in the top-tier banks each year; poor performance among top Japanese banks due to large numbers of non-performing loans in 2001 and 2002, with recovery in 2003; and overall global economic recovery in 2003.

Figure 4: Honor Roll* in 2001, 2002, and 2003**

MFI	Country	3-Year Avg. ROE
Compartamos	Mexico	47.7%
CMAC Arequipa	Peru	44.7%
CMAC Cusco	Peru	40.4%
CMAC Huancayo	Peru	32.4%
CMAC Sullana	Peru	31.8%
Fundación Nieberowski	Nicaragua	29.8%
CMAC Trujillo	Peru	29.6%
CMAC Tacna	Peru	28.2%
WWB Popayán	Colombia	27.4%
WWB Cali	Colombia	24.5%
Findesa	Nicaragua	20.3%
Crear Arequipa	Peru	20.1%
Banco Los Andes ProCredit	Bolivia	16.9%

* MFIs that beat the Top 5 global banks's profitability; ** Compared to a weighted average of the Top 5 global banks.

Among the MFIs analyzed, thirteen exceed the weighted-average profitability of the world's Top 5 strongest banks over a three-year period. The Honor Roll is shown below in Figure 4.

Conclusion

Microfinance institutions constitute an emerging asset class that investors should investigate further and consider as part of a diversified portfolio. In some institutions, particularly those in Latin America, microfinance has proven to be very profitable. A number of MFIs are more profitable than some of the banks holding the greatest amount of Tier One capital in the world. The Microfinance Profitability Index systematically identifies the most profitable MFIs, as compared with these banks.

As more microfinance institutions become rated and submit to in-depth, independent analysis of their performance, the number of MFIs tracked by the Microfinance Profitability Index will increase. It is anticipated that, over time, the MPI will identify a growing number of MFIs around the world that are more profitable than global banks.

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Investment Benchmarks for Microfinance Institutions

Bradley King

Goods for Sale

City	Description	Item	Price US\$
LA PAZ	Truck. Diesel, 4 litre, 5 Speed transmission. New tires.	Truck	\$9,000
LA PAZ	7.26% of Banco Solidario S.A.'s shares.	Equity	\$1,100,000
LA PAZ	2 Transformers Cap. 15kva, 25Kva	Merchandise	\$1,500

Translated and summarized by the author from Banco de Credito de Bolivia's web site.

<http://www.bancodecredito.com.bo/inmuebles/lapaz-1bm.asp>

Note: The offer relates to the MFI better known as "BancoSol" of Bolivia, not the Ecuadorian MFI of the same full name.

BancoSol of Bolivia is a large and prosperous MFI with more than one hundred million dollars worth of assets. It is listed on the Bolivian stock market (Bolsa Boliviana de Valores), is formally regulated as a bank, and Fitch has given it a Bolivian A+ credit rating.

So why is Banco de Credito de Bolivia selling its BancoSol stock (taken from a client as collateral on a bad debt) alongside used trucks and assorted merchandise in what is essentially a classified ad on its web site? Why not just dump it on the stock market at the going price?

A quick check of the Bolsa's web site reveals that the MFI stock's last listed trade was on March 15th 2001. (It trade then at 94.14 bolivianos per share.) In other words, there is no current market price for this, one of the larger and most regulated and studied MFIs in the world. Its shares have traded hands since 2001, to be sure, but those deals have been private sales negotiated in person between investors. The public information available on investors' perception of the bank's value is extremely thin. In fact, the best evidence available publicly is that, after several months of being listed there, this 7.26 percent of BancoSol has not yet sold for US\$ 1.1 million. So we can say with some confidence that its market price is lower than this price implies (about US\$ 15 million). Still, in the information-starved world of MFI market valuation, this is a fact that attracts interest.

Because of this lack of investment data, benchmarking MFIs for investment purposes is a difficult thing to do. There are no simple principles to apply, such as, "MFIs are comparable to consumer finance companies or mainstream banks, for investment purposes." The term "MFI" is unreasonably broad, as well. There is little to be said about investment in a small NGO in Tanzania that is going to apply to the highly profit-driven Compartamos of

Mexico, or the giant government-sponsored BRI of Indonesia. To say that they are all MFIs means as much to an investor as saying that apples and oranges are both fruit. It's certainly true, but not at all helpful.

The *MicroBanking Bulletin* (MBB) does a very good job of benchmarking MFI performance by numerous measures relating to profitability, operating efficiency and market penetration. It also groups institutions in ways that help the reader to compare apples to apples in recognition of the fact that not all MFIs are the same. This is of great use to MFI managers and their owners and sponsors, in their efforts to improve their institutions. It can do this because the MIX has a very large amount of raw data at its disposal with which to benchmark.

What the MBB is not able to do at this time is to benchmark investor perceptions of MFIs as measured by the rates that they charge MFIs for debt and the prices that investors are willing to pay for MFI equity.²⁸

Without large amounts of detailed and publicly available MFI investment data, how can profit motivated investors benchmark and value investments?

A Short Look at MFI Debt

The simplest type of investment to make in MFIs or in any sort of business is debt. It is fairly uncomplicated in that the cash flows are all defined at the outset. For example: "US\$ 100,000 over three years at ten percent. Interest due at the end of each year and principal due in whole at the end of the term." Most of what goes into arranging a loan is

²⁸ This is understandable as that data is very hard to get, though the MBB is currently refining its data collection model for better collection and analysis of debt information, which will be particularly helpful if it is grouped by country and not only by region.

actually very similar across businesses of different types. Very profitable businesses with highly reliable investment opportunities, subject to few extraneous dangers, are defined as low-risk and can get inexpensive loans. This is obvious and true anywhere in the world for any sort of business. The only really interesting part of the exercise is the challenge of setting the interest rate to correspond to the risk of non-repayment, when lending to a particular MFI. For this, we would like a benchmark. That is to say, we'd like to know the following: "Other reasonable and smart lenders have made three-year loans to institutions of similar risk at ten percent." But which institutions are of similar risk? How do we know that they are of similar risk? What interest rates did they accept?

There is not likely to be a convenient and generic commercial benchmark for a small, Guatemalan NGO MFI. A loan to such an MFI will have to be considered by the lender without shortcuts. In fact, loans to MFIs will generally have to be handled on a case-by-case basis, with little recourse to reliable industry benchmarks. There are simply too few MFIs in most countries, each one too different from the next, to be treated as a single class for the purposes of lending and interest rates.

In industrialized countries, credit rating companies make the process of benchmarking debt mercifully simple. Investors will largely be guided by S&P's, Moody's and Fitch's letter-grade evaluations of corporate creditworthiness. In other words, an American company's credit rating and its debt pricing are highly correlated. Use of such agencies by MFIs likewise provides a very helpful benchmark for lenders wishing to invest in the sector, but it has not happened in a widespread way (the high price of rating evaluations being a major reason). Specialized MFI ratings agencies are very useful to investors as information cost reducers, but they don't provide the investor with enough information to actually set lending rates.

Fortunately, banks and fund investment officers are capable of handling this complexity. It is their business to analyze unfamiliar loan risks and they have tools and expertise at their disposal for that purpose. A lack of convenient benchmarks will not prevent credit from being given; it just means more work and cost, the first time a loan is considered.²⁹

²⁹ The inability of many MFIs to create reliable cash flow projections and to negotiate with lenders effectively are oft-cited obstacles to the securing of a first loan. After the first loan, however, the institutional knowledge may exist to benchmark against the first loan, and costs may go down for both the bank and the borrower.

Also, international investors in MFI debt are not totally lacking in useful benchmarks. Reference rates such as the LIBOR (the London Inter-Bank Offer Rate) are convenient tools for setting floating interest rates (i.e., LIBOR + 6%). Used correctly, they are not lending rates in themselves, but are the sea-level or "floor prices" below which a lender cannot pass and to which risk premiums are added.

An extremely convenient benchmark for the premium that should be charged for "country risk" when lending internationally is the interest rate at which the government of a given country can borrow in US\$ or Euros on international markets. Generally speaking, businesses in a country cannot access debt less expensively than can their government. Figure 1 illustrates the country-risk premium charged for US\$ denominated debt lending in various countries.

Foreign investors who lend in local currency likewise can consider the difference between a local government's hard currency borrowing rates on international markets versus its ability to borrow in its own currency. This comparison allows investors to benchmark the strength of local currency against US\$ or Euros and set interest rates to compensate. Bankers and investment managers save themselves vast amounts of fundamental macroeconomic analytical work by taking these national and currency benchmark rates and then adding premiums for the business risk of the MFI itself (as discussed above).

A Short Look at MFI Equity

MFI equity investment is even harder to benchmark than debt. Whereas debt investors are only concerned with an MFI's ability to repay on schedule, equity investors are concerned with the long-term general profitability of the business and, more to the point, *investors' ability to increase their own wealth based on the MFI's profitability.*

A quick check on the MIX web site or the tables of the MBB will reveal the profitability of MFIs individually and by averages in numerous logical groupings. But this sort of profitability measure isn't enough for an investor to compare their potential investment with other opportunities at hand in the larger investment markets. Mainstream investors are only concerned with how they themselves will benefit from ownership. There are two basic ways that this can happen. An equity owner could receive a share of profits, in the form of cash dividends; or the company could increase in value, due to its profitability, and the owner could then sell shares at a profit.

Figure 1: Recent Quotes of Emerging Market Government US\$ Bonds Maturing 2007

Issuer	Maturity	Approx US Treasury Bonds Yield %	Emerging Market Gov US\$ Bond Yield %	Country Risk Premium %
Republic of Colombia	2/15/2007	2.70	4.72	2.02
Republic of Guatemala	8/3/2007	2.70	9.00	6.30
Republic of Jamaica	9/1/2007	2.70	10.41	7.71
Republic of Kazakhstan	5/11/2007	2.70	9.15	6.45
Federative Republic of Brazil	1/16/2007	2.70	7.63	4.93
Republic of Chile	7/23/2007	2.70	3.72	1.02
United Mexican States	1/15/2007	2.70	3.25	0.55
Russia	6/26/2007	2.70	4.90	2.20

Source: BradyNet.

Thus, the equity investor sees profitability as a necessary but not sufficient reason to invest. With no dividends or opportunities to sell shares in the foreseeable future, investors have no use for shares, even in a profitable company. In actual fact, only a few MFIs (including SHARE, ACLEDA, XacBank and Card Bank, as well as a couple of MFIs in the ProFund portfolio) have offered dividends to investors. Even fewer are listed on stock exchanges where their equity is freely exchanged and priced by the market (and even then, as is the case of BancoSol, listing alone does not guarantee liquidity).

A further complicating factor is that many MFIs are run on a social or “double bottom line” basis that does not emphasize the delivery of a financial benefit to their investors. We will ignore the arguments surrounding the relative benefits of “for-profit” versus “pro-poor” MFI management here and simply concentrate on the undeniable fact that many MFIs are not *mainly* profit-driven and this makes equity investment in them much more complex. In an extreme case where an MFI has no plans to give dividends ever and it is impossible to sell its shares, we are not talking about an investment at all in the financial sense of the word. Benchmarking investments in charitable and semi-charitable organizations may be possible at some level, but this is something better left to donors than investors.

In the commercial world, the basic way in which investors value a company is using discounted cash flow (DCF) analysis. They look at how much profit the firm is expected to make each year in the future and then discount those future amounts based both on how far in the future the profit will come (a dollar today is worth more than a dollar next year) and on the odds that it actually will come (a sure thing being worth more than a long-shot). The fast and easy way to do this discounting calculation is by benchmarking the company against a firm in the same

industry with similar prospects, and considering how much the market discounts the value of that company’s future profits.

In the case of privately owned, for-profit US businesses, this can be done easily enough because there are many market-listed, for-profit businesses in almost every industry; at least one of them will approximate the one being valued in terms of risk. However, in the case of MFIs, the comparisons are likely to be harder to make. Benchmarking across borders will provide a larger base of data, but it is a weak substitute due to differences in business environments between countries. For purposes of evaluation, microfinance is like many separate experiments in separate countries that, unfortunately, do not have much predictive value for one another.

Even for-profit MFI equity investment suffers from the fact that it is a relatively novel industry located mostly in countries with poorly developed markets for almost any type of investment. That there are a small number of fund managers and bankers in industrialized countries who are becoming experts in MFI investment in particular bodes well for the development of future, efficient market mechanisms. However, the actual business of putting money into MFIs and getting it back out is still a relatively complicated and pioneering process. There are no cases in which one can make a purchase over the phone and be confident of obtaining market prices in anywhere near the way one can with market listed stocks in most advanced, industrialized countries.

However, this is normal and perhaps appropriate in a developing industry. The process of making private equity investments in closely-held companies in industrialized countries is not extremely easy either, and that is a more appropriate target-level of efficiency for the microfinance market until more MFIs are mature enough to become market-listed.

Conclusion

In a sector lacking the signposts of commercial benchmarking, we can still find our way with the maps and compasses of due diligence and fundamental analysis. MFI investment is not yet regularized and commonplace enough to give us good benchmarks within each country. It is not yet a field for armchair investors and retirement accounts. But expert and adventurous investors will see, in these markets lacking easily accessible data, the prospect of finding hidden and under-priced opportunities.

Perhaps 7.26 percent of BancoSol is actually a steal at US\$ 1.1 million. If there were convenient benchmarks available to price it, we would all know and the opportunity would disappear. Such

possibilities motivate interested investors to do the fundamental research and make the deals that will lead to increased efficiency and real benchmarks in the marketplace. Expect South Asia, Bolivia and Peru to lead the way.

In any case, selling BancoSol equity via a classified ads on the Internet is certainly a positive step. Investors seeking a Bolivian benchmark should be very pleased.

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CASE STUDIES

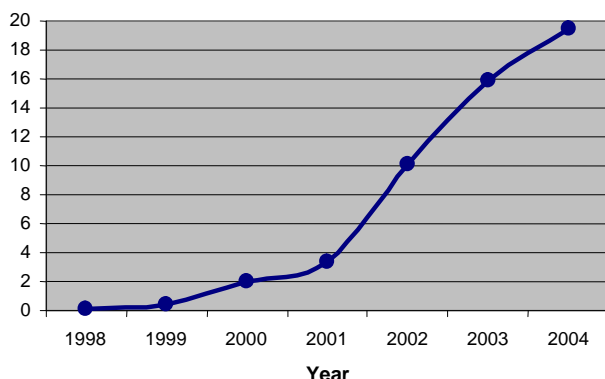
XAC Bank: From the Liability Side of the Balance Sheet

Cheryl Frankiewicz and Marc de Sousa-Shields

In September and October 1998, two NGOs working within the Mongolia MicroStart Project made their first microcredit loans. A year later, in October 1999, these organizations and four other NGOs participating in the MicroStart project consolidated their operations to create the first non-bank financial institution (NBFI) in Mongolia, known as X.A.C. Co. Ltd. Somewhat incredibly, after just two years of operating as an NBFI, the company transformed again, merging with another NBFI, Goviin Ekhlel Ltd., to create XacBank, which received a full banking license from the Central Bank on December 27, 2001.

XacBank (pronounced "HassBank") soon became one of only three financial institutions to have a national presence, with at least one branch in each of Mongolia's 21 provinces. Although it is classified as a young institution by the *MicroBanking Bulletin*, it has 506 staff working in 36 branches and a portfolio of US\$ 20 million, with an average loan of US\$ 635. It serves more than 32,000 borrowers and 40,000 depositors. The latter have savings of nearly US\$ 14 million.³⁰

Figure 1: Total Assets (Millions USD)



XacBank's short and remarkable history has been described in other publications, but the tale has generally been told from the perspective of asset management. This article, by contrast, describes the equally interesting and important evolution of the bank's liability and capital structure: specifically, how XacBank's unusual and impressive growth has been financed and what the implications of this strategy are for the bank's future.

³⁰ These figures were as of December 31, 2004.

We explore this question with a focus on three aspects of XacBank's approach in particular: 1) the use of mergers and transformation as fundraising strategies; 2) the early and determined pursuit of commercial capital; and 3) the decision to eschew the short-term advantages of international capital for a longer-term strategy, albeit initially more expensive, emphasizing local private capital.

Overview of the "Other" Side of the Balance Sheet: Liabilities

The two Mongolian NGOs that came together to form X.A.C. Co. Ltd. were funded by MicroStart grants.³¹ Since this funding was limited to a maximum capital grant of US\$ 150,000 per institution, the newly formed company was forced almost immediately to seek additional sources of capital to cover its operational expenses and to finance portfolio growth. The initial solution was to invite four other MicroStart-funded NGOs to become shareholders in the company by investing their MicroStart grants.³² This decision was made, in part, due to a lack of liquidity in the Mongolian banking system and the difficulty of obtaining loans from the local market.

From 1998 to mid-2000, XAC had no commercial liabilities, and through the end of the year 2000, it continued to be financed almost entirely by donor subsidies. Since 2001, however, direct grant funding has been minimal, with contributions from the Consultative Group to Assist the Poor (CGAP) in 2001 and the International Finance Corporation of the World Bank Group (IFC) in 2002 amounting to US\$ 250,000. By October 2002, just four years after its first loans were made, XAC's transition to commercial capital was, to a large extent, complete.

³¹ The two NGOs with microcredit operations were the Mongolian Women's Federation (MWF) and the Liberal Women's Brain Pool (LEOS). X.A.C. (an acronym meaning "Golden Fund for Development" in Mongolian) was created in May 1999 to serve as the central credit office for the NGO lending activities.

³² The four NGOs were the Mongolian Open Society Institute (an affiliate of the Soros Foundation), the National Association of Mongolian Agricultural Cooperatives (NAMAC), the Local Governance Development Fund (LGDF), and The Rotary Club of Ulaanbaatar. These four NGOs joined X.A.C. Co. Ltd. as part of its transformation from a private company to an NBFI in October 1999.

As early as July 1999, key stakeholders including both the UNDP Technical Advisor and XAC's Executive Director articulated a need to seek additional investments, not only to finance growth, but also to inject additional knowledge, skills and a commercial edge to balance the then-current ownership's strong social orientation.³³

XAC developed a highly structured approach to finding new investors. Its search began with a plan that included funding objectives by volume of funding and type of investor. The ideal investor would be one committed to the XAC mission, but also capable of balancing social mission with strong commercial experience. International social investment funds were considered but not pursued, as XAC's capital needs were not large enough at the time to warrant their interest, and because XAC believed it could find conventional, local, private investors. This strategy kept the "universe" of potential investors much larger than it is for many MFIs that seek only socially motivated investors.

XAC's search for new investment was aided by MicroStart, which undertook an unpublished, structured survey (likely the first ever) of investment funds serving MFIs. From this, the institution was able to identify international funders of all types (not just equity) and to structure a plan for attracting them. The plan included, among other things, specific preparations for attracting investors (e.g., improved transparency and reporting), and improvements in investor-search capacity (e.g., improved investor relations skills) and negotiation ability. It also included a dedicated budget for expenses related to the search for funding, on an activity-by-activity basis. This budget was detailed, taking into account, for example, the cost of hosting investors undertaking informational and due diligence meetings (an estimated US\$ 6,000 per visit).

In May 2000, XAC negotiated its first commercial loan from a local bank with an effective rate of 43.6 percent.³⁴ By July 2000, it had piqued the interest of several international institutional investors, including Triodos, the IFC, the Asian Development Bank, the European Bank for Reconstruction and Development, the Kreditanstalt fuer Wiederaufbau (KfW, Germany's state-owned development bank) and the Soros Foundation. At the end of that year, Triodos Bank made a US\$ 400,000 convertible loan in local currency.

³³ Clark, Heather and Maria Paula Carvajal, "Appraisal Document for MicroStart Mongolia", UNDP/SUM, July 1999.

³⁴ Reille, Xavier, "Appraisal Document for XAC Mongolia", CGAP, August 2000.

Figure 2: XAC Bank – Milestone Events

June 1997: MicroStart signs operating agreement in Mongolia

September 1998: First loan made

May 1999: NBF1 transformation plan approved

September 1999: NBF1 license granted

April 2000: Bank transformation plan approved

May 2000: First local bank bridge loan is obtained

September 2000: Approached Goviin Ekhlel's management and merger discussions initiated

December 2000 : First convertible loan from an international investor (Tridos)

October 2001: Merger agreement signed with Mercy Corps – principal shareholder of Goviin Ekhlel

December 2001: Bank license received

December 2002: More than US\$ 5.8 million in deposits are mobilized

December 2003: Quantity of debt sourced locally exceeds that sourced internationally

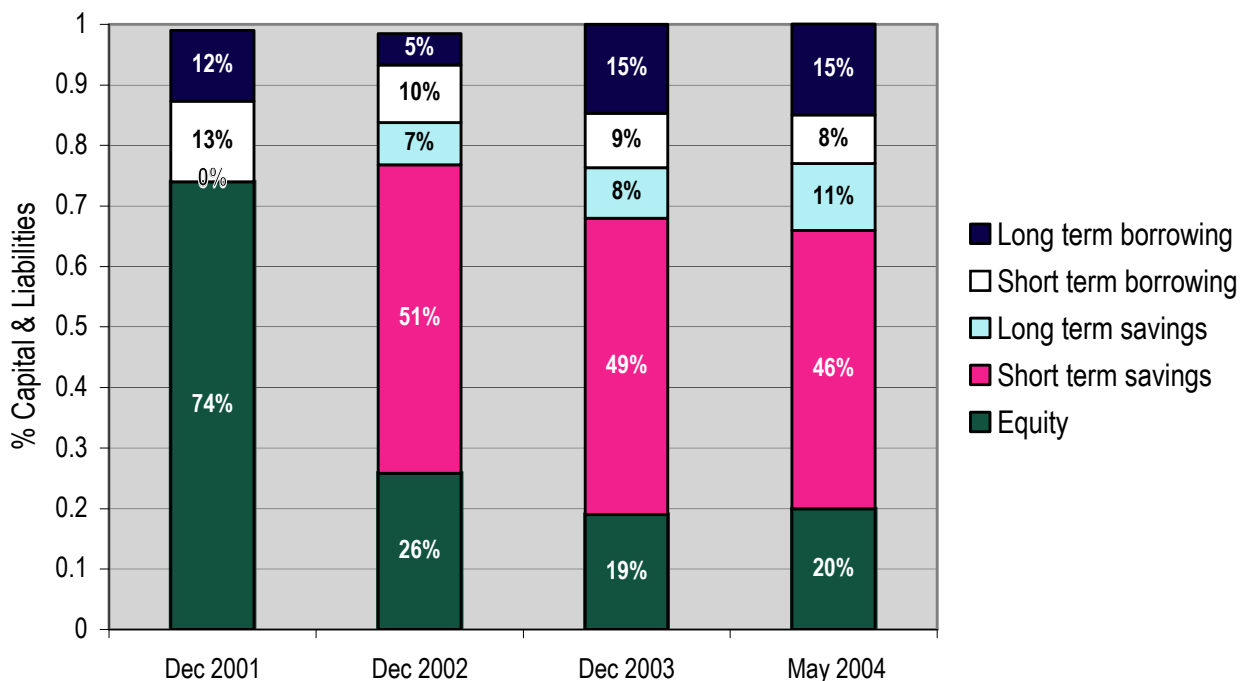
March 2004: Three local companies buy shares in the bank

In 2001, XAC obtained the financing it needed to meet the Central Bank's MNT 2 billion or US\$ 1.785 million minimum capital requirement for a banking license by merging with Goviin Ekhlel Co. Ltd., the second-largest non-bank financial institution in the country. Also in 2001, XAC issued short-term (6-month) commercial notes, privately placed by a local commercial bank.

With its transformation to commercial bank status in late 2002, XacBank was able to diversify its funding sources significantly (see Figures 3 and 4).

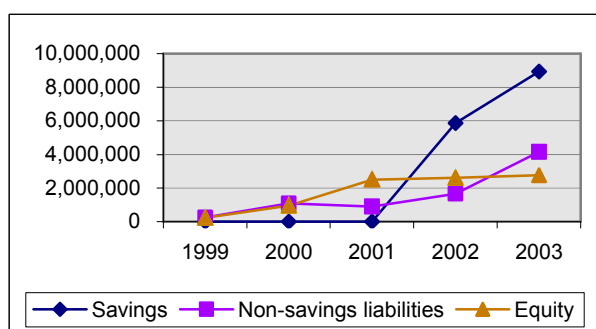
By 2002, the bank had successfully negotiated loans from the IFC, Deutsche Bank Microcredit Development Fund, and the Dexia Micro-Credit Fund as well as from a government agency, the Employment Generation Support Fund, and Anod Bank (a local financial institution).

Figure 3: XAC Bank Capital and Liability Structure (2001 – 2004)



XacBank began mobilizing savings in 2002, and by the end of that year, was financing approximately 58 percent of its assets through public savings. As shown in Figure Three, that percentage remained constant to the end of 2003 (accompanying asset growth of 57 percent). Throughout 2002 and 2003, XacBank continued to borrow from both local and international financial institutions, although by the end of 2003, it was sourcing more funds locally than internationally, mostly via term savings.

Figure 4: XAC Funding Structure (1999 – 2003)



By May 2004, XacBank's debt-to-equity ratio had grown from less than 1:1 in 2001 to over 4:1. As of December 2004, portfolio-at-risk greater than one day (PAR > 1) was 1 percent, return-on-equity (ROE) was 22 percent, and return-on-assets (ROA) was 3.81 percent. These statistics are not unusual for commercial banks with microfinance operations.

Considering the rural and national nature of XacBank's market, its statistics also compare fairly well with other large Asian MFIs, which, as reported in the *MicroBanking Bulletin*, have ROEs averaging 31 percent and ROAs averaging 4.5 percent (*MicroBanking Bulletin* Issue No. 9, July 2003).

Mergers, Transformations and Private Capital

At least four important factors have contributed to the success of XacBank's financing strategy:

1. A market-oriented approach;
2. A deliberate preference for developing long-term domestic funding relationships;
3. An early commitment to transparency; and
4. A demonstrated ability and willingness to distribute profits.

A Market-Oriented Approach

From its inception, XacBank paid great attention to the demands of the market. This was largely out of necessity since, in a country with only 2.3 million inhabitants and a population density of just 1.5 people per square kilometer, the potential market for microcredit was estimated to be only 77,000 clients strong.

Faced with such a small market, XAC was urged by MicroStart to think beyond its core microcredit

market and to adopt a “vertical” (inclusive) marketing strategy. Unlike other MFIs that could rely on large, almost limitless urban markets, XAC began thinking early on about a range of products suitable for micro-, small- and even medium-sized businesses, not only in urban markets but also in suburban and rural markets where 60 percent of the Mongolian population lives. Today XacBank offers 12 credit products, 6 deposit products, and a range of other services including funds transfers, foreign exchange and micro-leasing.

Box 1: Mission and Vision

XacBank Mission

First, to contribute to Mongolia’s socioeconomic development by providing access to comprehensive financial services to all citizens and legal entities, including those who are normally excluded, e.g. low-income and remote rural households. Second, but equally important, to maximize the value of shareholders’ investment, while creating a profitable and sustainable financial institution.

Vision

XacBank will be a dynamic leader serving the marginalized citizens of Mongolia, with the most innovative and transparent banking services, supplied in a professional and sustainable manner. The Bank will use technology together with personalized customer service to grow its market share and support the development of micro- and small business in Mongolia.

In 2000, when XAC’s first savings product was being developed, the impact of the product was expected to be marginal, with only 1.3 percent of total assets to be financed by deposits as of December 2002 (Reille, 2000). Planners were conservative in their projections, given the need to obtain a banking license and to develop and test savings. During the first year of savings mobilization, XacBank vastly exceeded these targets, but deposits were mainly current accounts and time deposits from corporate clients, which proved to be highly unstable and sensitive to interest rates.

After reviewing its strategy at the end of 2002, XacBank shifted its focus to attracting savings from individuals, which were viewed as a less competitive and more stable market. It invested in research and product development that resulted in a range of products that were appropriate for this market. The bank then made sure that the market knew about these developments through an effective promotion strategy.

In less than two years, XacBank introduced a total of six savings products, including an innovative children’s saving account that significantly increased the total funds mobilized and attracted a large number of depositors, though it also reduced the average deposit amount, from US\$ 306 at the end of 2002 to US\$ 175 as of May 2004. As a result, XacBank was financing 71 percent of its total assets with deposits by the end of 2004.

Box 2: Attracting Talent

XacBank has won a number of awards, including “best manager” and “best company,” from the Mongolian National Chamber of Commerce and Industry. This has allowed it to tap deeper into the market for human resource talent in banking and finance talent, as the Bank has become a prestigious place to work.

XacBank was able to achieve this rapid deposit mobilization by paying attention to what the market wanted and responding to those demands with appropriately designed products. Also, by merging with Goviin Ekhlél, which already had a loyal clientele of small- and medium-sized enterprises (SME), XacBank gained a more diverse and ready-made market faster than it could have as a single institution entering one market segment at a time. Goviin also brought more than just equity and market; it brought complementary products and skills to XacBank. Together, the two institutions were able to achieve nationwide reach and capture the vertical target market they were looking for (i.e., ranging from micro-businesses to SME to consumers).

Figure 5: Paying the Price to Access Domestic Funds

	2003		2002	
	Rates (%)	Amount (MNT'000)	Rates (%)	Amount (MNT'000)
Placement from financial institutions			18%	400,000
Deposits from customers	3.6% - 18%	10,012,172	3.6% - 20.1%	6,180,013
Loans from local financial institutions	12% - 15%	1,680,000	15%	280,000
Loans from foreign financial institutions	2% - 7.22%	1,197,200	5.34% - 9.37%	1,153,125
Loans from government agencies	5.5% - 6%	856,245	6%	245,000
Other liabilities	-	849,571	-	166,790

Source: XacBank Annual Report 2003.

Choosing Domestic Over International Sources

Attracting deposits has come at a fairly high price. In fact, XacBank is paying interest rates on long-term deposits that are likely higher than what it could attract from international social-investment funds. Foreign-exchange risk premiums associated with international funding is approximately 4 to 5 percent. This means there is a spread of 2-5 percent between, on the one hand, XacBank's average cost of locally denominated funds (15%), and on the other, the average cost of social investment funding which is around 6 to 9 percent in US\$.

Given that over 11 percent, or about US\$ 4 million, of the bank's long-term funding is term deposits with prices much higher than the average cost of funds, the bank is clearly paying a high price for local funds. The focus on local funding is strategic given that most social investment funds, for which the bank would surely be eligible, provide funding at a much cheaper rate than 15 percent. It is strategic because while local funding may be more expensive in the short term, it has many long-term advantages. Local currency deposit collection as the main source of funding is universally recognized as the most important source of funding. It is more abundant than international funds; it tends to be stable, particularly savings and demand accounts; and it provides cross-selling opportunities that are consistent with and supportive of the bank's vertical-loan market-penetration strategy. The strategy is also mission-oriented because access to reliable savings services is crucial to the poor, regardless of whether they borrow from the bank or not. The motivation to deposit savings is an important new element in the mindset of people who have just made a transition from a socialist system to a market-oriented one.

Local currency funding also keeps the bank's exposure to foreign exchange risk at manageable levels. At year end 2003, foreign-currency-denominated accounts were about 20 percent of assets and around the same for liabilities (stricter limits on foreign currency exposure than required by the Bank of Mongolia). Unable to hedge international loans due to its relatively small size and the cost of hedging instruments, XacBank limited its exposure, unlike many other MFIs that have been seduced by simplistic price comparison.

Transparency

An early commitment to transparency helped XacBank raise investors' familiarity with the institution and their confidence in it, giving them the information they needed to make risk-return decisions. The bank insisted on full-scale, Financial Accounting Standard (FAS) audits beginning in 1998. Box 3 shows a full list of the steps

XacBank has taken demonstrating its commitment to transparency.

Box 3: Transparency at XacBank

- Installment repayment reports are posted on branch walls;
- The names of clients for whom loans are approved are posted at branches;
- Branches are run as profit centers and receive monthly overall performance records of all other branches, as well as the consolidated report for the organization as a whole;
- Staff are tested for internal job vacancies and required to submit an application form for new positions developed as the organization grows;
- Financial audits are conducted yearly;
- Procedures audits are conducted yearly (by an external, internationally recognized financial audit company);
- Internal audits are conducted continually (internal, but reporting directly to the Board and General Assembly);
- Client satisfaction surveys are conducted yearly;
- Central Bank supervision is continual, at all branch offices and central office
- CAMEL rating of 1.6 for 2004;
- Due-diligence is conducted for each international commercial investment, technical assistance grant, etc.
- CGAP-format appraisals are conducted yearly;
- Tax inspections are conducted continually;
- Social welfare inspections are continual, at all branch offices and the central office;
- Donor monitoring is quarterly and annual (UNDP);
- MIX Market and *MicroBanking Bulletin* participation: five-diamond transparency grade;
- PlanetRating A-, positive September 2004;
- Quarterly management reports through website;
- Printed annual reports with accompanying audit notes.

Commitment to Profit Distribution

XacBank has paid dividends four times to its shareholders over the last six years, including a small dividend to X.A.C. Co. Ltd.'s NGO owners in 1999. The impulse for early dividend payment stemmed partially from the fact that the originating NGOs

viewed XAC as a source of income for their non-financial activities. Initially, XAC's structure gave the NGOs responsibility for the development and management of "quasi independent" branches. As "owners" of branches, the NGOs treated their branches as profit centers, creating an early and positive tension between the goals and needs of the overall institution and the interests of NGO branch owners. Such an arrangement appears to have simulated the tension between private-sector ownership of companies in which owners look to extract income from their investments.

Early dividends may not have been the *major* attraction for new private investors, but it had positive residual impact on the institution. Private capital investors, unlike international development investors, like to see return on their investments, or at the least strong promise of income in the not-too-distant future. Investors like to know that NGO-majority owners will not always vote to invest retained earnings solely into poverty-alleviation efforts.

Dividends are all the more critical given the relative lack of liquidity (in some cases almost complete lack thereof) typically characterizing MFI shares. That XacBank has paid out dividends in 2002, 2003 and 2004 totaling US\$ 550,000, of which 20 percent was cash and the balance was stock, shows a commitment to sharing earnings that will likely prove important in the next round of fund-raising (the Central Bank has increased the minimum capital adequacy requirement from US\$ 3.75 million to US\$ 7.1 million, or from MNT 4 billion to 8 billion). XacBank paid out a stock dividend of US\$ 234,000 or MNT 262 million on profits of US\$ 246,000 or MNT 276 million in 2003 and the bank's Board is currently discussing a 2005 dividend strategy, as part of a plan to provide returns for shareholders in this way, until more liquid markets for trading equity can be established.

The Payoff: Domestic Private-Sector Equity Investment. The Result: Financing Growth

In the words of XacBank's CEO, Ganhuyag Chuluun, "We knew from the beginning that we wanted to grow...and from the beginning we set out to access commercial funds." The bank's early funding strategy helped lay a foundation for future financing. Indeed, when the Bank of Mongolia earlier raised the minimum capital requirement for banks from US\$ 1.88 million to US\$ 3.75 million, or MNT 2 billion to 4 billion, XacBank was able to do what few MFIs – even those in larger and more sophisticated capital markets – have been able to do. It attracted significant investment from new shareholders, all of whom were local, privately-owned, commercial

entities. The Tuusin Group, operating in many different industries but mostly manufacturing and freight-forwarding, now owns 13 percent of the bank through its stake in the holding company XAC-GE, while Monnis Group International (a mining, engineering and construction company) owns 4 percent under the same arrangement. CYDAN Credit Union, a local financial institution, invested directly in the bank. In January of 2005, one of these private investors exited from XacBank through a sale of shares to other shareholders.

**Figure 6: XacBank Ownership Structure
Year End 2004**

Owner	Percentage Shares
XAC-GE	93.7
Mercy Corps (42.1%) *	
Six NGOs (40.6%) *	
Tuusin Group (13.4%)	
Monnis Group (3.9%)	
Others	9.6
Individuals (3)	
Financial Institutions (4)	
XacBank Employee Fund	
Donated capital	

Conclusion

XacBank is well on its way to having a liability structure similar to that of mature small banks, with about 85 to 90 percent of funding sourced through local deposits. Its liability strategy has been and continues to be well-calibrated to manage long-term funding costs, effectively serving the interests of both long-term institutional growth and ownership income. XacBank's successful integration of profit- and mission-maximization goals makes it an enviable institution and one that serves as a model for others.

The bank anticipates additional financing needs of about MNT 30 billion (US\$ 27 million) over the next three years. The plan is to raise MNT 5 billion from equity investments and retained earnings, 8 billion MNT from domestic and international lenders and MNT 17 billion from deposits. No problem, says Ganhuyag Chuluun, the CEO: when it comes to XacBank's prospects for attracting international investors, "it's a question of when, not if."

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The MFI as a Borrower: Institutional Characteristics and MFI Performance

Erik Heinen

Oikocredit Loans to MFIs

Since 1978, Oikocredit's core business has been the provision of long-term loans to enterprises and institutions for the empowerment of poor people in developing countries. In November 1993, fifteen years after its inception, Oikocredit disbursed a loan of US\$ 150,000 for 5 years at 9 percent interest to the non-profit NGO "Alternativa," for microcredit to women microentrepreneurs and street vendors of the informal sector of Lima, Peru. This first micro-finance loan was successfully repaid and succeeded by new loans disbursed in 1998 and 2003. The example of Alternativa has been replicated by many MFIs from many other countries. As of August 31, 2004, Oikocredit had disbursed a cumulative US\$ 88 million under 285 loan or investment agreements, to 161 financial intermediaries in 41 countries. In August 2004, the outstanding portfolio with financial intermediaries had reached US\$ 67 million with a Portfolio at Risk (PAR ratio 90 days) of 7.0 percent.

These global figures conceal a lot of differences in repayment performance among the different MFIs that borrow from Oikocredit; on one hand, there are MFIs with impressive sustainability figures that always pay Oikocredit on time, while on the other hand there are MFIs that find it hard to control their cash flows and are at times in arrears in their payments. This paper analyzes the repayment performance of various categories of MFIs as distinguished by the *MicroBanking Bulletin*, No. 8, issued in November 2002. It also analyzes the correlation between repayment of MFIs to Oikocredit and a number of institutional characteristics and macro-environment variables.

The Sample

This paper uses as its sample the 104 loans that were disbursed by Oikocredit to MFIs before the end of 2002, for a total amount of US\$ 43.9 million. This sample contains 93 borrowing MFIs from 22 different countries. As of August 2004, a minimum of three payments of interest had come due over all of these 104 loan contracts, and in most cases at least one principal payment. The sample thus contains, on one side of the spectrum, old loans disbursed more than 10 years ago that are already fully repaid, and on the other side, loans disbursed rather recently that are still in the earlier years of repayment. Nevertheless, the payments received already give a reasonably accurate indication of the

repayment performance of the borrowing MFIs in the sample.

Characteristics of Loans Supplied and of the Borrowing MFIs

Figure 1 provides basic data on the loans supplied by Oikocredit under the 104 loan contracts. It shows that the average loan amount was US\$ 422,000 for a term of 6 years. The average interest rate for these loans disbursed before 31 December 2002 was 8.96 percent for US\$ or Euro loans, with interest rates ranging from 5.9 to 10.0 percent. The average of 8.96 percent interest is close to the 9 percent interest rate that Oikocredit typically charged for its loans in hard currency up to 2003. The interest rate of 9 percent was based on cost of capital, operational expenses and cost of provisions for loan loss. At this rate Oikocredit was, over the years, able to make a profit of slightly more than 2 percent in order to pay its shareholders a targeted 2 percent dividend. In more recent years, the dominance of "hard currency" loans has decreased considerably: Oikocredit has tailored the loan packages it can offer: in response to borrowers' requests, it has developed new products and introduced the possibility of local-currency loans for a large number of countries in which it operates. It has also become more flexible in setting interest rates, now taking into account factors such as in-country market interest rates, the risk of borrower default, collateral and depth of outreach.

Figure 1 also gives information on the demand side; that is, on the MFIs that took loans from Oikocredit. The "average MFI" in this 1993-2002 sample can be characterized as follows: it was established in 1987 in a lower-middle income country with a GDP per capita of US\$ 4,102 in 1999 and medium-range Human Development Index of 0.695.³⁵ The MFI was a medium-sized MFI with a portfolio of US\$ 3.3 million at the time of its loan appraisal. It had 6,800 active clients, who received loans averaging US\$ 890, which represented 24 percent of the annual GDP per capita. More than half the clients (57%) were women.

³⁵ The Human Development Report 2001 was used to arrive at these country data on GDP per capita and Human Development Index value. A GDP per capita of US\$ 4,102 comes close to El Salvador (4,344), Jordan (3,955) and the Philippines (3,805). An HDI value of 0.6956 would rank 100 in 1999, in between countries such as, on the one hand, Moldova and Uzbekistan (HDI values of 0.699 and 0.698), and the other, Algeria and Vietnam (HDI values of 0.693 and 0.682). Source: UNDP Human Development Report 2001, page 141-144.

Figure 1: Characteristics of MFI Loans Disbursed by Oikocredit before 31/12/2002 and of the Borrowing MFIs

Supply: Oikocredit loan package characteristics	Unit	Average	Min	Max	Stdev*
Average amount disbursed per contract	US\$ \times 1000	422	27	2048	(423)
Average term of the loan	Months	73.8	12.0	120.0	(21.6)
Average Interest rate (on US\$ and Euro denominated loans)	%	8.96%	5.86%	10.00%	(0.65%)
% of loans in local currency	%	31%			
Demand: 1) Characteristics borrowing MFI at time of appraisal	Unit	Average	Min	Max	Stdev
Years of legal existence (Legal Age) at the time of appraisal**	Years	12	1	39	(9.5)
Year of establishment	Year	1987	1957	2001	(9.4)
Average loan portfolio size at appraisal	US\$ \times 1000	3,333	7	44,112	(7,082)
% represented in the MIX Market Micro Finance information platform	%	20.2%			
Demand: 2) Outreach					
Average number of clients at appraisal	Number	6,779	10	69,170	(11,887)
Share of women clients at appraisal	%	57%	5%	100%	(23%)
Average loan size at appraisal	US\$	890	18	9,258	(1,233)
Average loan size at appraisal/GDP	%	24%	0.5%	200%	(31%)
Gross Domestic Product (GDP) per capita 1999	US\$	4,102	1,022	12,277	(2,516)
Human development index (HDI) 1999		0.696	0.423	0.842	(0.099)

* Standard Deviation.

** The *MicroBanking Bulletin* defines "Age of Institution" as "Years of functioning as an MFI" (*MicroBanking Bulletin* No. 8, November 2002, page 33). Oikocredit's Management Information System, however, has gathered information on the year of legal establishment only. Thus age is defined here as "Years of legal existence at the time of appraisal."

The "average MFI" was also mature, with 12 years of legal existence at the time Oikocredit appraised the loan application.

Of course the concept of "average MFI" is theoretical. The "average MFI" does not exist. There are big differences in institutional characteristics among the sample of 93 MFIs that received one or more Oikocredit loans before 2003. The question now is whether these differences in characteristics also tell us something about the likely repayment performance of the borrowing MFI.

Overall Repayment Performance

Overall, Oikocredit disbursed a cumulative total of US\$ 43.9 million under the 104 loan contracts disbursed to the 93 MFIs before the end of 2002. Of this, US\$ 21.6 million in loan principal (48%) had come due by August 31, 2004 (see Figure 2). Cumulative interest receivable was US\$ 11.4 million. Total cumulative invoiced amounts as of August 31, 2004, were thus US\$ 32.9 million. Not all the monies receivable from the debtor MFIs under the 104 contracts had actually been received; 96 percent of interest invoiced was paid so far, while 87 percent of principal payable had been received.³⁶ Overall,

³⁶ Oikocredit has the policy of crediting incoming payments first to interest due and only when all interest is paid to principal due; for this reason the repayment rate for interest receivable is higher than for principal receivable.

this resulted in a total cumulative repayment rate on the 104 contracts of 90 percent.

The overall cumulative repayment figures can, however, conceal a lot of recurrent delays and worries about MFI repayment performance. Among the fully repaid loans, there are cases of MFIs that were structurally delayed for almost the entire term of the loan. Yet, in the end, they managed to repay the entire debt because a guarantor stepped in or because a third party contributed new equity capital to the MFI. Although these MFIs in the end fully repay their loan, they demand a lot of attention and come with considerable monitoring and legal costs. These are the kind of borrowers most lenders would prefer to avoid.³⁷

To take into account the more qualitative aspects of loan repayment performance as well, we asked our Oikocredit Regional Managers for their views on the repayment behaviour of their partner MFIs.

Overall, it can be concluded that about 77 contracts, or 74 percent, are almost always on time,

³⁷ Oikocredit wants to work with MFIs that are denied access by local commercial banks. As such, Oikocredit also provides high-risk loans to MFIs that are still fragile and in the early learning stages, but nevertheless have prospects of reaching out to a significant number of poor customers and becoming self-sustainable. Obviously, these loans are a challenge and are more likely to come with hiccups in loan repayment performance, but Oikocredit was set up exactly because it wants to face that challenge.

Figure 2: Repayment Performance: Cumulative Amounts Receivable and Received per 31/08/2004

Loans disbursed before 31/12/2002 to 93 MFIs under 104 contracts				
	Cumulative amount receivable (1993-2004) Million US\$	Cumulative amount actually received Million US\$	Total arrears Million US\$	Repayment ratio
	(1)	(2)	(1-2)	% (2/1)
Loan principal	21.58	18.75	2.83	86.9%
Loan Interest	11.36	10.87	0.49	95.7%
Total principal and interest	32.94	29.62	3.32	89.9%

Figure 3: Repayment Performance According to Oikocredit Regional Managers

	Almost always on time; little concern	Temporary delays that might or might not be overcome	Persistent delays possibly leading to loan loss	Total
Number of loan contracts	77	16	11	104
% loan contracts	74.0%	15.4%	10.6%	100.0%
Amount disbursed in US\$ millions	33.72	7.28	2.89	43.89
Repayment %	99.6%	83.2%	44.0%	89.9%

while 15 percent require continuous monitoring to follow overdue payments closely, and another 11 percent can be classified as bad-debt cases that are persistent in their default. The latter cases come with high monitoring and legal costs and are likely to lead to (partial) loan loss in the end. As Figure 3 shows, the qualitative appraisals by Oikocredit Regional Managers matched overall financial outcome. The “on-time” MFIs show nearly full repayment, while the MFIs that are structurally delayed have so far paid only 44 percent of invoiced amounts.

In sum, it can be concluded from the preceding that overall, Oikocredit collected US\$ 9 out of every US\$ 10 receivable over the loans disbursed in the period 1993-2002 to MFIs. Of the MFIs that took loans with Oikocredit, 1 out of every 4 experienced difficulties in servicing the loan.

Geographic Differences in Loan Repayment of MFIs

Figure 4 shows differences among the 104 loan contracts by region. Most of the contracts are from Latin America (51 contracts or 49 percent of sample), followed by Asia (29%), Africa (14%) and Eastern Europe (9%). Because the average loan size is largest in Latin America with some US\$ 440,000, the total share in Latin America, in terms of amounts disbursed, is even higher, at 61 percent. In general, this pattern confirms Oikocredit's experience that the highest absorption capacity for Oikocredit's type of loans is in Latin America where it is widespread over a larger number of countries. Loan contracts in Africa within the sample pertain mostly to Kenyan savings and credit associations (SACCOs), while contracts in Asia are concentrated

around the Indonesia rural banks called “Bank Perkreditan Rakyat” (BPR), Philippine NGOs and Indian Non-Banking Financial Institutions (NBFI). For Central and Eastern Europe, the sample contains in particular a number of mutual agricultural credit co-ops.

Regarding loan repayment, Central and Eastern Europe clearly had the highest loan repayment ratio, with all 9 contracts scoring 100 percent in cumulative amounts received. This result is remarkable, though it could be a coincidence – Central and Eastern Europe also has the lowest number of MFIs in the sample – and it could also be influenced by the methodology used in selecting the sample: the Central and Eastern European loans happen to be relatively young. The lowest repayment performance comes from the Asian MFIs in the sample with only 86 cents of every US\$ invoiced having been collected. This low result in terms of monies actually received is caused in particular by three rather big loans that went into persistent default after the 1998 “Asia crisis”. The African and Latin American loans in the sample perform close to the average. This result for the African MFIs may be surprising, but confirms Oikocredit's experience that, in particular, Kenyan SACCO's are solvent and have solid membership bases. Regarding the more qualitative data on repayment performance, Figure 4 shows that even though the end result for the African MFIs may be satisfactory, in terms of amounts received versus amounts invoiced, Oikocredit's Regional Managers in Africa may nevertheless have had to dedicate a lot of time to delayed payers. Only 57 percent of MFIs in the African sample manage to pay “on time”, while more than one out of four are structurally delayed in payment of invoiced amounts.

Figure 4: MFIs by Region; Characteristics of MFIs by Continent and Repayment Performance

Average loan amount disbursed US\$*1,000	Cumulative disbursed Million US\$	Average # of clients Number	Average women clients %	Disbursed as % of portfolio size %	Cumulative received as % of receivable %	Average repayment ratio %	Contracts showing persistent default %	Contracts showing delays in payments %	Contracts on time %
Africa, 14 contracts									
396 (308)	5.54	4,844 (4,405)	47% (21%)	159% (300%)	89.3%	84.4% (30.0%)	28.6%	14.3%	57.1%
Asia, 30 contracts									
275 (350)	8.24	6,753 (12,713)	73% (22%)	73% (99%)	86.1%	91.7% (23.5%)	10.0%	16.7%	73.3%
Central Eastern Europe, 9 contracts									
318 (96)	2.86	1,185 (359)	38% (8%)	54% (25%)	100.0%	100.0% (0.0%)	0.0%	0.0%	100.0%
Latin America, 51 contracts									
534 (493)	27.24	8,462 (13,447)	54% (22%)	35% (64%)	90.6%	90.7% (19.7%)	7.8%	17.6%	74.5%
Total									
422 (423)	43.89	6,779 (11,887)	57% (24%)	64% (133%)	89.9%	90.9% (21.4%)	10.6%	15.4%	74.0%

Figures in italics between brackets are standard deviations.

Characteristics by charter

The *MicroBanking Bulletin* classifies MFIs according to charter into five different categories: banks, credit unions/co-operatives, NGOs, non-bank financial institutions and rural banks (*MicroBanking Bulletin* Issue No. 8, November 2002). Figure 5 gives the repayment performance of MFIs classified according to charter. The group with the biggest number of loan contracts within Oikocredit was "credit union/cooperatives," which received 43 loans of

US\$ 304,000 on average. The NGOs were the most important group in terms of amounts disbursed, with US\$ 17.5 million, or 39 percent, of the total. The average size of a loan received by an NGO MFI was US\$ 499,000. This was also the biggest loan size as a percentage of the MFI's existing portfolio at the time of appraisal, at 85 percent. The best repayment performance was by rural banks, which repaid 100 percent of amounts receivable and always on time.

Figure 5: Characteristics of Borrowing MFIs by Charter

Average loan amount disbursed US\$*1,000	Cumulative disbursed Million US\$	Average # of clients Number	Average women clients %	Disbursed as % of portfolio size %	Cumulative received as % of receivable %	Average repayment ratio %	Contracts showing persistent default %	Contracts showing delays in payments %	Contracts on time %
Bank, 4 contracts									
737 (874)	2.95	34,116 (24,410)	81% (23%)	4% 3%	53.9%	58.8% (47.7%)	50.0%	0.0%	50.0%
Credit Union/Cooperative, 43 contracts									
304 (344)	13.06	4,876 (11,125)	50% (22%)	66% (89%)	92.6%	93.0% (17.0%)	9.3%	14.0%	76.7%
Non Banking Financial Institution, 14 contracts									
627 (395)	8.78	8,087 (9,044)	63% (24%)	25% (20%)	90.2%	91.4% (22.5%)	21.4%	0.0%	78.6%
NGO, 35 contracts									
499 (448)	17.47	6,067 (9,083)	61% (25%)	85% (206%)	90.5%	89.8% (21.9%)	5.7%	28.6%	65.7%
Rural Bank, 8 contracts									
203 (127)	1.63	4,159 (8,078)	54% (15%)	61% (24%)	100.0%	100.0% (0.0%)	0.0%	0.0%	100.0%
Total MFIs, 104 contracts									
422 (423)	43.89	6,779 (11,887)	57% (24%)	64% (134%)	89.9%	90.9% (21.4%)	10.6%	15.4%	74.0%

Figures in italics between brackets are standard deviations.

The good performance of the rural banks in this sample, represented exclusively by the “BPRs” in Indonesia, is in sharp contrast with the performance of regular banks oriented to microfinance, among which two contracts defaulted out of every four disbursed.³⁸ Credit unions, NBFIs and NGOs have a rather similar repayment performance, though NGOs tend to be less strict in complying with payment on or before the due date and NBFIs score high on structurally delayed loans that are likely to lead to partial write-off. The best clients to have for Oikocredit in terms of amounts received are credit unions, while the NBFIs are most prompt in paying on time. Quite remarkably in this sample, the credit unions perform better on all aspects of loan repayment than the average MFI.

The classification of MFIs by region and by charter is static and runs the risk of comparing apples and pears: an NGO in Asia may not be comparable to an NGO in Africa and in fact may be closer to an NBFi in Latin America. Similarly, a savings and credit co-operative in Central Eastern Europe may not be comparable to its counterpart in Latin America in terms of number of members and products offered.

In the following sections, we want to compare the repayment performance of MFIs according to three dimensions that are more dynamic: their orientation by rural or urban market, their age and their size.

Characteristics of MFIs by Rural/Urban Orientation

We can distinguish MFIs according to the location of target markets in three categories: MFIs targeting clients from rural areas, from urban areas or from both types of areas. Figure 6 shows that the MFIs that target both types of areas received the biggest share of total amounts disbursed and have a repayment performance that is, on all variables, better than the average MFI. Rural MFIs have the best expectancy for repayment, with an average repayment ratio of 95 percent and the lowest variance. At one standard deviation (70 percent confidence level), we can be sure that they will repay at least 80 percent. Urban-oriented MFIs happen to have the lowest score: the amounts received are almost 10 points lower than with the other two groups and almost every second urban-oriented MFI has temporary or structural payment delays. Further evidence from other MFI lenders and additional experience with Oikocredit in the coming years should

³⁸ There is a high possibility of coincidence in drawing any conclusions from this finding. The two loans that went into default out of the sample of four contracts extended to banks were loans to the same bank, which went bankrupt in 1999 after the Asian crisis caused its national currency to plunge against the dollar.

demonstrate whether this conclusion of higher repayment risk with urban-oriented MFIs is structural or merely coincidence.

Characteristics of MFIs by Age Group

The *MicroBanking Bulletin* classifies MFIs into three groups of age according to the year they started their microfinance operations (*MicroBanking Bulletin* No. 8, November 2002, page 57).³⁹ Within the sample of 104 contracts, Oikocredit made most of the loans to “Mature MFIs” that at the time of appraisal already had over seven years of legal existence. “Young MFIs” with three to seven years of legal existence received 22 percent of total loan amount disbursed and 14 percent of disbursed amount went to “New MFIs” that had less than three years of legal existence.

In theory, the logical performance pattern that one would expect would be that New MFIs would be riskier and show a less solid repayment performance than Mature MFIs, simply because of the effects of learning-by-doing. This picture is indeed confirmed by Oikocredit’s experience with the 104 loan contracts: New MFIs were less able to repay their loans than the older-age categories. They were also more often delayed in their payment, with more than one out of four showing persistent default. The difference between the Young MFIs and the Mature MFIs was not very significant, though the lower standard deviation for Mature MFIs indicates that Mature MFIs have less variance in repayment patterns. At the 70 percent confidence level, we can be sure that a Mature MFI will repay at least 75 percent of amounts due.

This finding of a positive relationship between age of MFI and loan repayment to Oikocredit coincides with earlier findings published in the *MicroBanking Bulletin*, which showed that profitability increased with age, due to the positive effects of MFI age on higher productivity per employee and lower cost per borrower (Isabelle Barrès, *MicroBanking Bulletin* No. 8, November 2002, page 29).⁴⁰

³⁹ The Oikocredit sample uses the same age categories and boundaries between the categories, but has to rely on a slightly different definition of age: the difference between the year the MFI started its legal existence and the year in which the loan application was appraised.

⁴⁰ Age of the MFI was found to relate in a linear way to profitability: a one-year increase in the age of an MFI coincided with a 0.3-percentage-point increase in the adjusted return on assets (*The MicroBanking Bulletin*, November 2002, page 29).

Figure 6: Dimension 1: Market Orientation – Repayment of Borrowing MFIs by Rural/Urban Orientation

Average loan amount disbursed	Cumulative disbursed	Average # of clients	Average women clients	Disbursed as % of portfolio size	Cumulative received as % of receivable	Average repayment ratio	Contracts showing persistent default	Contracts showing delays in payments	Contracts on time
US\$	Million US\$	Number	%	%	%	%	%	%	%
Urban orientation, 25 contracts									
429 (384)	10.72	7,727 (12,789)	64% (22%)	68% (224%)	93.2%	80.5% (31.6%)	24.0%	20.0%	56.0%
Rural and urban, 32 contracts									
561 (568)	17.96	1,022 (16,085)	56% (20%)	33% (32%)	93.2%	93.4% (18.0%)	6.3%	12.5%	81.3%
Rural orientation, 47 contracts									
324 (288)	15.21	3,930 (6,296)	53% (26%)	84% (110%)	93.2%	94.8% (14.2%)	6.4%	14.9%	78.7%
Total, 104 contracts									
422 (423)	43.89	6,779 (11,887)	57% (24%)	64% (134%)	93.2%	90.9% (21.4%)	10.6%	15.4%	74.0%

Figures in italics between brackets are standard deviations.

Figure 7: Dimension 2: Age – Repayment of Borrowing MFIs by Years of Existence

Average loan amount disbursed	Cumulative disbursed	Average # of clients	Average women clients	Disbursed as % of portfolio size	Cumulative received as % of receivable	Average repayment ratio	Contracts showing persistent default	Contracts showing delays in payments	Contracts on time
US\$	Million US\$	Number	%	%	%	%	%	%	%
New MFIs, 15 contracts									
416 (394)	6.24	3,999 (7,707)	65% (28%)	172% (314%)	87.4%	84.4% (32.8%)	26.7%	0.0%	73.3%
Young MFIs, 27 contracts									
352 (390)	9.50	6,695 (14,512)	57% (18%)	65% (80%)	87.4%	91.6% (22.4%)	7.4%	14.8%	77.8%
Mature MFIs, 62 contracts									
454 (446)	28.15	7,488 (11,522)	55% (24%)	38% (36%)	87.4%	92.2% (17.3%)	8.1%	19.4%	74.2%
Total 104 contracts									
422 (423)	43.89	6,779 (11,887)	57% (23%)	64% (133%)	87.4%	90.9% (21.4%)	10.6%	15.4%	74.0%

Figures in italics between brackets are standard deviations.

Characteristics of MFIs by size

When MFIs are classified according to size, this can give us indications about the effects of growth and economies of scale on MFI repayment performance. The *MicroBanking Bulletin* classifies MFIs by scale of operations, according to the size of the total loan portfolio, into Small, Medium and Large MFIs. The criteria for classification of scale of operations vary by region. Thus, for example, an MFI in Africa is classified as large if the MFI has a portfolio of more than US\$ 5 million, while a large MFI in Latin America has a portfolio of more than US\$ 12.5 million (*MicroBanking Bulletin* No. 8, November 2002, page 31).

It is generally believed that bigger borrowing MFIs would be less risky for lenders than smaller ones. Remarkably, this picture is not entirely confirmed by Oikocredit's experience with 104 loan contracts.

Although loan repayment in terms of amounts received is indeed highest for the 8 large MFIs in the sample, the average repayment ratio for large MFIs is lower than for small MFIs. Loans to larger MFIs are more likely to be on time (88 percent paying before the due date as compared to 74 percent on average). But small MFIs perform better than the overall "average MFI" in the sample and their repayment is more predictable, with less deviation around the average.

However, the most remarkable conclusion from the sample is that Medium MFIs have the lowest repayment performance, with 88 percent of monies invoiced and one out of three loan contracts showing temporary or persistent default. Although evidence is yet limited, this pattern may point at barriers to growth in MFI development: MFIs as they grow from small to large face difficulties in remaining profitable that may have to do with aspects such

Figure 8: Dimension 3: Size – Repayment of Borrowing MFIs by Size of Portfolio

Average loan amount disbursed US\$*1000	Cumulative disbursed Million US\$	Average # of clients Number	Average women clients %	Disbursed as % of portfolio size %	Cumulative received as % of receivable %	Average repayment ratio %	Contracts showing persistent default %	Contracts showing delays in payments %	Contracts on time %
Small MFIs, 63 contracts									
245 (211)	15.46	1,466 (3,086)	54% (23%)	96% (164%)	91.2%	92.6% (19.5%)	11.1%	12.7%	76.2%
Medium MFIs, 33 contracts									
617 (419)	20.37	10,436 (9,128)	60% (25%)	19% (14%)	91.2%	88.2% (22.8%)	9.1%	24.2%	66.7%
Large MFIs, 8 contracts									
1,008 (763)	8.07	33,532 (21,878)	66% (18%)	4% (2%)	91.2%	89.3% (30.3%)	12.5%	0.0%	87.5%
Total, 104 contracts									
422 (423)	43.89	6,779 (11,887)	57% (24%)	64% (133%)	91.2%	90.9% (21.4%)	10.6%	15.4%	74.0%

Figures in italics between brackets are standard deviations.

as commitment of staff and board, span of control of management, availability of grants, cost of capital, cost of loan officers, prudence in client screening, familiarity with clients, cost of formalisation, complexity of loan administration software, and monitoring costs.⁴¹

To summarize, the Oikocredit experience with 104 loan contracts to MFIs tends towards a spectrum in which, on one side, the best-performing MFI client is likely to be a mature, rural bank or credit union, based in Central or Eastern Europe or Latin America, that is either Small or Large in size (as opposed to Medium) and is oriented toward clients either from both rural and urban areas or from only rural areas. On the other side of the spectrum, the worst-performing MFI is likely to be a newly started, Medium-sized urban bank or NGO in Asia or Africa.

Clearly, far-reaching conclusions from the sample used here cannot yet be drawn. More evidence and deeper research into the sample used is necessary, not only on a global scale, but also within samples of the same region and charter. Using the same methodology as developed here, Oikocredit can test these conclusions again in coming years with ever more loan contracts and thus more precise conclusions.

⁴¹ Oikocredit's experience in financing Fair Trade Organizations (FTOs) in the North is similar: as FTOs increase in turnover from small to medium size, they do not benefit from economies of scale, but on the contrary often see their operating costs go up. As FTOs grow and seek to become more professional by employing more and more paid staff, the role of committed volunteers diminishes, and costs of personnel and capital tend to go up. Client loyalty of the original constituency to the FTO may also decrease, as professionalism rises. As a result, medium-size FTOs with turnovers exceeding US\$ 1 million may face sustainability problems and find it hard to service their debt.

In order to further test the rough conclusions, we have taken a further look at the statistical correlation between loan repayment and a number of possible explanatory variables.

Regression Analysis on Loan Repayment for the Sample of 104 Loan Contracts to MFIs

Based on the sample of 104 loans disbursed to MFIs before the end of 2004, we can test a number of causal relationships by means of simple regression. In these causal relationships, the dependent variable is the repayment ratio. As independent variable or explanatory variable, we have tested 18 different variables. These variables fall into three categories: 1) variables pertaining to the MFI that borrowed from Oikocredit, and that MFIs outreach, 2) macro-environmental variables relating to the MFI's national context, and 3) variables that have to do with the loan package provided by Oikocredit.

Loan Repayment and Characteristics and Outreach of MFIs financed

Regarding the MFI's characteristics and outreach, we found two variables to have reasonably significant explanatory value: the age of the MFI, in number of years, and the MFI's registration with the MixMarket. Both variables have a positive sign and so are positively related to the repayment ratio. In other words, MFIs that have more years of legal existence at the moment of appraisal are, on average, likely to perform better in their loan repayment to Oikocredit than MFIs that are starting up. This conclusion of a positive linear relationship between age and loan repayment also came out of the previous analysis, in which MFIs were classified according to age. The relationship is not very strong however: it is significant only at the 85 percent

confidence level. This could have to do with decreasing learning effects as the MFI grows older.

There is a stronger positive relationship between MFI repayment and registration of the MFI with the MixMarket. The analysis suggests that MFIs that are registered with the MixMarket have performed better in their repayment to Oikocredit than MFIs that do not yet have a registration. If this correlation indeed exists, it would be a logical decision for lenders that are risk-averse to give preference to MFIs that are registered with the MixMarket. If, as a result, loan capital supply becomes more readily available for these MFIs, this could perhaps even lead to better interest conditions. Clearly, this could turn into an incentive for MFIs to join the MixMarket.

The outreach characteristics of MFIs do not seem to have any significant effect on loan repayment to Oikocredit. Thus, although the expected positive sign between the share of women in the total clientele and loan repayment is confirmed, this relationship is not significant. The same goes for number of clients and loan size per client.

Loan Repayment and the Macro-environment

It is generally accepted that MFIs benefit from an enabling macro-economic environment. Factors such as high inflation, high risk of currency devaluation or, for example, a government-imposed interest ceiling could be detrimental to MFI growth. We have tested a number of variables that we thought might explain MFI repayment performance. None of these variables can be given significant explanatory value. To some extent this result may also give comfort to MFIs in more volatile environments that want to borrow: there is apparently no significant negative relationship between inflation or devaluation and loan repayment performance: even in countries with relatively high inflation and devaluation, most MFIs have managed to repay their Oikocredit loans.

Loan Repayment and the Oikocredit Loan Package

The last series of variables that we tested has to do with the loan package provided by Oikocredit. It may be seen that there is one paramount variable that has the highest correlation coefficient and the highest statistical significance:

$$\frac{\text{size of Oikocredit loan}}{\text{portfolio size}}$$

Loan repayment negatively correlates with the size of the loan relative to the existing portfolio at the time of appraisal of the loan application. This finding could be of high importance to both Oikocredit and MFIs. For Oikocredit, this suggests that great care should be taken in providing loans that lead to a big

expansion in loan portfolio; providing loans that are substantial relative to the existing portfolio is highly risky. For MFIs themselves, this finding weighs against demanding too big a loan amount and points to the need to avoid high indebtedness. The message is that it is better to follow a growth path that is "slow but steady" than to seek rapid expansion through outside borrowing.

A second explanatory variable found relevant is the term of a given loan. A simple regression shows that loan repayment correlates negatively to the term of a loan. Conventional banking wisdom is thus confirmed here: "Short-term loans are less risky for a creditor than long-term loans." Loan repayment is likely to be better if the loan period is shorter. This finding suggests that if Oikocredit wants to reduce its risk and increase loan repayment performance, it should be more careful in extending loans that have a long loan repayment period.

The findings of the regression analysis are quite striking. While there is no proof of a significant relationship between loan repayment and MFI outreach data, nor between repayment and macro environment data, there is evidence that MFIs find it easier to repay their Oikocredit loan if the loan amount remains limited relative to the size of the existing portfolio, if the loan is not for the very long term, if the MFI has more years of experience and if it is registered with the MixMarket. For Oikocredit, this means that if it seeks to improve upon its financial results and aims to further reduce loan loss, it could consider four effective measures, listed here in order of significance:

1. Reduce the average loan amount provided to an MFI relative to the existing portfolio, in particular for medium sized MFIs (roughly MFIs with portfolios of US\$ 1 million to 10 million);
2. Reduce the term of the loan;
3. Aim at lending to MFIs that are registered with the MixMarket;
4. Go for moderately young and mature MFIs rather than start-ups.

For MFIs themselves, the first and third measures do not seem to bring much harm. For their own continuity and sustainability, MFIs would be wise not to indebt themselves too much by demanding loans that are too big in size. The third measure regarding registration with the MixMarket obviously does not have to be an obstacle at all, because an MFI can take immediate steps to pass this criterion: registration with the MixMarket is free of charge.

The second and fourth measures listed above may, however, be more problematic: MFIs have sometimes sought cooperation with Oikocredit precisely because it provides long-term loans that allow them to engage in long-term financial planning, thus making it possible to meet the MFI's own borrowers' needs for investment credits. They have also approached Oikocredit precisely because Oikocredit has an open door for those MFIs in the early years of existence that are struggling to become viable, but nevertheless hold the double promise of mid-term financial sustainability and the empowerment of large numbers of disadvantaged people.

Oikocredit will not drift away from its mission and will continue to reach out to empower poor people

with credit in a sustainable way. Therefore, based on the sample of MFIs analyzed here, the obvious approach toward better repayment performance – for the benefit of both lender and borrower – is to implement the third and first measures listed above: reach out to cooperate with MFIs that are registered with the MixMarket and, above all, set loan size appropriately, relative to the size of an MFI's existing portfolio, thus avoiding high indebtedness and a loss of MFI viability due to excessively rapid expansion.

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Assessing the Need for a National Wholesale Fund: The Case of Ecuador

Joe Dougherty

Encouraged by an informal Donor Coordination Group that brought together various donor agencies involved in microfinance in Ecuador, the U.S. Agency for International Development (USAID) commissioned an assessment of the need for a second-story or wholesale financing institution for microfinance. The Group believed scarcity of financing might be a constraint to the growth of the country's microfinance sector, and thought a second-story lending facility for MFIs might be an effective way to help the sector grow more quickly and reach more people in need.

To understand the structure of the market and its need for financing, the assessment team commissioned by USAID undertook four activities simultaneously:⁴²

- Interviews with leading MFIs, donors and other market participants;
- A quantitative analysis of supply and demand for microcredit in Ecuador;
- An estimate of current and future MFI funding; and
- A brief review of other countries' experiences with second-story microfinance institutions.

The Findings: Deposits Are Already Funding Most Microcredit Lending

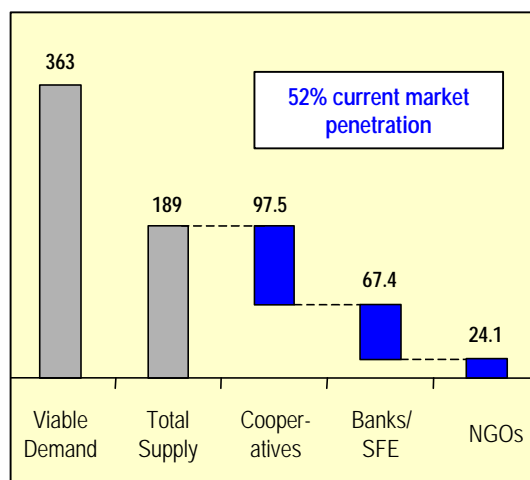
Demand: According to various estimates, there are approximately 1.5 million microentrepreneurs in Ecuador. The study assumed that a third of all microenterprises are "bankable"; that is, financially viable in the near term. This assumption, while open to debate, is based on accumulated experiences in similar countries, such as Bolivia, for example. This suggests the viable microcredit market in Ecuador consists of about 500,000 microenterprises. This number, multiplied by the average loan size offered by MFIs in Ecuador at the time – around US\$ 725 – yields an estimate of market size of US\$ 362.5 million annually. This is forecast to

grow to about US\$ 500 million within the next four years.⁴³

Supply: The main supply questions the study sought to answer were: How much of this market is currently served, and by how much will supply grow over the next four years?

In Ecuador, three types of institutions provide microcredit: 1) three formal financial institutions (two banks and one finance company); 2) some 116 savings and credit cooperatives; and 3) about 30 non-governmental organizations (NGOs). Institutions in the latter two categories range widely in terms of size, technical sophistication and commercial orientation. Most of the cooperatives offer voluntary deposits, while virtually none of the NGOs do so.

Figure 1: Estimated Supply of Microcredit in Ecuador, 2002 (US\$ millions, rounded)



Using client numbers provided by the bank regulatory agency, MFIs and sector associations, the study estimated total supply of microcredit by institutional type. Figure 1 shows the finding that overall market penetration was quite high, with over half the microentrepreneurs being served. This finding surprised many donors and MFIs, which believed penetration to be much lower.⁴⁴ The finding also

⁴² The team consisted of Joe Dougherty, Emerging Markets Group, Marc de Sousa-Shields, Enterprising Solutions, and Lisa Valenzuela, USAID.

⁴³ The average term of a microfinance loan is less than a year; perhaps three to four months. Our calculation thus assumes that on average, only a fourth to a third of all viable microenterprises will require a loan in a given year.

⁴⁴ It is worth noting that our analysis of supply did not include consumer lending or retailer credit, both of which are often used as credit by microentrepreneurs. If these sources had been in-

reflected the strong growth of microfinance over the previous few years and called into question the aggressive growth that most MFIs were projecting.

The next step in the analysis was to estimate supply growth through 2006. Nearly all institutions interviewed foresaw aggressive growth. In fact, if all the MFIs grew according to their respective plans, supply would soon exceed demand and the market would be over-saturated. To adjust for expected competition and less optimistic projections, the study assumed only 70 percent of the market would be served by 2006.⁴⁵

Funding: The study turned next to estimating funding. Again, the findings surprised the donor community: approximately US\$ 157 million, or 83 percent of the total supply of microcredit in Ecuador, was funded internally through deposit mobilization. Not only were microcredit banks collecting enough deposits to fund their own portfolios, but some were already acting as second-story institutions themselves, lending to other, smaller MFIs. Next, funding from donors, investors, and existing second-story mechanisms were considered, yielding an additional estimated US\$ 27 million for MFI funding, or 14 percent of the total supply of microloans (this did not include capacity building and technical assistance funds). Thus, in total, the study found that about 97 percent of current lending is funded by either deposits or donor money.⁴⁶ Interestingly, it also found that Ecuador's commercial banking system had approximately US\$ 600 million in excess deposits, representing a significant potential source of funds for microfinance (if better access to the commercial financial sector could be obtained).

Using these numbers as a baseline, the study considered whether deposit mobilization and expected increases in donor funding would be sufficient to finance the market growth rate (as projected) and support market penetration of 70 percent by the end of 2006. Examining deposits first, it was determined that if deposits grew by 20 percent annually, more than 93 percent of loans could be funded by savings alone. Since savings as a percent of GDP is low in Ecuador, as is overall financial sector penetration, a projection of deposit growth by 20 percent annually is not unreasonable.

cluded, the estimate of market penetration would have been even higher, of course.

⁴⁵ Experience of mature markets, such as Bolivia and Bangladesh, suggested that credit quality begins to decline sharply once penetration levels surpass about 75 percent. Also, most MFIs tend to have overly optimistic growth projections. The team assumed therefore a more realistic yet arbitrary rate of 70 percent.

⁴⁶ The remaining 3 percent is either the result of rounding, or funded through capital or retained earnings.)

Conclusions: Don't Try to Fix What Isn't Broken

These findings suggested there was no real need for a new second-story institution in Ecuador. Creating one, in fact, and using it to "push" millions of donor dollars through MFIs could very likely create a disincentive for further deposit mobilization. Deposit collection is important not only as a source of funding, but also in its own right as a means to help the poor manage economic vulnerability. Moreover, studies by USAID and by the Consultative Group to Assist the Poor (CGAP), (e.g. by Levy and Vega) suggest that international experience with second-story institutions has been mixed at best: in short, institutions that can qualify for second-story loans don't need the money, and institutions that need the money typically don't qualify for it.

There are three other observations with respect to funding that bear mentioning. First, while expected deposit growth will probably fund most loan growth, there could well be short-term liquidity gaps within individual MFIs, and these gaps could be exacerbated by external shocks, such as financial crises or natural disasters. Second, deposit growth will not be spread evenly among all MFIs. Unregulated NGOs, of course, cannot mobilize deposits at all, while larger, regulated MFIs may mobilize more deposits than they can safely lend out. Third, as mentioned, there is a great deal of excess liquidity in the commercial banking sector. Therefore, while the overall funding gap is small, there might still be a need for donor intervention to 1) mobilize funding from the traditional financial sector for microfinance in general, possibly with the support of guarantees, such as those potentially available through USAID's Development Credit Authority; 2) provide a "back-stop" in the event that short-term liquidity gaps are brought on by asset-liability mismatches or external shocks; and/or 3) facilitate the allocation of deposit funds to those specific MFIs that can use the deposits most effectively, reaching "high-priority" clients such as those in remote areas, for example, or in areas affected by natural disasters.

In addition to these funding issues, there are a number of other areas in which donors could support the sustainable growth of Ecuador's microfinance sector. Some MFIs need help creating and marketing deposit products, while others need technical assistance to help ensure credit quality is maintained as competition grows stronger.

Recommendations: Take It Slow and Experiment With Different Approaches

Given these conclusions, the study recommended that the Donor Coordination Group *not* pursue the idea of a second-story financing institution. Nevertheless, there were other opportunities identified to support the growth of Ecuador's microfinance sector. Possible directions for donor support centered on examining the possibility of establishing a new *liquidity management mechanism*, or supporting the cooperative sector in developing of one. Such a mechanism should combine one or more of the following functions:

- Facilitate the mobilization of domestic resources, such as excess commercial bank deposits, to cover liquidity gaps and fund portfolio growth among MFIs;
- Make resources available to cover short-term liquidity gaps among MFIs caused by economic shocks, natural disasters or other unforeseen circumstances; and
- Provide a means for transferring deposit funds across MFIs so that available funds can be quickly channeled to those institutions best placed to use them – for example, to fund healthy loans to rural areas or to other high-priority groups, such as the very poor.

The study also recommended that donors continue efforts to establish a market environment more conducive to microfinance sector growth. Specifically noted were the needs for a private credit bureau, for effective regulatory frameworks tailored for microfinance, for support in reaching under-

served segments of the population and for technical assistance focused on institutional capacity building, particularly as it relates to deposit mobilization. Finally, the study recommended formalization of the Donor Coordination Group, to promote a unified approach to the microfinance sector among involved donor agencies. This would help ensure that donor assistance, both financial and non-financial, is “pulled” by demand rather than “pushed” by supply.

Lessons Learned: Do Your Homework First, and “Think Outside The Box”

As it turned out, Ecuador didn't need a new second-story institution. Creating one might even have been counterproductive. The experience in Ecuador reminds us how important it is to understand the market – the hard facts – *before* designing solutions. It also shows how important deposits are as a source of funds for MFIs; even NGOs that can't legally collect deposits can benefit from those collected by regulated MFIs and even, possibly, by commercial banks. Finally, the team report called for the creation of an innovative but modestly sized, dedicated *liquidity management mechanism* for the microfinance sector. We believe this approach might have applicability in other markets where deposit growth is strong but unevenly distributed among MFIs, and where institutions are vulnerable to external shocks.

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PART II

BULLETIN HIGHLIGHTS

Bulletin Highlights – Supply of Funding

Isabelle Barrès

Introduction

Microfinance institutions (MFIs) can fund their activities through liabilities (client deposits, subsidized or commercial loans from local and foreign sources) or equity (through retained earnings, donated equity or paid-in capital). In this first issue of the *Bulletin* on funding, we will take a closer look at the activities of foreign microfinance funders (MFFs), who actively support the microfinance field by providing loans, guarantees and/or equity to MFIs. Although still rare, these funders also sometimes support other microfinance funders or support organizations such as networks or ratings agencies.

We have excluded from this review local funders, such as Apex organizations, for which little data is available, as well as local banks or equity participations. In addition to lack of data, the main reason for excluding local funders is the goal of this study, presented below.

When we talk about increased transparency of current MFFs, the first questions that come to mind are: Transparency for whom? For what purpose?

Transparency is key both for the underlying microfinance funders and the organizations seeking funding. The goal of the funds data presented here is two-fold:

- To reduce the cost of access to information for potential new funders in microfinance (interested in funding the existing MFFs)
- To help MFIs identify funding that meets their needs



In order to reach this goal, more transparency and standardization on the description of operations and performance of the MFFs is needed. Although imperfect in many ways, we hope that the data presented here will serve as a basis for discussion within the microfinance field of the type of data that would be required from foreign funders in order to increase their efficiency, increase the flow of funding to microfinance, and help new MFF see what niche still needs to be filled.

Goodman (2005)⁴⁷ makes an interesting parallelism between the need for transparency and standardization for MFIs and MFFs, and the challenges that both MFIs and MFFs face in the process. Attempting to analyze and compare the activities and performance of MFFs has brought us to stretch this idea even further. Similar questions than the ones that appeared when first trying to benchmark the performance of MFIs are resurfacing: How should we group the microfinance funders to have meaningful peer groups? What are relevant measures of performance? Should we make adjustments to reflect the fact that some MFFs are operating on a purely commercial basis while others are heavily subsidized? What are relevant indicators to attract potential new investors in MFFs? What information is useful for MFIs to know in order to access available funding? What is realistic to expect from current MFFs in terms of data? How can we deal with non-standardized data? How can we isolate the performance of an MFF for which microfinance represents only a fraction of its activities?

Many of these questions are still unanswered. We hope that this article will generate lively discussions that will help shape the future for the type of data that is captured from current MFFs and the way it is disseminated. In the future, standardized performance indicators will provide useful information for the MFFs to learn from their peers and improve the way they do business, in a similar way that MFIs have learned from benchmarking their performance against that of their peers.

The starting point for this paper is selecting the main criteria according to which MFFs will be grouped.⁴⁸ Looking at the classification described in two major studies published in the past year: "Microfinance Investment Funds: Mobilizing investors towards Microfinance"⁴⁹ and "Financing Microfinance Institutions: The Context for

⁴⁷ "Microfinance Investment Funds: Key Features", Patrick Goodman, Appui au Développement Autonome/ KfW, Luxembourg, February 2005. Will be re-published by KfW in Summer 2005.

⁴⁸ As some funders have rightly pointed out, the main Peer Group criterion is especially important as it will represent the main yardstick against which MFFs are grouped and their performance compared.

⁴⁹ *ibid.*

Transitions to Private Capital”⁵⁰, the MFF objective (or commercial orientation) was selected as a primary criteria to classify them:

- Commercial funders
- Commercially-oriented funders
- Non-commercial funders: Microfinance Development Funds
- Non-commercial funders: Development Agencies
- Non-commercial funders: Foundations/NGOs

The breakdown from the perspective of commercial orientation is useful because it speaks both to underlying funders (who may be more or less interested in ensuring a financial return on their investment) and to the MFIs (who may be concerned that a funder that does not share their philosophy may slowly lead them into a “mission drift”).

For the purpose of this article, we looked at the performance of 50 foreign MFFs.⁵¹ The complete list is presented in Appendix III on page 111. More details on the data used for this study can be found on the MIX Market, at www.mixmarket.org under the “Supply” section.

Perspective of the Underlying Funders

What characteristics about the MFFs are their underlying funders most interested in? What type of data would need to be made more readily available to encourage new funders to get involved in microfinance?

From the perspective of a new underlying funder, the first important information is to understand which MFF are open to their investment. Are the MFFs looking for private or institutional investors, for private donors? Or is there no way to fund a

⁵⁰ “Financing Microfinance Institutions: The Context for Transitions to Private Capital” by Enterprising Solutions for the Accelerated Microenterprise Advancement Project (AMAP), December 2004.

⁵¹ The MFFs included in these benchmarks are those that have agreed to make their information public on the MIX Market. For most recent data, go to www.mixmarket.org > Supply. Although the authors assumes full responsibility for the interpretation of the data presented on the MIX website, the MIX cannot be held liable for any funding decisions made using this data. The MFFs studied in this article encompass a large portion of foreign microfinance funders currently active in microfinance. The authors would like to thank Patrick Goodman, consultant for ADA (Appui au Développement Autonome) and KfW, Gautam Ivatury (Consultative Group to Assist the Poor), and Julie Abrams (Consultant) for their help in gathering the data.

particular MFF because the fund is closed or does not have private or institutional investors?

Let’s first take a look at the main underlying funders in the MFFs studied for this article. They fall under five main categories: private individuals, institutional investors, private donors, development agencies, and taxpayers.

Table 1 on page 67 looks at the specific underlying funders of the MFFs identified for the study.

Supply Table 1: Guide for Investors: MFF Main Shareholders ⁽¹⁾					
Open/ Closed? ⁽²⁾	Institutional Investors ⁽³⁾	Private Individuals*	Networks	Government(s) (direct or indirect)	NA
Closed	x				

⁽¹⁾ Is checked even if the MFF does not currently have private individual shareholders, as long as can have private individual shareholders; ⁽²⁾ Open = semi-open and open; ⁽³⁾ Churches, Foundations, NGOs, commercial institutional investors, etc.

MFFs usually have a mix of underlying funders. Potential new underlying funders can look at Table 1 and quickly visualize which of the current MFFs are open to their investment. This facilitates the search of funding opportunities for underlying investors that may not be familiar with the existing MFFs, reduces prospecting costs, and narrows down the sample of MFFs that the underlying funder may be interested in further researching.

For example, private individuals wanting to support the microfinance field by investing in a current MFF would look at the organizations that have checked “Private Individuals” as an option in Table 1.

Additional criteria of interest to underlying funders are:

- Type of MFF
- Size of MFF
- Targeted financial return of MFF
- Risk return of MFF

Type of MFF

The Type of MFF corresponds to the main criteria for grouping MFFs presented in the introduction. The classification by Type looks at the commercial orientation of the MFF as well as the type of organizations (i.e., specialized microfinance fund – a.k.a., MFIF, or microfinance development investor – a.k.a, MFDI, such as development agencies, foundations, NGOs, etc. which usually share the same commercial objective).

Table 2 on page 68 helps underlying funders identify the type or organizations they want to target, based on whether they are commercial, commercially oriented, or non-commercial.

Supply Table 2: Guide for Investors: Type of MFF (Example)				
Commercial ¹	Commercially-oriented ²	Non-commercial ³		
Commercial MFF* (MFIF)	Commercially-oriented MFIF (MFIF)	Microfinance Development Fund (MFIF)	Development Agency (MFDI**)	Foundation/NGO (MFDI)
		X		

¹ Seeking Financial Return; ² Eventual Seeking Financial Return; ³ Not Seeking Financial Return; * MFIF: Microfinance Investment Fund; ** MFDI: Microfinance Development Investor.

In our sample, most of the MFFs (68%) are non-commercial while the remaining 32% are equally distributed between commercial and commercially-oriented MFFs.

Size of MFF

Table 3 on page 69 breaks down the MFFs into three sizes: small, medium and large, based on their total portfolio.

Supply Table 3: Guide for Investors: Size of MFF (Example)		
Small	Medium	Large
0 < TP* ≤ 10 million USD	10 < TP ≤ 20 million USD	TP > 20 million USD
X		

*TP: Total Portfolio.

In our sample, 56% of MFFs are small (less than 10 million USD in Total Assets), while 18% are medium-sized and 26% are larger than the 20 million USD in Total Assets threshold required to be sustainable.

Targeted Financial Return

Another criterion that is of interest to underlying investors is the targeted financial return. Although the main criteria (Type of MFF) takes into account whether or not the MFF is looking for a financial return, the classification presented here provides more details on where the MFFs stand on a scale from Low to High.⁵²

⁵² This classification comes from an interpretation of the data presented on the MIX Market and other studies on the microfinance funders. Errors and omissions are the sole responsibility of the authors. This data may be modified in the future with more MFF feedback, and readers are encouraged to visit the MIX Market for the most current data on microfinance funders at: www.mixmarket.org > Supply.

Of the MFFs surveyed, most (76%) are at the lower end of the spectrum, not seeking a financial return or only *eventually* seeking a financial return. Only eight (or 16%) are seeking moderate to high financial returns: ANF, AWF Development Debt, Dexia Microcredit Fund, Gray Ghost, Impulse, MicroVest, responsAbility Fund, and TFSF. Detailed results are presented in Table 4 on page 70.

Unfortunately, lack of existing transparency and standardization are making it very difficult at best to confirm that the actual return for these MFFs is anything close to what is targeted.

Supply Table 4: Guide for Investors: Targeted Financial Return* of MFF (Example)				
Low	Low to Moderate	Moderate	Moderate to High	High
Not Seeking FR	Between not Seeking and Eventually Seeking FR	Eventually Seeking FR	Between Eventually Seeking and Seeking FR	Seeking FR
X	X			

* FR = Financial Return.

The minimum size required for MFFs to be sustainable is thought to be roughly 20 million USD in Total Assets.⁵³ We hope that in the future, better data on the performance of the MFF will allow to confirm this statement. As for MFIs, it will be important to isolate the financial statements that relate to the microfinance portfolio, in the case that the MFF is involved in other funding activities (i.e., as is the case for development agencies, for which Total Assets figures do not mean much when we focus on microfinance activities, as they usually encompass all of the development agencies' assets).

Figures 1 to 3 below provide some insight into the information currently available on MFF performance. Many challenges remain in measuring and comparing the return between the different MFFs. These stem from the fact that MFFs are not all tracking the same return indicators. The information currently available is mostly self-reported, and additional challenges therefore also lie in the calculations that are used by the MFFs. For example, while some adjust for provision expenses, others do not.

⁵³ *ibid.*

Another example is the minimum liquidity required by the MFF. An MFF with a lower minimum liquidity requirement may show higher returns due to the fact that a higher proportion of its assets is put to a productive use, but may also face higher risks in case of a liquidity crisis. Figure 1 shows examples of minimum liquidity requirements for MFFs.

Figure 1: Minimum Liquidity

MFF	As of (date)	Minimum Liquidity (%)
ANF	12/31/2004	25
Calvert Foundation	12/31/2004	16
Dexia Microcredit Fund	12/31/2004	20
LABF	05/31/2005	5
PlaNet Finance Fund	07/22/2004	10
responsAbility Fund	03/31/2005	10
TFSF	12/31/2004	10

The liquidity requirements shown in Figure 1 range from 5% of total assets to five times that amount, at 25%. Two additional MFFs (Impulse and Incofin) indicated having a liquidity policy in place but did not specify the minimum liquidity required.

In terms of tracking equity funding, only 3 of the total 33 MFFs that offer equity funding provided information about their exits (see Figure 2).

Figure 2: Exits

MFF	As of	Equity: Number of exits
MIF/IADB	12/31/2004	3 completed
responsAbility Fund	03/31/2005	0 planned
TDF	12/31/2004	2 in process

It would also be useful to track the frequency of internal and external evaluations, and look at whether or not the MFF has been audited and/or rated. Having access to audit reports on a more systematic basis would enable to recalculate performance indicators to make sure that standard formulas are used by going to the source of the data in a similar way than is currently done for MFIs. In the current sample the following 15 MFFs provided their audited financial statements: ANF; AWF Development Debt; BIO; Calvert Foundation; Dexia Microcredit Fund; DID – Fonidi; Etimos; Impulse; Incofin; MicroVest; NOVIB; OTI; PROFUND; TDF; and TFSF.

Risk Profile

Here, we look at the actual investments of the MFFs, and classify them from low to high based on the proportion of equity in their overall portfolio: the

lower the equity funding, the lower the risk profile. Unlike the return, we are able to map the MFF on the risk spectrum based on their actual levels of risk. Of the MFF studied, most (64%) fall on the low-end of the risk spectrum, with 40% or less equity investments relative to all investments.⁵⁴ Ten (or 20%) have more than 75% of equity investments.

Supply Table 5: Guide for Investors: Risk Profile of MFF (Example)

Low	Low to Moderate	Moderate	Moderate to High	High
0% < E* ≤ 25%	25% < E ≤ 40%	40% < E ≤ 60%	60% < E ≤ 75%	75% < E ≤ 100%
				x

* E = Equity.

Figure 3: Portfolio Quality

MFF	As of (date)	PAR (%)	W/O (%)
AfriCap	07/31/2004	0.0	0.0
Alterfin	12/31/2004	< 2.0	0.0
ANF	12/31/2004	0.0	0.0
AWF Development	09/15/2004	0.0	0.0
BIO	06/30/2004	0.0	0.0
Calvert Foundation	12/31/2004	na	2.0
CreSud	09/30/2004	0.0	5.0
DID - Guarantee	06/30/2004	< 2.0*	na
DOEN	12/31/2004	na	< 4.0
Incofin	05/31/2005	na	1.6
Luxmint - ADA	12/31/2004	4.5**	0.8
MicroVest	11/29/2004	0.0	0.0
NOVIB	12/31/2003	0.1	na
OTI	08/31/2004	0.0	0.0
PlaNet Finance Fund	07/22/2004	4.62**	na
Rabobank	06/30/2004	0.0	0.0
responsAbility Fund	03/31/2005	0.0	0.0
ShoreCap Intl.	03/31/2004	0.0	0.0
TDF	12/31/2004	2.3*	0.0
TFSF	12/31/2004	na	0.0

PAR = Portfolio at Risk; W/O = Write-Offs; * > 30 days; ** > 90 days.

Other measures of risk that could be explored in the future relate to the quality of the MFF portfolio. Figure 3 shows some examples of the current portfolio data available on MFFs. Currently, we face similar challenges for the risk data than we do for the return data: lack of standardization of terms and definitions and lack of access to raw data.

⁵⁴ When looking at the actual breakdown of MFF portfolio, we exclude grants and technical assistance, and focus solely on the investment activities, including equity, loans and guarantees.

Another interesting component of MFF risk is the extent to which the MFFs need to hedge their foreign currency investments and the extent to which they do so. Figure 4 presents a summary of the MFFs, based on whether their investments indicate that they should consider hedging due to foreign exchange exposure, and whether or not they have policies in place to do so (partially or fully).

Other Potential Performance Measures

Figure 5 shows additional indicators which, tracked in a consistent and standardized manner, could yield valuable information on the efficiency of the MFFs: Operating Expenses (as a % of Assets); Operating Expenses (as a % of Portfolio); Total Expense Ratio (as a % of Portfolio); Management Fees (as a % of Portfolio).

Figure 4: Hedging Policy⁵⁵

MFF	As of	Invest in currency other than MFF currency?	Currency Hedging Policy in place?
Should hedge and are hedging			
Alterfin	12/31/2004	yes	yes
ANF	12/31/2004	yes	yes
BIO	06/30/2004	yes	yes
CreSud	09/30/2004	yes	yes
Dexia Microcredit Fund	12/31/2004	yes	yes
DID - Partership	06/30/2004	yes	yes
Etimos	12/31/2004	yes	yes
HTF	12/31/2004	yes	yes
IFC	09/30/2004	yes	yes
Incofin	05/31/2005	yes	yes
MicroVest	11/29/2004	yes	yes
NOVIB	12/31/2003	yes	yes
Oikocredit	12/31/2003	yes	yes
responsAbility Fund	03/31/2005	yes	yes
SIDI	12/31/2003	yes	yes
TDF	12/31/2004	yes	yes
TFSF	12/31/2004	yes	yes
Unitus	08/31/2004	yes	yes
USAID Credit Guarantees	09/30/2004	yes	yes
Should hedge and are not hedging			
ACCION Gateway	06/30/2004	yes	no
AfriCap	07/31/2004	yes	no
AIM	12/31/2004	yes	no
AWF Development Debt	09/15/2004	yes	no
Cordaid	12/31/2004	yes	no
DEG	12/31/2001	yes	no
DID - Fonidi	03/31/2004	yes	no
DOEN	12/31/2004	yes	no
FIG	12/31/2003	yes	no
I&P Développement	03/31/2005	yes	no
ICCO	12/31/2003	yes	no
LABF	05/31/2005	yes	no
LFP	10/25/2004	yes	no
Luxmint - ADA	12/31/2004	yes	no
MIF/IADB	12/31/2004	yes	no
OTI	08/31/2004	yes	no
ProCredit Holding	09/30/2004	yes	no
PROFUND	06/30/2004	yes	no
Rabobank	06/30/2004	yes	no
ShoreCap Intl.	03/31/2004	yes	no
Should not hedge and are not hedging			
Calvert Foundation	12/31/2004	no	no
DB MDF	12/31/2003	no	no
DID - Guarantee	06/30/2004	no	no
Gray Ghost	10/15/2004	no	no
PCG	09/30/2004	no	no
PlaNet Finance Fund	07/22/2004	no	no
SGIF	09/30/2004	no	no

⁵⁵ More information on MFF hedging policies practices is available "The Management of Foreign Exchange Risk by Microfinance Institutions and Microfinance Investment Funds", Isabelle Barrès, KfW Symposium 2004, final version to be published by KfW Summer 2005.

Figure 5: Efficiency Indicators

MFF	As of	Operating Expenses (as a % of Assets)	Operating Expenses (as a % of Portfolio)	Total Expense Ratio (as a % of Portfolio)	Management Fees (as a % of Portfolio)
(text)	(date)	(%)	(%)	(%)	(%)
ANF	12/31/2004	na	4.6	4.0	3.0*
BIO	06/30/2004	na	na	na	2.2
Calvert Foundation	12/31/2004	na	3.2	na	na
CreSud	09/30/2004	na	50.0	na	na
Dexia Microcredit Fund	12/31/2004	na	na	na	2.5
DID - Fonidi	03/31/2004	na	3.8	na	na
DID - Guarantee	06/30/2004	na	na	na	2.5
HTF	12/31/2004	3.5	na	3.0	2.5
ICCO	12/31/2003	na	na	na	3.5**
Luxmint - ADA	12/31/2004	na	4.0	8.0	2.0
NOVIB	12/31/2003	na	5.2	5.2	0.5
Oikocredit	12/31/2003	2.1	na	na	na
OTI	08/31/2004	na	4.2	7.0	3.8
ProCredit Holding	09/30/2004	1.0	na	na	na
PROFUND	06/30/2004	2.9	36.0	33.0	na
Rabobank	06/30/2004	na	na	na	2.0
responsAbility Fund	03/31/2005	1.7	na	na	2.2**
SGIF	09/30/2004	3.6	na	na	na
ShoreCap Intl.	06/22/2004	3.5	2.5	na	na
TDF	12/31/2004	na	na	3.9	3.0
TFSF	12/31/2004	4.6	na	2.9	2.5

* Max 3% of up to 75% of the assets invested in projects; ** Max.

Other indicators that have been suggested as appropriate indicators to track the performance of MFFs include:⁵⁶

- Efficiency indicators – to recognize the fact that some MFFs work with a considerably higher number of investees than others – such as Workload per Analyst (i.e., number of MFIs analyzed per analyst) or Cost per contract;
- Consider classifying MFFs by the ones that adopt a sector approach and the ones that adopt a target approach (i.e., MFFs that have a target approach may specifically target MFIs that are at earlier stages of development and be at a disadvantage when compared to MFFs that adopt a sector approach and may fund MFIs that are already financially self-sufficient and proven “winners”).

We hope that feedback generated from this article will help define in the future the type of indicators that are the most appropriate (and reasonable to track) from MFFs in the future.

⁵⁶ The authors would like to extend special thanks to Oikocredit in The Netherlands and Blue Orchard in Switzerland for their detailed feedback on MFF benchmarking.

Once underlying investors have identified the types of MFF they can both *invest in* (because of their own structure) and/or are *interested in investing in* (because of their risk/return profile), the benchmarks presented latter will provide them with more details on the specific characteristics of the MFFs that they may be interested in funding.

The MFI Perspective

MFIs are interested in finding MFFs that can help them meet their funding needs. They are also interested in finding out whether their potential investors are in alignment with their own vision for the organization (i.e., in terms of profit motivation). They also want to know what products are available to them, and under what terms.

The following tables help answer the main questions identified in this section, and provide more clarity for MFIs:

- Do the MFF and the MFI share the same vision?
- What type of organizations are MFFs funding?
- Does the MFF have an interest in a specific country or region?
- What instruments are offered to MFIs?

As we mentioned before, Table 2 presented above is of interest both to the MFF and the MFI. It helps the MFI answer the first question stated above, by helping it assess whether the MFF is more commercially focused or non-commercial. It also helps assess the type or organization that the MFF represents (development agency, foundation, etc.) and give an idea to the MFI as to the type of funding partner that it could be in the future.

Organizations Targeted (Type and Tier)

Table 6 presents a view of the organizations that the MFFs are willing to fund. In addition to identifying whether the MFF will potentially fund other MFFs, networks, and/or raters and evaluators, the breakdown also identifies more specifically the types of MFIs that are targeted by looking at their legal structure and the Tier of MFIs targeted. The concept of "Tiers" of MFIs is being introduced due to the fact that recent studies⁵⁷ have demonstrated that many of the current MFFs always fund the same well-known mature, profitable MFIs. For the purpose of this paper, we define the Tiers of MFIs as follows:

- Tier 1: Financial Self-Sufficient, Mature;
- Tier 2: Near Financial Self-Sufficiency, Young;
- Tier 3: Near Operational Self-Sufficiency or Operational Self-Sufficient, New or Young.

Are the MFFs targeting mature MFIs with high profitability, or are they willing to take on more risk to support promising institutions who are still struggling at earlier stages of development? Most of the MFFs in this article are targeting Tier 1 MFIs, with only nine (or 18% of total MFFs) specifically targeting Tier 3 MFIs.

Supply Table 6: Guide for MFIs: Organizations Targeted (Type and Tier) (Example)								
MFI Type						MFF	N	R/E
Bank	CU	NBFI	NGO	RB	na			
x		x						

MFF = Microfinance Funder; N = Network; R/E = Rating/Evaluation; CU = Cooperative/Credit Union; NBFI = Non-Bank Financial Institution; NGO = Non Governmental Organization; RB = Rural Bank; na = non available.

⁵⁷ "The Market for Microfinance Foreign Investment: Opportunities and Challenges", Gautam Ivatury (Consultative Group to Assist the Poor) and Julie Abrams (Consultant), KfW Symposium 2004, final version to be published by KfW Summer 2005.

Supply Table 6 (continued): Guide for MFIs: Organizations Targeted (Type and Tier) (Example)		
Tier 1	Tier 2	Tier #
x		

Organizations Targeted (Region)

Table 7 presents the MFFs by targeted regions. This can be useful to MFIs who want to narrow down on the MFFs that have a specific interest in their region, and prevent them from wasting valuable time. LAC is the region mostly targeted, followed by EAP and ECA.⁵⁸

Supply Table 7: Guide for MFIs: Organizations Targeted (Region) (Example)								
Region								
EAP	ECA	LAC	MENA	SA	SSA	NA	WE	World
		x						

EAP: East Asia Pacific, ECA: Eastern Europe & Central Asia, LAC: Latin America & The Caribbean, SA: South Asia, SSA: Sub-Saharan Africa; NA = North America; WE = Western Europe.

Instruments Offered (Type and Currency)

Table 8 presents the MFFs by instruments (equity, loans, guarantees, grants and/or technical assistance) and currencies offered. Although this table represents targets rather than actual portfolio composition, it can guide MFIs in identifying MFFs. Most MFFs offer loans/debt instruments in USD.

Supply Table 8: Guide for MFIs: Instruments Offered (Type and Currency) (Example)				
Equity	Loans and Debt Securities	Guarantees	Grants	Technical Assistance
x	x			

Supply Table 8 (continued): Guide for MFIs: Instruments Offered (Type and Currency) (Example)			
USD	Euro	Other Hard Currency*	Local Currency**
x			x

* Other Hard currency identifies currencies that are neither USD nor Euros; **Local currency reflects the local currency of the MFI, except if it is USD and Euros.⁵⁹

⁵⁸ We reiterate that the data reflects the MFFs activities, as reflected in the MIX Market. As this information is dynamic in nature, we encourage MFIs and underlying funders to consult the MIX Market for the latest updated data.

⁵⁹ USD loans to Ecuador would appear under "USD" and not "Local Currency".

Benchmarks for Microfinance Investment Vehicles: a Proposed Framework

In this section, we look at the actual performance of the MFFs, based on the variables of interest to the MFIs and grouped by criteria of interest to the underlying MFF funder.

The primary criterion used to group investment vehicles to look at structure and performance benchmarks is the type of MFF, as described earlier: commercial investors, commercially oriented MFFs and non-commercial MFFs. Secondary criteria used for grouping the MFFs are: their Size, their Targeted Financial Return, and their Risk Profile.

Although the original goal of the study was to look at details of performance (risk and return) based on these groupings, limitations of data and lack of standardization forced us to reduce the original intended scope. For each of the benchmark criteria, Tables 9a to 13a present performance data that was available: Volume and Performance Breakdown (Instrument, Terms of Funding, Currency, and Region).

Volume

Table 9a presents volume data by Peer Groups, while Table 10a shows the portfolio breakdown by type of investment (MFI, other funder, network, and/or rating agency/evaluator). Details on individual MFF figures are presented in Tables 9b and 10b.

	Supply Table 9a: Volume				
	Age	Total Assets	Microfinance Portfolio*	Assets invested/ committed to MF, not disbursed**	New funds allocated to MF in the next 12 months***
	(years)	(date)	(US \$)	(US \$)	(US \$)
All MFFs					
Average	12	27,059,689	52,275,273	3,242,691	3,176,873
Type of MFF					
Commercial MFIF (MFIF)	4	21,142,902	13,598,105	578,020	10,479,159
Commercially-oriented MFIF (MFIF)	7	23,493,455	16,860,587	627,565	1,000,000
Development Agency (MFDI)	26	na	136,560,485	8,571,429	2,857,143
Foundation/NGO (MFDI)	11	26,865,434	18,674,245	2,515,548	6,043,360
Microfinance Development Fund (MFIF)	10	26,773,046	10,498,434	1,942,136	3,622,189
Size of MFF					
Small	9	8,523,686	3,278,833	291,096	1,373,276
Medium	5	21,264,567	15,119,570	1,071,631	3,268,208
Large	20	93,355,473	100,042,856	8,159,725	11,490,369
Targeted Financial Return of MFF					
Low	14	18,396,188	49,552,904	3,581,949	3,046,308
Low to Moderate	11	32,112,319	12,685,488	2,532,682	4,445,873
Moderate	9	31,743,389	25,374,341	540,858	-
Moderate to High	4	18,717,467	9,016,933	-	3,865,800
High	4	22,598,163	16,346,807	924,833	14,447,175
Risk Profile of MFF					
Low	12	28,323,542	14,712,495	1,961,081	5,885,295
Low to Moderate	18	21,106,346	75,753,040	13,086,228	6,046,600
Moderate	8	8,118,260	122,119,645	750,000	399,368
Moderate to High	17	61,399,682	35,351,945	-	-
High	5	16,350,617	13,439,238	416,146	3,553,101

*Total assets allocated to microfinance investments; ** Total assets invested in or committed to microfinance investments, but not yet disbursed; MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor.

Supply Table 10a: Portfolio Breakdown (Type of Investment)					
Number of Active Microfinance Investments					
	MFI	MFF	Network	Rating Agency/ Evaluator	TOTAL
	(no.)	(no.)	(no.)	(no.)	(no.)
All MFFs					
Average	20	2	0	0	22
Type of MFF					
Commercial MFIF (MFIF)	17	1	-	-	18
Commercially-oriented MFIF (MFIF)	7	-	-	-	7
Development Agency (MFDI)	21	4	0	-	25
Foundation/NGO (MFDI)	38	1	-	-	38
Microfinance Development Fund (MFIF)	26	0	-	0	27
Size of MFF					
Small	14	1	-	-	14
Medium	19	1	-	-	20
Large	44	2	0	0	46
Targeted Financial Return of MFF					
Low	23	1	0	-	25
Low to Moderate	28	1	-	0	29
Moderate	8	-	-	-	8
Moderate to High	10	3	-	-	13
High	22	-	-	-	22
Risk Profile of MFF					
Low	29	0	0	0	29
Low to Moderate	33	3	-	-	36
Moderate	8	2	-	-	10
Moderate to High	22	4	-	-	26
High	7	0	-	-	8

MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor.

Commercial MFFs have the lowest average number of investments (17 on average for commercial funders and 7 for the commercially-oriented MFF) while non-commercial MFFs have on average 30 investees. Within the non-commercial MFFs, Foundations and NGOs have the highest number of investees (with an average of 38 investees per MFF).

In terms of size of the microfinance portfolio, Development Agencies clearly stand out, with an average portfolio equivalent to more than 150 million USD, compared to almost 20 million USD for the next highest category (Foundations and NGOs), and an average 13 million USD for the remaining combined categories.

As mentioned before, Size is broken down into 3 categories: MFFs with Total Portfolio lower than 10 million USD, MFFs with Total Portfolio between 10 and 20 million USD and MFFs with Total Portfolio above 20 million USD. MFFs that fall into the Small and Large categories are respectively on average well below and above the threshold that we have set for the category, with an average 3 million USD in Total Portfolio for the Small peer group and 105

million USD for the large peer group, highlighting the polarized nature of MFFs. Larger MFFs have on average 47 investees, compared to 14 for the Small MFFs and 17 for the Medium MFFs.

MFFs targeting a low financial return have on average 50 million USD Total Portfolio while MFFs targeting a high financial return have an average Total Portfolio equal to 16 million USD. Relative to Total Assets, the distribution among the different peer groups is relatively even, going from 23 to 32 million USD, all higher than the threshold often mentioned for an MFF to be sustainable.

The risk profile of the MFF does not seem to be affected by the Volume data: both large and small MFFs are all across the spectrum in terms of their risk profile. MFFs that have a moderate risk profile are on average much larger than any other groups, with an average Total Portfolio of 122 million USD.

Portfolio Breakdown (Instrument, Terms of Funding, and Currency)

Tables 11a and 12a present the portfolio breakdown (by instrument, terms of funding and currency) for each of the peer groups.

	Supply Table 11a: Portfolio Breakdown (Instrument and Terms of Funding)					
	Instrument (excluding grants and technical assistance)			Terms of Funding		
	Equity	Loans and Debt Securities	Equity	Loans and Debt Securities	Equity	Loans and Debt Securities
	(%)	(%)	(%)	(%)	(%)	(%)
All MFFs						
Average	48%	47%	5%	8%	37%	56%
Type of MFF						
Commercial MFIF (MFIF)	9%	90%	1%	0%	13%	88%
Commercially-oriented MFIF (MFIF)	72%	16%	13%	0%	47%	53%
Development Agency (MFDI)	39%	45%	16%	15%	14%	71%
Foundation/NGO (MFDI)	19%	69%	13%	36%	50%	14%
Microfinance Development Fund (MFIF)	28%	61%	11%	5%	50%	45%
Size of MFF						
Small	29%	56%	15%	9%	42%	49%
Medium	39%	60%	1%	10%	30%	60%
Large	34%	56%	10%	8%	38%	54%
Targeted Financial Return of MFF						
Low	33%	54%	14%	20%	37%	43%
Low to Moderate	40%	52%	8%	0%	45%	55%
Moderate	46%	29%	25%	0%	75%	25%
Moderate to High	18%	79%	3%	0%	0%	100%
High	4%	96%	0%	0%	20%	80%
Risk Profile of MFF						
Low	4%	77%	19%	13%	46%	41%
Low to Moderate	36%	60%	4%	0%	20%	80%
Moderate	44%	54%	3%	25%	50%	25%
Moderate to High	65%	35%	0%	1%	50%	50%
High	89%	11%	0%	0%	18%	83%

MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor.

	Supply Table 12a: Portfolio Breakdown (Currency)			
	Currency			
	USD	Euro	Other Hard Currency*	Local Currency**
	(%)	(%)	(%)	(%)
All MFFs				
Grand average	46%	23%	2%	29%
Type of MFF				
Commercial MFIF (MFIF)	77%	21%	0%	1%
Commercially-oriented MFIF (MFIF)	29%	3%	0%	68%
Development Agency (MFDI)	48%	37%	0%	15%
Foundation/NGO (MFDI)	41%	13%	2%	45%
Microfinance Development Fund (MFIF)	54%	19%	3%	25%
Size of MFF				
Small	51%	14%	2%	33%
Medium	47%	24%	0%	28%
Large	49%	32%	0%	19%
Targeted Financial Return of MFF				
Low	43%	27%	0%	30%
Low to Moderate	46%	14%	4%	37%
Moderate	49%	6%	0%	45%
Moderate to High	83%	17%	0%	0%
High	74%	24%	0%	2%
Risk Profile of MFF				
Low	61%	20%	1%	18%
Low to Moderate	57%	9%	10%	25%
Moderate	57%	37%	0%	6%
Moderate to High	35%	33%	0%	32%
High	18%	15%	0%	67%

* Other Hard Currency: if different than USD or Euro; **Local Currency: if not a hard currency.

The breakdown by instruments focuses on loans, guarantees and equity and therefore excludes grants and technical assistance, if any. Commercially-oriented MFFs have on average three quarters of their portfolio in equity investments, followed by development agencies (about a third of their investments). Other non-commercial MFFs and commercial MFFs have most of their investments in loans and debt securities (on average 70% for the three remaining groups combined). Guarantees are still the exception, regardless of the type of investor, with a maximum of 16% of total investments for development agencies, and an average of 11% for all peer groups. Local currency funding comes mostly from commercially-oriented MFF, with an average of 68% of the portfolio, while non-commercial MFFs only have a quarter of their portfolio in local currency.

Size does not seem to have an impact on the distribution of the instruments or currencies of the investees, with a fairly equal distribution among the peer groups.

MFFs that target a high financial return have on average 96% of their portfolio invested in loans and debt securities (and only 4% in equity). On the other hand, MFIs that have the highest risk tolerance have an average 98% of their portfolio in equity. This counter-intuitive link between risk and return profiles highlights the fact that equity investments are not as attractive to investors seeking high returns. This may be due to the lack of microfinance equity closings and ensuing uncertainty regarding the return. In terms of currency breakdown, MFFs seeking lower financial return are more prone to offer investments in local currency. MFFs seeking higher commercial return are almost exclusively offering funding in hard currencies (99% average for the moderate to high and high peer groups).

As for the terms of funding, although most data follows an expected pattern (with commercial MFFs having a higher proportion of their portfolio offered under commercial terms of funding and non-commercial MFFs offering the all of the subsidized funding), there are a few notable exceptions: Development Agencies and Microfinance Development Funds respectively have 71% and 45% of their portfolio offered under commercial terms of funding. Of the non-commercial MFFs, only Foundations and NGOs offer a large portion of their funding (86%) at subsidized or near market rates. This could be due to higher costs structures and not contradict their non-commercial objective, but has yet to be proven.

Terms of funding are – as expected, mainly under commercial terms for MFFs seeking a moderate to high or high financial return (90% on average), while

subsidized funding is offered exclusively by MFFs seeking a low or low to moderate return (11% on average). As mentioned before, most of the funding is offered under near commercial or commercial terms, regardless of the targeted financial return of the MFFs. Given that the portfolio breakdown excludes grants and technical assistance and focused on investments, the low subsidized funding may be due to the fact that MFFs who are willing to offer below market terms of funding may prefer to do so through direct grants rather than subsidized investments.

MFFs that are at the extremes of the risk profile (low risk and high risk profiles) have a similar portfolio distribution of terms of funding breakdown (at near market or market rates).

Portfolio Breakdown (Region)

Table 13a presents the portfolio breakdown by region for each of the peer groups.

The distribution is relatively evenly distributed, regardless of the peer group breakdown: Latin America gets the bulk of funding (over 50% on average for all peer groups regardless of the breakdown), followed by ECA and SA. EAP and MENA are consistently the regions the least invested in by the foreign investors (not taking into consideration North America and Western Europe, which are not the focus of the MFFs).

Development agencies and commercial MFFs also have a small portion of their portfolio invested in worldwide (in non-MFIs).

There are no significant differences in regional breakdown and terms of funding according to the size of the MFF, apart from the fact that medium MFFs have the highest proportion of non-region specific investments and offer the highest proportion of investments under commercial terms of funding (63% compared to 51% on average for small and large MFFs). Similarly, there are no significant differences in regional breakdown of portfolio when looking at the distribution by targeted financial return.

The breakdown by risk tolerance shows that MFFs that have a low risk profile and MFFs that have a high risk profile have a similar portfolio distribution in terms of regional breakdown, with most of their portfolio in Latin America and South Asia.

MFFs that have a mixed or moderate risk tolerance profile tend to show a better regional distribution (with increased investments in ECA and on a worldwide basis).

	Supply Table 13a: Portfolio Breakdown (Region)								
	Region								
	EAP	ECA	LAC	MENA	SA	SSA	North America	Western Europe	World
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
All MFFs									
Average	4%	14%	50%	1%	4%	14%	0%	1%	13%
Type of MFF									
Commercial MFIF (MFIF)	6%	15%	58%	0%	1%	5%	1%	0%	15%
Commercially-oriented MFIF (MFIF)	2%	5%	49%	0%	17%	28%	0%	0%	0%
Development Agency (MFDI)	3%	17%	56%	2%	0%	5%	0%	0%	17%
Foundation/NGO (MFDI)	5%	8%	52%	0%	24%	11%	0%	0%	1%
Microfinance Development Fund (MFIF)	4%	11%	57%	2%	2%	19%	0%	1%	6%
Size of MFF									
Small	4%	6%	56%	1%	8%	20%	0%	0%	5%
Medium	4%	17%	51%	0%	4%	10%	1%	0%	14%
Large	5%	19%	52%	1%	3%	9%	0%	0%	9%
Targeted Financial Return of MFF									
Low	5%	13%	52%	1%	6%	13%	0%	0%	11%
Low to Moderate	4%	8%	57%	1%	7%	20%	0%	1%	2%
Moderate	3%	10%	49%	0%	9%	30%	0%	0%	0%
Moderate to High	5%	19%	40%	0%	0%	0%	2%	0%	33%
High	6%	13%	68%	1%	1%	8%	0%	0%	4%
Risk Profile of MFF									
Low	5%	9%	60%	1%	6%	14%	0%	0%	5%
Low to Moderate	4%	21%	55%	0%	3%	9%	0%	0%	7%
Moderate	3%	10%	49%	0%	0%	11%	0%	3%	25%
Moderate to High	5%	17%	38%	2%	0%	16%	0%	0%	22%
High	3%	13%	47%	0%	10%	22%	1%	0%	4%

MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor; EAP: East Asia Pacific, ECA: Eastern Europe & Central Asia, LAC: Latin America & The Caribbean, SA: South Asia, SSA: Sub-Saharan Africa.

Bulletin Highlights – Microfinance Institutions

Blaine Stephens

Introduction

This *MicroBanking Bulletin* presents the largest data set for benchmarking the performance of retail microfinance institutions (MFIs) ever gathered, and brings to the industry two improvements over past industry benchmarks. The number of institutions participating has increased by more than 100 since the publication of 2002 benchmarks, thanks to a growing number of partnerships with local and regional microfinance associations⁶⁰ who are working to bring industry standard reporting and relevant market information to their respective environments. In particular, regional coverage of Asia and Africa has expanded significantly over past issues. In total, over 230 institutions provided information on their 2003 financial year performance.

The 2003 benchmarks draw on a broad array of retail microfinance institutions, with equal distribution among all the large regions. MFIs span the range of sizes, serving a total 14 million borrowers and twice as many savers, with a combined loan portfolio of nearly \$4.5 billion and an equal amount in client deposits. While half the institutions surveyed serve less than 10,000 borrowers, the data set includes a range of institutions, from those serving fewer than 100 borrowers to those serving well over three million. As with past year's benchmarks, most participating MFIs are profitable and continue to focus on poorer client groups with loan balances that represent just a fraction of average local annual income levels.

The data represent more retail financial intermediaries, including banks, credits unions / cooperatives, and non bank financial intermediaries that offer savings, increasing representation of institutions that offer deposit-taking services. As a result, the *Bulletin* has included financial intermediation as a key characteristic for creating its compound peer groups in certain markets to reflect the different operational and cost structures that these institutions present.

⁶⁰ The MIX would like to acknowledge these organizations, including: Association of Ethiopian Microfinance Institutions (AEMFI - Ethiopia), Bank of Tanzania – Microfinance Directorate (Tanzania), Ghamfin (Ghana), Sanabel (Arab states), Microfinance Centre (MFC – Central and Eastern Europe / Caucuses / Central Asia), Pakistan Microfinance Network (PMN – Pakistan), DAI/FOMIR (El Salvador), ProMujer (Latin America), Red Financiera Rural (RFR – Ecuador), Microfinance Council of the Philippines, Inc. (MCPI – Philippines), Microenterprise Access to Banking Services (MABS – Philippines), Promotion of Small Financial Institutions (ProFi – Indonesia), Accion (Global), FINCA (Global).

Looking at MFIs through a Financing Lens

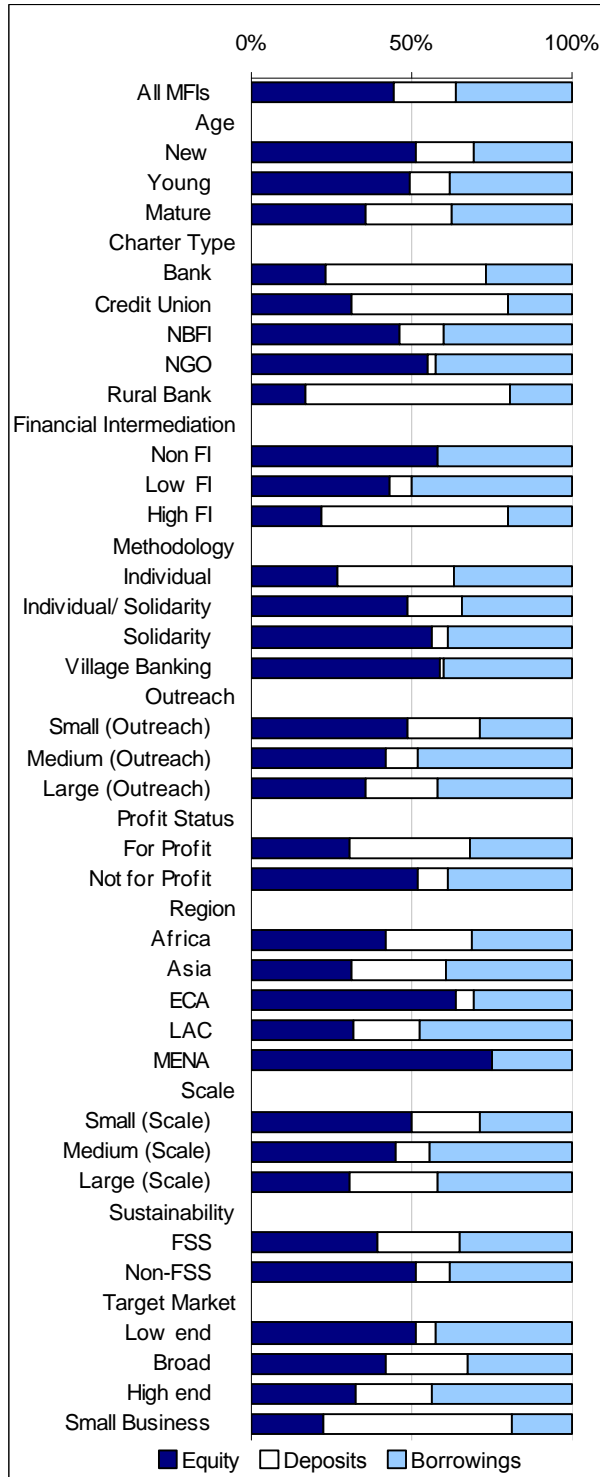
In line with this *Bulletin's* focus on the funding of microfinance, this analysis of retail MFI performance looks at MFIs through the lens of financing, how they fund their operations and how MFIs with different funding structures perform in terms of outreach and financial returns.

How MFIs Fund Themselves

Use of debt and equity by an individual MFI can depend on its legal structure, the maturity of its operations, the openness of the local capital markets to microfinance, the presence of donors, the financial services that it offers clients, or a host of other factors. How does the current 2003 data set break-down by funding? The adjacent figure uses *Bulletin* peer groups to display MFI financing structure by different institutional characteristics.

While the average MFI is only slightly leveraged and depends primarily on donations and earnings for funding, several factors are essential to understanding an MFI's ability to leverage its equity. MFIs in the Middle East and North Africa (MENA) and Eastern Europe and Central Asia (ECA) provide a good backdrop for exploring the role of three such factors in funding diversification: age, legal registration and size/scale. Age plays an important role in access to debt and funding diversification. Start-up MFIs in both regions are just now reaching maturity, and younger institutions dominate the MFI landscape. Their short track records and the relative youth of the sector means that local financial markets often lack understanding of the MFI business model and do not yet view MFIs as an investment opportunity. *Younger institutions rely more heavily on equity, particularly donated equity, to fund their portfolios.* Only MFIs with over eight years of operations achieve any important leverage. This makes sense when correlated with findings from a previous *Bulletin* that the average age for achieving self-sufficiency is eight years in operation. Profitable MFIs present more attractive investments and leverage significant external capital, whether from investors or the public willing to put deposits in well-run institutions.

Figure 1: Financing Structure



Source: MBB 11 Data. Decapitalized (negative equity) MFIs have been excluded from these figures. Figures represent averages by characteristic, as a percentage of total assets. FI: Financial Intermediation; NBF: Non Bank Financial Institution; NGO: Non Governmental Organization; ECA: Eastern Europe / Central Asia; MENA: Middle East / North Africa; FSS: Financially Self-Sufficient.

An institution’s legal registration also influences its access to financing. Unregulated and NGO structures predominate in both MENA and ECA. Such institutions face limitations on financing options, with no license for taking public deposits and no shareholder structure for attracting equity other than donations. The resulting financing picture in these two regions weighs in favor of donations for funding assets. As one would expect, rural banks, banks, cooperative structures and -- to a lesser extent -- licensed non bank financial institutions use their regulatory status to leverage external capital through debt or public deposits. Asia, Latin America, and sub-Saharan Africa represent 90% of the banks and cooperative structures in this data set, and are all regions where the average MFI leverages its equity nearly 2:1.

Institutions that have achieved scale attract more external funding, including both borrowings and deposits. Large scale MFIs fund only a third of their assets with equity, compared to smaller institutions that rely on donations and earnings for half their funding. MFIs that have built the infrastructure to scale up their operations are more likely to have the financial management skills needed to manage external capital and – more importantly – the growth potential to handle the larger transaction volumes that investors seek. From the investor’s perspective, such MFIs also have the profitability necessary to guarantee repayment or ensure that the investment bears fruit. Returns correlate with scale; larger scale MFIs prove more profitable than their smaller peers. Given their stage of development, only a handful of MENA or ECA MFIs have achieved this scale and could attract significant outside investment.

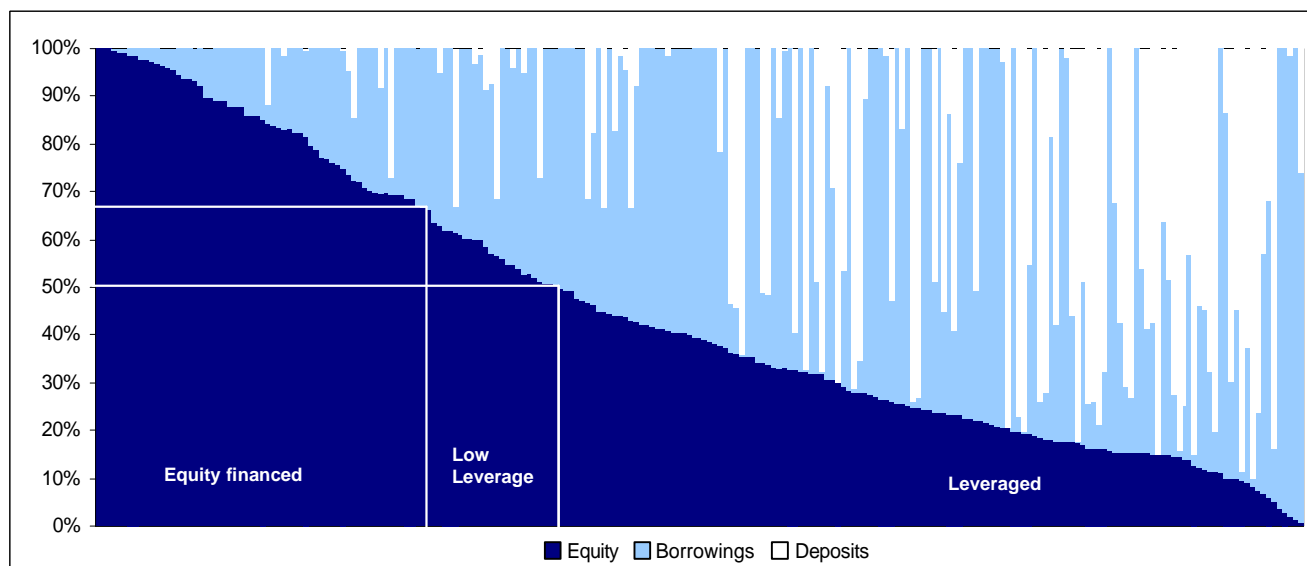
Using Funding as a Framework for Analysis

Looking at MFI performance through the lens of financing – how and to what extent an MFI is funded through equity, debt or a combination of both – also provides a framework for analyzing MFI outreach and performance. Figure 2 charts the financing structure for the 231 MFIs in this data set, by increasing levels of leverage, showing the breakdown between equity, borrowings and public deposits.

For the 2003 *Bulletin* data set, MFIs fall out into three groups, according to funding:

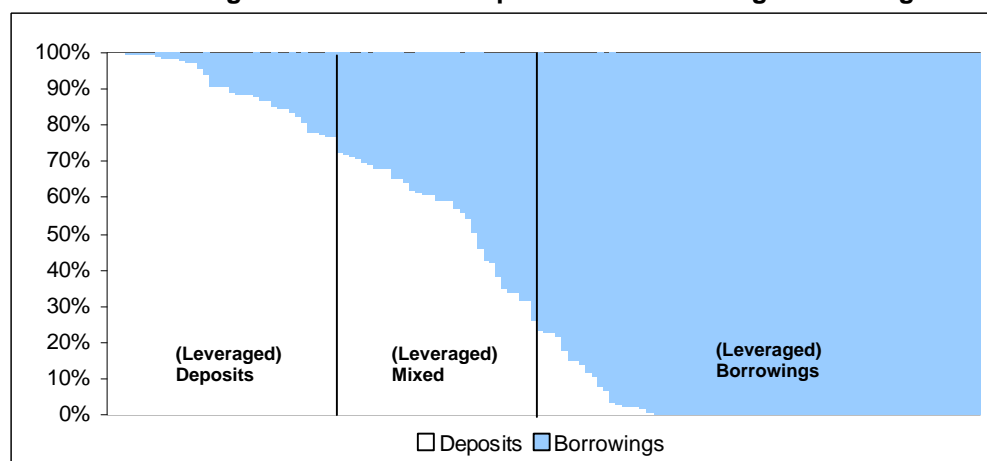
- ▶ **Equity-financed** institutions derive their funding from *donations, shareholder/member capital (whether foreign or local investors), and retained earnings*. For institutions in this group, equity contributes at least twice as much funding as debt.

Figure 2: How MFIs fund themselves



Source: MBB 11 Data. Decapitalized (negative equity) MFIs have been excluded from these figures. Data points represent actual observed financial structure broken into equity, borrowings and deposits. Observations are arranged from left to right in increasing level of debt-to-equity.

Figure 3: The role of deposits and borrowings in leverage



Source: MBB 11 Data. Decapitalized (negative equity) MFIs have been excluded from these figures. Data points represent actual observed liability structure for "leveraged MFIs" broken into borrowings and deposits. Observations are arranged from left to right in increasing importance of borrowings.

- ▶ Institutions with **low leverage** depend more on equity than on debt for funding, but have *leveraged their equity base up to 1:1*, such that one dollar in equity leverages one dollar in debt.
- ▶ **Leveraged** institutions have leveraged more than a dollar in debt for each dollar in equity, through a combination of deposits and borrowings. Figure 3 breaks out the relative contribution of deposits and borrowings for leveraged institutions.
 - Some institutions are leveraged primarily by savings, *deposits mobilized by the public or members*. They are considered institutions leveraged by "**deposits**", if at least 75% of their liabilities come from these deposits.
 - Other institutions rely on *borrowings and other debt instruments* (whether from foreign or domestic sources) for their leverage. These are labeled as institutions leveraged by "**borrowings**", if at least 75% of their liabilities come from these debt instruments.
 - Some leveraged institutions finance themselves through a combination of deposits and borrowings. These MFI have "**mixed**" sources of leverage.

Applying this framework to the 2003 data set yields a picture of the relative financial structure of MFIs. *From an investor's perspective, most MFIs have very little leverage and could absorb more external capital.* Strikingly, just over a third of all MFIs analyzed leverage less than one dollar in debt with one in equity. Indeed, over two thirds of these depend almost entirely on donations and retained earnings to fund their operations.

More leveraged institutions rely on borrowings. While this edition of the *Bulletin* has expanded coverage of cooperatives, banks and other deposit-taking institutions, *most institutions that leveraged their equity did so with borrowings or other debt instruments*, offering an important source of long term capital in larger volumes. Figure 3 shows these borrowings in lighter shading. Deposit mobilizing institutions, while fewer in this sample, tend to be more highly leveraged. Indeed, as the white areas on the right hand side of figure 2 demonstrate, MFIs that do intermediate public deposits are among the most highly leveraged institutions in the 2003 *Bulletin* data set.

The distribution of the MFIs across this framework for analysis highlights a number of relationships between financing and other MFI characteristics. As figure 4 demonstrates, *most institutions that rely almost exclusively on deposit mobilization for funding remain small*, both in total outreach and asset base. Small size, however, does not reflect the stage of institutional development; indeed most of these institutions have more than ten years of operational experience. Rather, this observation reflects the operational model of several MFIs in this data set: small cooperatives and single branch banks in Asia and Africa, local area banks in Indonesia, and rural banks and cooperatives in Ghana and the Philippines. In each of these models that draw heavily on community savings for funding, service areas are limited. Many larger institutions, on the other hand, rely on a more diversified funding base, including a mix of public deposits and external debt.

The data also show a relationship between legal charter and funding structure. Non bank financial institutions divide between those that are equity-funded and those that access debt or deposits. Surprisingly, neither age nor size makes an impact on access to debt. Rather, operating environment provides the single most important explanation for this bifurcation. Over 75% of the leveraged NBFIs are in regions with greater local and international capital market linkage – as seen above – such as Latin America. On the contrary, no Latin American institution appears among the list of equity-funded NBFIs, a list dominated by MFIs in ECA and MENA.

Figure 4: MFIs by financing structure and characteristic

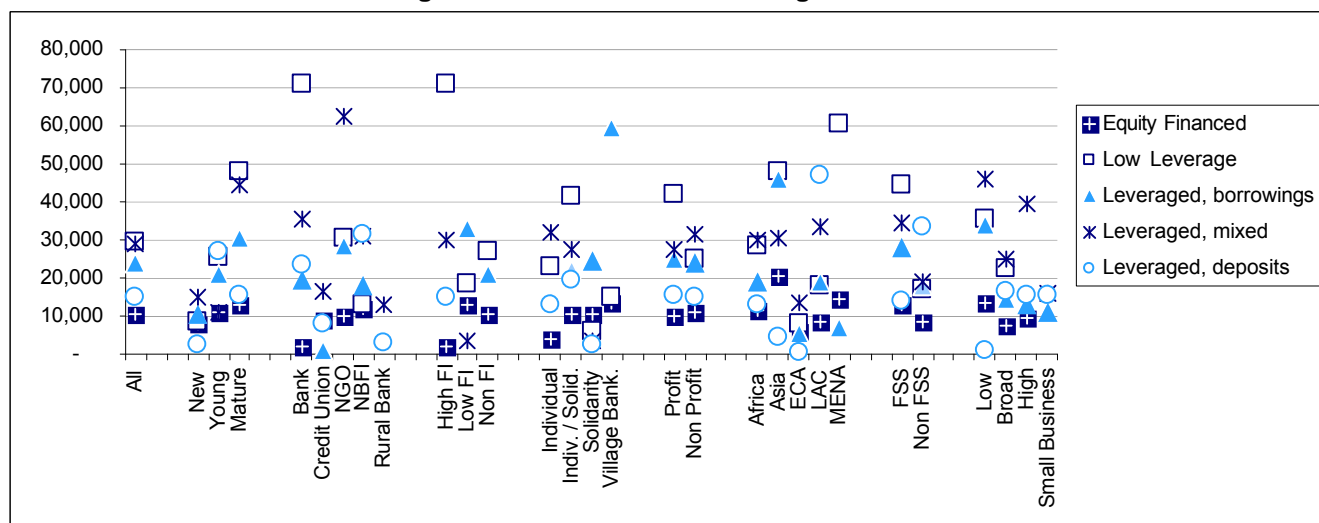
Characteristic	Equity Financed	Low Leverage	Leveraged		
			Borrowings	Mixed	Deposits
All MFIs	61	26	69	33	38
Age					
New	18	4	11	6	7
Young	29	14	25	11	6
Mature	14	8	33	16	25
Charter Type					
Bank	1	3	3	8	15
Credit Union	2	0	1	8	9
NBF1	21	8	27	9	6
NGO	36	15	38	4	0
Rural Bank	0	0	0	4	8
Fin. Intermediation					
High FI	1	3	0	31	38
Low FI	8	7	17	2	0
Non FI	52	16	52	0	0
Methodology					
Individual	6	4	21	17	24
Indiv./Solid.	28	14	26	14	13
Solidarity	14	3	15	2	1
Village Banking	13	5	7	0	0
Outreach					
Large	5	8	18	13	8
Medium	14	4	25	8	1
Small	42	14	26	12	29
Profit Status					
For Profit	10	7	17	20	28
Not For Profit	51	19	52	13	10
Region					
Africa	13	7	13	11	12
Asia	6	3	20	7	18
E. Europe / C. Asia	26	3	15	4	1
Latin Am. / Carib.	5	9	20	11	7
Middle East/ N. Africa	11	4	1	0	0
Scale					
Large	4	5	18	19	9
Medium	17	9	28	4	5
Small	40	12	23	10	24
Sustainability					
FSS	27	12	42	22	35
Non FSS	34	14	27	11	3
Target Market					
Low end	30	14	34	8	2
Broad	29	12	27	20	27
High end	2	0	7	2	4
Small Business	0	0	1	3	5

Source: MBB 11 Data. Decapitalized (negative equity) MFIs have been excluded from these figures. Figures represent number of MFIs by characteristic and funding structure. FI: Financial Intermediation; NBF1: Non Bank Financial Institution; NGO: Non Governmental Organization; ECA: Eastern Europe / Central Asia; MENA: Middle East / North Africa; FSS: Financially Self-Sufficient.

An important observation on NGO financing can also be made from the data. *A significant percentage of the NGOs attain leverage, almost exclusively through borrowings.* While, on average, NGOs may have less access to borrowings than other legal forms, many do manage to leverage their donations

and retained earnings through local and international borrowings. Access to debt is not equally distributed around the globe. Indeed, the pattern mimics the regional distribution of leverage, with most leveraged NGOs located in Africa, Latin America and Asia.

Figure 5: Outreach and financing structure



Source: MBB 11 Data. Decapitalized (negative equity) MFIs have been excluded from these figures. Data points represent the average number of borrowers by characteristic and funding structure. The top and bottom five percent of observations have been dropped from this analysis. FI: Financial Intermediation; NBF: Non Bank Financial Institution; NGO: Non Governmental Organization; ECA: Eastern Europe / Central Asia; MENA: Middle East / North Africa; FSS: Financially Self-Sufficient.

Performance Analysis

Outreach

Sustainable institutions continue to provide financial services to the majority of *Bulletin* MFIs. As in past years, 2003 shows more than 90% of the borrowers and savers served by institutions that cover all costs from their own operating income. Even when the top five percent of MFIs with large customer outreach are removed from the sample, financial self-sufficient institutions serve more than 75% of the market.

From a funding perspective, leverage provides an important ingredient to scale. *The majority of clients are reached by leveraged institutions.* Equity-funded institutions, though over a quarter of reporting MFIs, cover only four percent of borrowers. 90% of clients are served through institutions that leverage at least one dollar in capital with one in debt or deposits. Among these, and as the previous observation on size and funding structure indicates, most were served by debt-funded institutions or those with a mixed funding base.

This observation on total coverage also applies to the average number of clients served. *Equity-funded institutions serve far fewer borrowers, just over 10,000 on average per institution, making*

them small outreach institutions within the *Bulletin* peer group framework. While one might expect that operational maturity would explain this small scale, figure 4 shows that over a quarter of these MFIs are over eight years old, with another half over five years old. A more striking explanation comes from the relatively lower level of cost recovery compared with other MFIs. Over half of all MFIs that depend on donations and retained earnings for growth have yet to become profitable, irrespective of age. Without a vision for sustainable operations, equity financing, even in the form of subsidy, does not bring an institution to scale.

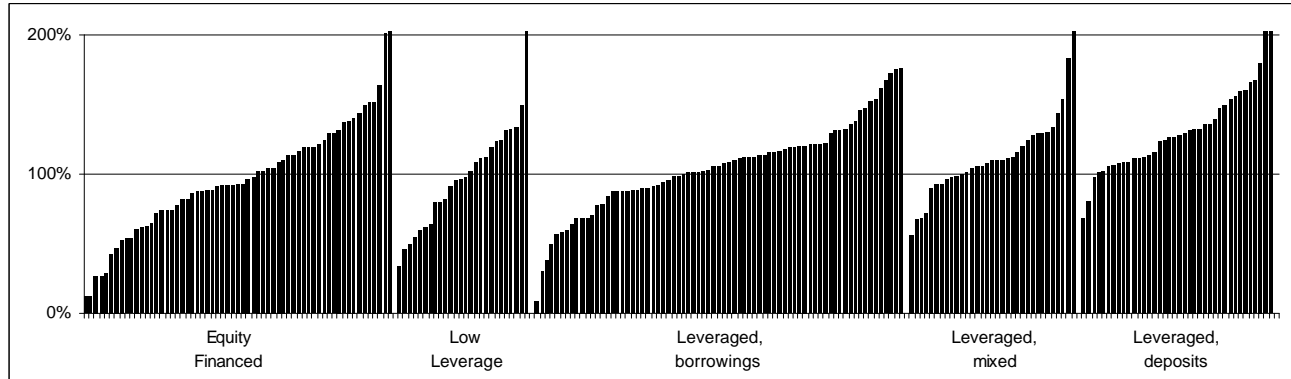
As noted above, deposit-taking institutions tend to be smaller in size, serving a smaller borrower base in local communities. This reflects the fact that the data for such institutions draw heavily on local co-operatives and single branch or geographically limited banks. Importantly, this conclusion should not overstate the outreach capacity of deposit-mobilizing institutions. The outreach data presented in figure 5 has excluded outliers, including the largest institutions, some of whom serve the greatest number of savers or borrowers of any institution in the data set.

On the whole, *institutions leveraged through borrowings or a mix of funding demonstrate higher*

average outreach. In many cases, large outreach institutions remain under leveraged. As figure 5 clearly shows, the largest average outreach comes from institutions with low leverage – those who still rely on capital for at least half of their funds. As

these institutions have already built systems capable of large scale outreach, external borrowings still have a role to play in further increase in the client base.

Figure 6: Distribution of financial self-sufficiency by funding structure



Source: MBB 11 Data. Decapitalized (negative equity) MFIs have been excluded from these figures. Data points represent actual observed financial self-sufficiency by institution.

Financial performance

The significant expansion in the *Bulletin's* institutional coverage for 2003 has had little impact on the overall financial performance demonstrated by the data set. Institutions, on average, still prove profitable, covering over 100% of their adjusted costs. Financial self-sufficiency varies greatly, however, according to funding structure. While the 2003 data set demonstrates no clear relationship exists between leverage and returns, several patterns fall out when profitability is viewed from the institutional funding angle.

Most equity-funded institutions lie below the 100% cost recovery level, regardless of maturity of operations. Indeed, the oldest institutions among them have the lowest average returns. Among these institutions, returns do improve in two situations: where equity-funded institutions are the only MFIs present and with increasing levels of scale. As noted previously, MENA and ECA microfinance markets are dominated by equity-funded institutions, whether NGOs or NBFIs. In both these cases, profitable models do exist for institutions that rely on capital for their lending activity, though with the exception of two notable large MENA MFIs, these institutions remain small, serving less than 10,000 borrowers. Given their overall young age, one would suspect that leverage will increase as operations expand.

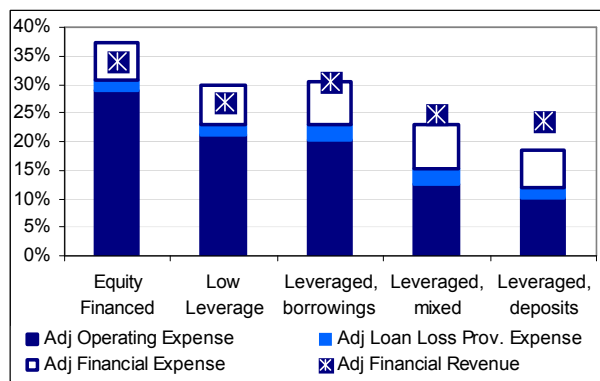
A few large scale institutions in this group have also demonstrated profitable, equity-driven models. These models are isolated to a couple of markets, where, in one case, regulatory changes have laid

out a clear path for growth through regulated shareholding structures, and, in the other case, the local banking sector has shown recent interest in investing in the non profit MFI structures that local regulations allow. Either way, these large, profitable MFIs are not likely to remain under leveraged for long. Their inclusion among equity-funded MFIs is probably transitory.

As figure 7 demonstrates, *equity-funded institutions derive low sustainability from high operational costs.* They bear the greatest operational costs, an average of nearly 30% of their average asset base, that their average income of 34% cannot cover given financial and loan loss expenses. Several factors explain these results. Within this group, the youngest institutions have the highest operational cost structures, attributable to untested systems and low staff productivity.

On average, equity-funded institutions demonstrate one of the lowest levels of staff productivity, serving just 125 borrowers per staff member, 25% less than for more leveraged institutions. While these operational costs do not improve with age for those who remain dependent on equity for growth, they do reduce with scale. In fact, *scale is the single determining factor for reducing operational costs enough for equity-funded institutions to turn a profit.* Given the preponderance of donor funds in sustaining this pool of institutions, these data make the case for strategic subsidies that create incentives for MFIs to development cost efficient systems that will allow them to achieve necessary scale profitably.

Figure 7: Decomposing returns by financing structure



Source: MBB 11 Data. Decapitalized (negative equity) MFIs have been excluded from these figures. Data points represent averages for each variable.

On the other end of the scale, leveraged institutions offer more profitable models. Cost and income levels maintained to achieve profitability, however, vary among these leveraged institutions. *MFIs that fund operations through borrowings bear higher overall financial and operational cost levels.* Greater dispersion may explain in part the higher operating expenses. Contrary to the majority of deposit-funded MFIs, these institutions have larger branch networks, and managing this dispersed network requires more sophisticated systems and controls than in single branch banks or cooperatives. As a result, debt-funded MFIs average higher financial revenues in order to cover these cost levels.

MFIs that draw most of their funds from customer deposits are, on the whole, the most profitable financing structure group. While these institutions

run the gamut of institutional types, small, mature, community-owned organizations form the majority. Given their age – an average of 13 years – they perhaps represent a self-selecting group of MFIs: those whose organizational strengths and governance have built enduring local financial service providers. Efficiency in financial service provision allows them to maintain the lowest operating costs of any group, ten percent of average assets. Their local deposit base also provides them a lower cost source of funds. As a result, deposit-funded institutions earn strong profit margins with a low 24% average financial revenue ratio.

Conclusion

Successful MFIs manage to leverage initial capital – whether from donations, retained earnings or shareholders – to attract more financing for the institution. Regardless of institutional form, maturity of operations, or region of activity, profitable MFIs that reach a large number of clients have all diversified their funding sources away from reliance on equity financing. Only sustainable institutions in a couple nascent sectors still rely on equity, but even these MFIs push forward towards greater leverage.

This analysis also points to good news for microfinance funders. These same profitable, large scale MFIs have only begun to leverage their capital base through borrowings and deposits. Their sustained growth will require greater external borrowings and investment. Those investors who can create the appropriate instruments for funding these institutions will find plenty of investment opportunities in MFIs that profitably fill their mission to meet the financial service needs of the poor.

BULLETIN TABLES: MICROFINANCE FUNDERS

Supply Table 1: Guide for Investors: MFF Main Shareholders ⁽¹⁾						
	Open/Closed? ⁽²⁾	Institutional Investors ⁽³⁾	Private Individuals*	Networks	Government(s) (direct or indirect)	NA
ACCION Gateway	na			x		
AfriCap	closed	x				
AIM	closed	x	x			
Alterfin	open	x	x			
ANF ⁽⁴⁾	open	x	x			
AWF Development Debt	open	x	x			
BIO	na				x	
CAF	open	x	x		x	
Calvert Foundation	open	x	x			
Cordaid	na					x
CreSud	open	x	x			
DB MDF	na					x
DEG	na				x	
Dexia Microcredit Fund	open	x	x			
DID - Fonidi ⁽⁵⁾	open			x		
DID - Guarantee	na					x
DID - Partnership	na					x
DOEN	na					x
Etimos	open	x				
FIG	open	x	x			
FMO	na	x	x		x	
Gray Ghost	closed		x			
HTF	na					x
I&P Développement	na	x	x			
ICCO	na					x
IFC	na					x
Impulse	open	x				
Incofin	open	x	x			
Kolibri	na	x	x			
LABF	na	x	x			
LFP	open	x				
Luxmint - ADA	na					x
MicroVest	open	x	x			
MIF/IADB	na					x
NOVIB	na					x
Oikocredit	na	x	x			
OTI	na			x		
PCG	open	x				
PlaNet Finance Fund	na					x
ProCredit Holding	closed	x				
PROFUND	closed	x	x			
Rabobank	na					x
responsAbility Fund	open	x	x			
SGIF ⁽⁶⁾	open			x		
ShoreCap Intl.	na	x	x			
SIDI	open	x	x			
TDF	closed	x				
TFSF	open		x			
Unitus	na	x	x			
USAID Credit Guarantees	na					x
TOTAL		28	23	4	4	14

⁽¹⁾ Is checked even if the MFF does not currently have private individual shareholders, as long as can have private individual shareholders.

⁽²⁾ Open = semi-open and open.

⁽³⁾ Churches, Foundations, NGOs, commercial institutional investors, etc.

⁽⁴⁾ Only private individuals, except for ASN Bank and Novib who started the fund.

⁽⁵⁾ Shareholders are four wholly owned subsidiaries of the Desjardins group.

⁽⁶⁾ Private Individuals as lenders.

	Supply Table 2: Guide for Investors: Type of MFF				
	Commercial ¹	Commercially-oriented ²	Non-commercial ³		
MFF	Commercial MFIF* (MFIF)	Commercially-oriented MFIF (MFIF)	Microfinance Development Fund (MFIF)	Development Agency (MFDI**)	Foundation/NGO (MFDI)
ACCION Gateway			x		
AfriCap		x			
AIM		x			
Alterfin			x		
ANF	x				
AWF Development Debt	x				
BIO				x	
CAF				x	
Calvert Foundation			x		
Cordaid					x
CreSud			x		
DB MDF			x		
DEG				x	
Dexia Microcredit Fund	x				
DID - Fonidi			x		
DID - Guarantee			x		
DID - Partnership			x		
DOEN					x
Etimos			x		
FIG			x		
FMO				x	
Gray Ghost	x				
HTF			x		
I&P Développement		x			
ICCO					x
IFC				x	
Impulse	x				
Incofin			x		
Kolibri			x		
LABF		x			
LFP		x			
Luxmint - ADA			x		
MicroVest	x				
MIF/IADB				x	
NOVIB					x
Oikocredit			x		
OTI			x		
PCG					x
PlaNet Finance Fund			x		
ProCredit Holding		x			
PROFUND		x			
Rabobank					x
responsAbility Fund	x				
SGIF			x		
ShoreCap Intl.		x			
SIDI			x		
TDF			x		
TFSF	x				
Unitus					x
USAID Credit Guarantees				x	
TOTAL	8	8	20	7	7

¹ Seeking Financial Return; ² Eventual Seeking Financial Return; ³ Not Seeking Financial Return; * MFIF: Microfinance Investment Fund; ** MFDI: Microfinance Development Investor.

	Supply Table 3: Guide for Investors: Size of MFF		
	Small	Medium	Large
MFF	0 < TA ≤ 10 million USD	10 < TA ≤ 20 Million USD	TA > 20 Million USD
ACCION Gateway	x		
AfriCap	x		
AIM		x	
Alterfin	x		
ANF	x		
AWF Development Debt	x		
BIO		x	
CAF			x
Calvert Foundation		x	
Cordaid			x
CreSud	x		
DB MDF	x		
DEG			x
Dexia Microcredit Fund			x
DID - Fonidi	x		
DID - Guarantee	x		
DID - Partnership	x		
DOEN			x
Etimos	x		
FIG	x		
FMO			x
Gray Ghost	x		
HTF			x
I&P Développement		x	
ICCO	x		
IFC			x
Impulse		x	
Incofin	x		
Kolibri	x		
LABF	x		
LFP	x		
Luxmint - ADA	x		
MicroVest	x		
MIF/IADB			x
NOVIB		x	
Oikocredit			x
OTI		x	
PCG	x		
PlaNet Finance Fund	x		
ProCredit Holding			x
PROFUND		x	
Rabobank	x		
responsAbility Fund		x	
SGIF	x		
ShoreCap Intl.	x		
SIDI	x		
TDF			x
TFSF	x		
Unitus	x		
USAID Credit Guarantees			x
TOTAL	28	9	13

*TA: Total Assets.

	Supply Table 4: Guide for Investors: Targeted Financial Return of MFF				
	Low	Low to Moderate	Moderate	Moderate to High	High
MFF	Not Seeking Financial Return	Between not Seeking and Eventually Seeking Financial Return	Eventually Seeking Financial Return	Between Eventually Seeking and Seeking Financial Return	Seeking Financial Return
ACCION Gateway	x	x			
AfriCap		x			
AIM		x			
Alterfin		x			
ANF				x	
AWF Development Debt					x
BIO	x				
CAF	x				
Calvert Foundation	x				
Cordaid	x				
CreSud		x			
DB MDF	x				
DEG	x				
Dexia Microcredit Fund					x
DID - Fonidi	x				
DID - Guarantee	x				
DID - Partnership	x				
DOEN	x				
Etimos		x			
FIG		x			
FMO	x				
Gray Ghost				x	
HTF		x			
I&P Développement			x		
ICCO	x				
IFC	x				
Impulse					x
Incofin		x			
Kolibri		x			
LABF			x		
LFP			x		
Luxmint - ADA	x				
MicroVest				x	
MIF/IADB	x				
NOVIB	x				
Oikocredit		x			
OTI	x				
PCG	x				
PlaNet Finance Fund	x				
ProCredit Holding			x		
PROFUND		x			
Rabobank	x				
responsAbility Fund					x
SGIF		x			
ShoreCap Intl.		x			
SIDI		x			
TDF		x			
TFSF					x
Unitus	x				
USAID Credit Guarantees	x				
TOTAL	23	15	4	3	5

MFF	Supply Table 5: Guide for Investors: Risk Profile of MFF				
	Low	Low to Moderate	Moderate	Moderate to High	High
	0% < Equity ≤ 25%	25% < Equity ≤ 40%	40% < Equity ≤ 60%	60% < Equity ≤ 75%	75% < Equity ≤ 100%
ACCION Gateway					x
AfriCap					x
AIM					x
Alterfin	x				
ANF	x				
AWF Development Debt	x				
BIO				x	
CAF	x				
Calvert Foundation	x				
Cordaid	x				
CreSud	x				
DB MDF	x				
DEG			x		
Dexia Microcredit Fund	x				
DID - Fonidi					x
DID - Guarantee	x				
DID - Partnership			x		
DOEN					x
Etimos	x				
FIG	x				
FMO				x	
Gray Ghost			x		
HTF		x			
I&P Développement	x				
ICCO	x				
IFC		x			
Impulse	x				
Incofin			x		
Kolibri	x				
LABF	x				
LFP					x
Luxmint - ADA	x				
MicroVest					x
MIF/IADB		x			
NOVIB	x				
Oikocredit	x				
OTI					x
PCG	x				
PlaNet Finance Fund	x				
ProCredit Holding				x	
PROFUND					x
Rabobank	x				
responsAbility Fund	x				
SGIF		x			
ShoreCap Intl.					x
SIDI				x	
TDF		x			
TFSF	x				
Unitus	x				
USAID Credit Guarantees	x				
TOTAL	27	5	4	4	10

Supply Table 6: Guide for MFIs: Organizations Targeted (Type and Tier)												
MFF	MFI Type						Funds	Net-works	Raters/Evaluators	MFI Tier		
	Bank	Cooperative/ Credit Union	NBFI	NGO	Rural Bank	NA				Tier 1*	Tier 2**	Tier 3***
ACCION Gateway	x		x							x		
AfriCap	x		x	x						x		
AIM	x	x	x	x	x					x		
Alterfin	x	x	x	x			x				x	x
ANF						x	x			x		
AWF Development Debt						x				x		
BIO						x	x			x	x	
CAF						x				x		
Calvert Foundation	x	x	x	x	x		x	x		x		
Cordaid	x	x	x	x							x	x
CreSud		x	x	x						x		
DB MDF	x	x	x	x						x	x	
DEG	x		x							x		
Dexia Microcredit Fund	x	x	x	x	x					x		
DID - Fonidi	x	x	x	x	x					x	x	
DID - Guarantee		x								x	x	
DID - Partership	x	x	x	x	x					x	x	
DOEN	x	x	x	x	x		x				x	x
Etimos		x	x	x	x					x	x	x
FIG	x	x	x	x						x		
FMO						x	x				x	
Gray Ghost							x			na***	na***	na***
HTF	x	x	x	x			x				x	
I&P Développement	x	x	x		x					x	x	x
ICCO		x	x	x	x							x
IFC						x	x			x	x	
Impulse	x		x	x							x	
Incofin	x	x	x	x	x		x				x	
Kolibri		x	x	x						x		
LABF	x		x	x						x	x	
LFP	x	x	x							x		
Luxmint - ADA	x	x	x	x						x		
MicroVest	x	x	x	x	x					x		
MIF/IADB						x	x				x	
NOVIB	x	x	x	x						x	x	
Oikocredit	x	x	x	x	x		x		x		x	x
OTI						x				x		
PCG	x	x	x	x			x	x			x	
PlaNet Finance Fund		x	x	x	x						x	
ProCredit Holding	x		x							x		
PROFUND	x		x							x		
Rabobank		x	x	x	x							x
responsAbility Fund	x	x	x		x					x	x	
SGIF	x		x				x			x		
ShoreCap Intl.	x		x		x					x	x	
SIDI	x	x	x	x	x		x			x	x	
TDF	x	x	x	x						x		
TFSF	x	x	x		x					x		
Unitus	x		x	x	x						x	x
USAID Credit Guarantees						x	x	x			x	
TOTAL	33	30	39	29	19	9	16	3	1	34	26	9

NA: Breakdown not available; * Financial Self-Sufficient, Mature; ** Near Financial Self-Sufficiency, Young; *** Near Operational Self-Sufficiency or Operational Self-Sufficient, New or Young; *** not applicable to Gray Ghost, as a fund of funds.

Supply Table 7: Guide for MFIs: Organizations Targeted (Region)									
MFF	Region								
	EAP	ECA	LAC	MENA	SA	SSA	North America	Western Europe	World
ACCION Gateway			x						
AfriCap						x			
AIM			x			x			
Alterfin	x		x	x		x			
ANF		x	x						
AWF Development Debt			x						
BIO	x		x			x			x
CAF			x						
Calvert Foundation	x	x	x	x	x	x	x		
Cordaid	x		x	x	x	x			
CreSud			x						
DB MDF	x	x	x	x	x	x	x	x	
DEG	x	x	x			x			
Dexia Microcredit Fund	x	x	x	x	x	x	x	x	x
DID - Fonidi			x			x			
DID - Guarantee						x			
DID - Parternship			x			x			
DOEN		x	x		x	x			x
Etimos		x	x		x	x		x	
FIG			x			x			
FMO	x	x	x			x			x
Gray Ghost									x
HTF		x	x		x	x			
I&P Développement			x	x	x	x			
ICCO	x		x			x			
IFC	x	x	x		x	x			
Impulse	x	x	x	x	x	x	x		
Incofin			x			x			
Kolibri			x						
LABF			x						
LFP	x	x		x	x	x			
Luxmint - ADA			x			x			
MicroVest	x	x	x	x	x	x	x	x	x
MIF/IADB			x						
NOVIB	x	x	x		x	x			
Oikocredit	x	x	x	x	x	x	x	x	x
OTI	x	x	x			x			
PCG			x						
PlaNet Finance Fund	x		x	x		x			
ProCredit Holding	x	x	x			x			
PROFUND			x						
Rabobank	x	x	x	x	x	x	x		
responsAbility Fund	x	x	x	x	x	x	x	x	x
SGIF		x	x						
ShoreCap Intl.	x	x			x	x			
SIDI	x	x	x	x	x	x			
TDF	x	x	x	x	x	x			
TFSF	x	x	x	x	x	x			
Unitus	x		x	x	x	x			
USAID Credit Guarantees		x	x	x		x			x
TOTAL	25	25	45	18	21	12	8	6	9

* Financial Self-Sufficient, Mature; ** Near Financial Self-Sufficiency, Young; *** Near Operational Self-Sufficiency or Operational Self-Sufficient, New or Young.

Supply Table 8: Guide for MFIs: Instruments Offered (Type and Currency)									
MFF	Type					Currency			
	Equity	Loans and Debt Securities	Guarantees	Grants	Technical Assistance (TA)	USD	Euro	Other Hard Currency*	Local Currency**
ACCION Gateway	x	x				x			x
AfriCap	x		x		x		x		x
AIM	x				x	x			x
Alterfin	x	x			x	x	x		x
ANF	x	x	x			x	x		
AWF Development Debt		x				x			
BIO	x	x				x	x		x
CAF	x	x	x	x	x	x			
Calvert Foundation		x				x			
Cordaid	x	x	x	x	x	x	x		x
CreSud		x				x	x		
DB MDF		x				x			
DEG	x	x	x				x		x
Dexia Microcredit Fund		x	x			x	x	x	
DID - Fonidi	x	x	x			x			x
DID - Guarantee			x						x
DID - Partnership	x	x	x			x			x
DOEN		x	x	x	x	x	x		x
Etimos		x			x	x	x		
FIG			x			x	x		x
FMO	x	x					x		x
Gray Ghost	x	x	x			x			
HTF	x	x	x			x	x		x
I&P Développement	x	x				x	x		x
ICCO	x	x	x	x	x	x	x		x
IFC	x	x	x			x			x
Impulse	x	x	x			x	x		
Incofin	x	x	x		x	x	x		
Kolibri		x				x	x		
LABF			x			x			
LFP	x				x				x
Luxmint - ADA	x	x	x		x	x	x		
MicroVest	x	x				x	x		x
MIF/IADB	x	x	x	x	x	x			x
NOVIB		x	x	x	x	x	x		x
Oikocredit	x	x	x		x	x	x		x
OTI	x	x				x	x		x
PCG		x				x			
PlaNet Finance Fund		x					x		
ProCredit Holding	x	x				x	x		
PROFUND	x	x				x			x
Rabobank		x	x	x	x	x	x		x
responsAbility Fund	x	x				x	x		x
SGIF	x	x				x			
ShoreCap Intl.	x	x			x	x			x
SIDI	x	x			x	x	x	x	x
TDF	x	x	x			x	x		x
TFSF	x	x				x	x		x
Unitus	x	x	x	x	x	x			x
USAID Credit Guarantees			x			x			
TOTAL	34	43	26	8	18	44	30	2	31

* Other Hard Currency: if different than USD or Euro; Local Currency: if not a hard currency; MF = Microfinance; N = Network; R/E = Rating/Evaluation; MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor.

Supply Table 9a: Volume					
	Age	Total Assets	Microfinance Portfolio*	Assets invested/ committed to MF, not disbursed**	New funds allocated to MF in the next 12 months***
	(years)	(date)	(US \$)	(US \$)	(US \$)
All MFFs					
Average	12	27,059,689	52,275,273	3,242,691	3,176,873
Type of MFF					
Commercial MFIF (MFIF)	4	21,142,902	13,598,105	578,020	10,479,159
Commercially-oriented MFIF (MFIF)	7	23,493,455	16,860,587	627,565	1,000,000
Development Agency (MFDI)	26	na	136,560,485	8,571,429	2,857,143
Foundation/NGO (MFDI)	11	26,865,434	18,674,245	2,515,548	6,043,360
Microfinance Development Fund (MFIF)	10	26,773,046	10,498,434	1,942,136	3,622,189
Size of MFF					
Small	9	8,523,686	3,278,833	291,096	1,373,276
Medium	5	21,264,567	15,119,570	1,071,631	3,268,208
Large	20	93,355,473	100,042,856	8,159,725	11,490,369
Targeted Financial Return of MFF					
Low	14	18,396,188	49,552,904	3,581,949	3,046,308
Low to Moderate	11	32,112,319	12,685,488	2,532,682	4,445,873
Moderate	9	31,743,389	25,374,341	540,858	-
Moderate to High	4	18,717,467	9,016,933	-	3,865,800
High	4	22,598,163	16,346,807	924,833	14,447,175
Risk Profile of MFF					
Low	12	28,323,542	14,712,495	1,961,081	5,885,295
Low to Moderate	18	21,106,346	75,753,040	13,086,228	6,046,600
Moderate	8	8,118,260	122,119,645	750,000	399,368
Moderate to High	17	61,399,682	35,351,945	-	-
High	5	16,350,617	13,439,238	416,146	3,553,101

*Total assets allocated to microfinance investments; ** Total assets invested in or committed to microfinance investments, but not yet disbursed; MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor.

Supply Table 10a: Portfolio Breakdown (Type of Investment)					
	Number of Active Microfinance Investments				
	MFIF	MFF	Network	Rating Agency/ Evaluator	TOTAL
	(no.)	(no.)	(no.)	(no.)	(no.)
All MFFs					
Average	20	2	0	0	22
Type of MFF					
Commercial MFIF (MFIF)	17	1	-	-	18
Commercially-oriented MFIF (MFIF)	7	-	-	-	7
Development Agency (MFDI)	21	4	0	-	25
Foundation/NGO (MFDI)	38	1	-	-	38
Microfinance Development Fund (MFIF)	26	0	-	0	27
Size of MFF					
Small	14	1	-	-	14
Medium	19	1	-	-	20
Large	44	2	0	0	46
Targeted Financial Return of MFF					
Low	23	1	0	-	25
Low to Moderate	28	1	-	0	29
Moderate	8	-	-	-	8
Moderate to High	10	3	-	-	13
High	22	-	-	-	22
Risk Profile of MFF					
Low	29	0	0	0	29
Low to Moderate	33	3	-	-	36
Moderate	8	2	-	-	10
Moderate to High	22	4	-	-	26
High	7	0	-	-	8

MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor.

	Supply Table 11a: Portfolio Breakdown (Instrument and Terms of Funding)					
	Instrument (excluding grants and technical assistance)			Terms of Funding		
	Equity	Loans and Debt Securities	Equity	Loans and Debt Securities	Equity	Loans and Debt Securities
	(%)	(%)	(%)	(%)	(%)	(%)
All MFFs						
Average	48%	47%	5%	8%	37%	56%
Type of MFF						
Commercial MFIF (MFIF)	9%	90%	1%	0%	13%	88%
Commercially-oriented MFIF (MFIF)	72%	16%	13%	0%	47%	53%
Development Agency (MFDI)	39%	45%	16%	15%	14%	71%
Foundation/NGO (MFDI)	19%	69%	13%	36%	50%	14%
Microfinance Development Fund (MFIF)	28%	61%	11%	5%	50%	45%
Size of MFF						
Small	29%	56%	15%	9%	42%	49%
Medium	39%	60%	1%	10%	30%	60%
Large	34%	56%	10%	8%	38%	54%
Targeted Financial Return of MFF						
Low	33%	54%	14%	20%	37%	43%
Low to Moderate	40%	52%	8%	0%	45%	55%
Moderate	46%	29%	25%	0%	75%	25%
Moderate to High	18%	79%	3%	0%	0%	100%
High	4%	96%	0%	0%	20%	80%
Risk Profile of MFF						
Low	4%	77%	19%	13%	46%	41%
Low to Moderate	36%	60%	4%	0%	20%	80%
Moderate	44%	54%	3%	25%	50%	25%
Moderate to High	65%	35%	0%	1%	50%	50%
High	89%	11%	0%	0%	18%	83%

MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor.

	Supply Table 12a: Portfolio Breakdown (Currency)			
	Currency			
	USD	Euro	Other Hard Currency*	Local Currency**
	(%)	(%)	(%)	(%)
All MFFs				
Grand average	46%	23%	2%	29%
Type of MFF				
Commercial MFIF (MFIF)	77%	21%	0%	1%
Commercially-oriented MFIF (MFIF)	29%	3%	0%	68%
Development Agency (MFDI)	48%	37%	0%	15%
Foundation/NGO (MFDI)	41%	13%	2%	45%
Microfinance Development Fund (MFIF)	54%	19%	3%	25%
Size of MFF				
Small	51%	14%	2%	33%
Medium	47%	24%	0%	28%
Large	49%	32%	0%	19%
Targeted Financial Return of MFF				
Low	43%	27%	0%	30%
Low to Moderate	46%	14%	4%	37%
Moderate	49%	6%	0%	45%
Moderate to High	83%	17%	0%	0%
High	74%	24%	0%	2%
Risk Profile of MFF				
Low	61%	20%	1%	18%
Low to Moderate	57%	9%	10%	25%
Moderate	57%	37%	0%	6%
Moderate to High	35%	33%	0%	32%
High	18%	15%	0%	67%

* Other Hard Currency: if different than USD or Euro; **Local Currency: if not a hard currency.

	Supply Table 13a: Portfolio Breakdown (Region)								
	Region								
	EAP	ECA	LAC	MENA	SA	SSA	North America	Western Europe	World
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
All MFFs									
Average	4%	14%	50%	1%	4%	14%	0%	1%	13%
Type of MFF									
Commercial MFIF (MFIF)	6%	15%	58%	0%	1%	5%	1%	0%	15%
Commercially-oriented MFIF (MFIF)	2%	5%	49%	0%	17%	28%	0%	0%	0%
Development Agency (MFDI)	3%	17%	56%	2%	0%	5%	0%	0%	17%
Foundation/NGO (MFDI)	5%	8%	52%	0%	24%	11%	0%	0%	1%
Microfinance Development Fund (MFIF)	4%	11%	57%	2%	2%	19%	0%	1%	6%
Size of MFF									
Small	4%	6%	56%	1%	8%	20%	0%	0%	5%
Medium	4%	17%	51%	0%	4%	10%	1%	0%	14%
Large	5%	19%	52%	1%	3%	9%	0%	0%	9%
Targeted Financial Return of MFF									
Low	5%	13%	52%	1%	6%	13%	0%	0%	11%
Low to Moderate	4%	8%	57%	1%	7%	20%	0%	1%	2%
Moderate	3%	10%	49%	0%	9%	30%	0%	0%	0%
Moderate to High	5%	19%	40%	0%	0%	0%	2%	0%	33%
High	6%	13%	68%	1%	1%	8%	0%	0%	4%
Risk Profile of MFF									
Low	5%	9%	60%	1%	6%	14%	0%	0%	5%
Low to Moderate	4%	21%	55%	0%	3%	9%	0%	0%	7%
Moderate	3%	10%	49%	0%	0%	11%	0%	3%	25%
Moderate to High	5%	17%	38%	2%	0%	16%	0%	0%	22%
High	3%	13%	47%	0%	10%	22%	1%	0%	4%

MFIF: Microfinance Investment Fund; MFDI: Microfinance Development Investor; EAP: East Asia Pacific, ECA: Eastern Europe & Central Asia, LAC: Latin America & The Caribbean, SA: South Asia, SSA: Sub-Saharan Africa.

MFF	Supply Table 9b: Volume					
	Age	As of	Total Assets	Microfinance Portfolio*	Assets invested/ committed to MF, not disbursed**	New funds allocated to MF in the next 12 months***
	(years)	(date)	(US \$)	(US \$)	(US \$)	(US \$)
ACCION Gateway	10	05/31/2005	5,100,000	5,100,000	-	-
AfriCap	3	07/31/2004	13,300,000	3,200,000	-	-
AIM	2	12/31/2004	12,969,985	12,512,329	357,090	5,000,000
Alterfin	11	12/31/2004	11,174,416	3,658,311	-	1,500,840
ANF	7	12/31/2004	28,652,400	9,550,800	-	11,597,400
AWF Development Debt	7	09/15/2004	23,294,000	1,495,720	-	-
BIO	4	06/30/2004	na	19,665,921	-	-
CAF	35	10/31/2004	na	42,000,000	-	-
Calvert Foundation	10	12/31/2004	80,000,000	20,000,000	2,500,000	4,000,000
Cordaid	8	12/31/2004	63,990,360	34,928,640	12,688,920	9,550,800
CreSud	6	09/30/2004	2,466,200	1,479,720	-	2,219,580
DB MDF	10	05/31/2005	3,259,923	2,830,013	845,000	1,000,000
DEG	6	10/05/2004	na	477,300,000	-	-
Dexia Microcredit Fund	7	12/31/2004	51,669,512	46,334,570	-	50,000,000
DID - Fonidi	2	03/31/2004	3,824,100	393,902	-	2,065,014
DID - Guarantee ⁽¹⁾	6	06/30/2004	631,698	-	364,585	-
DID - Partnership	9	06/30/2004	5,654,780	2,678,580	-	1,097,474
DOEN	11	12/31/2004	65,200,471	62,103,627	1,304,366	20,466,000
Etimos	16	12/31/2004	16,210,617	4,538,876	-	5,109,678
FIG	9	12/31/2004	3,976,000	2,865,737	-	-
FMO	35	12/31/2003	na	28,357,473	-	-
Gray Ghost	2	10/15/2004	13,100,000	4,000,000	-	-
HTF	11	12/31/2004	22,713,167	20,714,408	3,733,004	6,822,000
I&P Développement	3	03/31/2005	10,978,600	10,978,600	2,163,430	-
ICCO	10	12/31/2004	6,496,272	4,736,865	-	-
IFC	49	09/30/2004	na	225,000,000	-	-
Impulse	1	05/31/2005	15,413,875	15,413,875	4,624,163	15,413,875
Incofin	13	05/31/2005	5,600,000	4,500,000	3,000,000	500,000
Kolibri	5	12/31/2004	650,000	500,000	50,000	-
LABF	21	05/31/2005	5,340,505	1,450,000	-	-
LFP	4	10/25/2004	507,520	507,520	-	-
Luxmint - ADA	11	12/31/2004	2,330,675	2,395,383	-	409,320
MicroVest	3	06/30/2005	14,400,000	13,500,000	-	-
MIF/IADB	12	12/31/2004	na	100,000,000	60,000,000	20,000,000
NOVIB	9	12/31/2004	na	12,100,000	na	na
Oikocredit	30	12/31/2004	304,662,000	80,764,000	26,652,000	39,125,000
OTI	5	08/31/2004	13,500,000	19,400,000	-	5,000,000
PCG	4	09/30/2004	7,095,500	300,000	1,100,000	-
PlaNet Finance Fund	5	07/22/2004	449,036	275,805	-	183,870
ProCredit Holding	7	09/30/2004	110,146,930	88,561,242	-	-
PROFUND	12	06/30/2004	11,404,098	16,175,003	-	-
Rabobank	32	06/30/2004	12,085,000	9,450,582	-	-
responsAbility Fund	2	03/31/2005	11,449,977	11,449,977	-	-
SGIF	5	09/30/2004	5,500,000	2,157,627	-	-
ShoreCap Intl.	2	03/31/2004	23,300,000	1,500,000	2,500,000	3,000,000
SIDI	22	12/31/2003	12,652,433	4,823,144	-	-
TDF	11	12/31/2004	35,105,871	30,893,166	1,698,135	3,411,000
TFSF	3	12/31/2004	11,163,450	7,039,895	-	6,822,000
Unitus	5	08/31/2004	6,325,000	7,100,000	-	200,000
USAID Credit Guarantees	44	09/30/2004	na	63,600,000	-	-

*Total Assets Allocated to MF Investments; ** Total Assets invested in or committed to MF Investments, but not yet disbursed; *** New funds allocated to MF Investments projected in the next 12 months; ⁽¹⁾ No investment yet.

Supply Table 10b: Portfolio Breakdown (Type of Investment)						
MFF	As of (date)	Number of Active Microfinance Investments				TOTAL (no.)
		MFI (no.)	MFF (no.)	Network (no.)	Rating Agency/ Evaluator (no.)	
ACCION Gateway	05/31/2005	9	0	0	0	9
AfriCap	07/31/2004	3	0	0	0	3
AIM	12/31/2004	5	0	0	0	5
Alterfin	12/31/2004	25	1	0	0	26
ANF	12/31/2004	15	1	0	0	16
AWF Development Debt	09/15/2004	3	0	0	0	3
BIO	06/30/2004	6	10	0	0	16
CAF	10/31/2004	26	0	0	0	26
Calvert Foundation ⁽¹⁾	12/31/2004	40	0	0	0	40
Cordaid	12/31/2004	90	0	0	0	90
CreSud	09/30/2004	8	0	0	0	8
DB MDF	05/31/2005	28	0	0	0	27
DEG	10/05/2004	9	0	0	0	9
Dexia Microcredit Fund	12/31/2004	49	0	0	0	49
DID - Fonidi	03/31/2004	1	0	0	0	1
DID - Guarantee ⁽¹⁾	06/30/2004	0	0	0	0	0
DID - Partnership	06/30/2004	11	0	0	0	11
DOEN	12/31/2004	10	3	0	0	13
Etimos	12/31/2004	30	0	0	0	30
FIG	12/31/2004	17	0	0	0	17
FMO	12/31/2003	27	3	0	0	30
Gray Ghost	10/15/2004	0	6	0	0	6
HTF	12/31/2004	35	1	0	0	36
I&P Développement	03/31/2005	5	0	0	0	5
ICCO	12/31/2004	20	0	0	0	17
IFC	09/30/2004	48	4	0	0	52
Impulse	05/31/2005	6	0	0	0	6
Incofin	05/31/2005	12	1	0	0	13
Kolibri	12/31/2004	3	0	0	0	3
LABF	05/31/2005	3	0	0	0	3
LFP	10/25/2004	3	0	0	0	3
Luxmint - ADA	12/31/2004	9	0	0	0	9
MicroVest	06/30/2005	15	1	0	0	16
MIF/IADB	12/31/2004	12	7	0	0	19
NOVIB	12/31/2004	50	0	0	0	50
Oikocredit	12/31/2004	167	1	0	1	169
OTI	08/31/2004	13	0	0	0	13
PCG	09/30/2004	4	1	0	0	5
PlaNet Finance Fund	07/22/2004	12	0	0	0	12
ProCredit Holding	09/30/2004	19	0	0	0	19
PROFUND	06/30/2004	10	0	0	0	10
Rabobank	06/30/2004	89	0	0	0	89
responsAbility Fund	03/31/2005	40	0	0	0	40
SGIF	09/30/2004	7	2	0	0	9
ShoreCap Intl.	03/31/2004	4	0	0	0	4
SIDI	12/31/2003	35	2	0	0	37
TDF	12/31/2004	64	0	0	0	64
TFSF	12/31/2004	11	0	0	0	11
Unitus	08/31/2004	3	0	0	0	3
USAID Credit Guarantees	09/30/2004	22	1	2	0	25

⁽¹⁾ No details available on the breakdown available between MFIs and MFFs; ⁽²⁾ No investment yet.

	Supply Table 11b: Portfolio Breakdown (Instrument and Terms of Funding)						
		Instrument (excluding grants and technical assistance)			Terms of Funding		
MFF	As of	Equity	Loans and Debt Securities	Guarantees	Subsidized	Near Market	Commercial
	(date)	(%)	(%)	(%)	(%)	(%)	(%)
ACCION Gateway	06/30/2004	100%	0%	0%	0%	0%	100%
AfriCap	07/31/2004	100%	0%	0%	0%	0%	100%
AIM	12/31/2004	100%	0%	0%	0%	0%	100%
Alterfin	12/31/2004	12%	88%	0%	0%	100%	0%
ANF	12/31/2003	0%	100%	0%	0%	0%	100%
AWF Development Debt	09/15/2004	0%	100%	0%	0%	0%	100%
BIO	06/30/2004	61%	39%	0%	0%	0%	100%
CAF	10/31/2004	10%	83%	7%	0%	0%	100%
Calvert Foundation	12/31/2004	2%	98%	0%	0%	100%	0%
Cordaid	12/31/2003	2%	97%	1%	0%	100%	0%
CreSud	09/30/2004	0%	100%	0%	0%	0%	100%
DB MDF	05/31/2005	0%	100%	0%	100%	0%	0%
DEG	12/31/2001	44%	56%	0%	100%	0%	0%
Dexia Microcredit Fund	12/31/2004	0%	100%	0%	0%	0%	100%
DID - Fonidi	03/31/2004	100%	0%	0%	0%	0%	100%
DID - Guarantee	06/30/2004	0%	0%	100%	0%	100%	0%
DID - Partership	06/30/2004	46%	54%	0%	0%	100%	0%
DOEN	12/31/2004	98%	2%	0%	0%	100%	0%
Etimos	12/31/2004	0%	100%	0%	0%	0%	100%
FIG	12/31/2003	0%	0%	100%	0%	100%	0%
FMO	12/31/2003	68%	32%	0%	2%	0%	98%
Gray Ghost	06/30/2004	42%	48%	10%	0%	0%	100%
HTF	12/31/2004	29%	62%	9%	0%	0%	100%
I&P Développement	03/31/2005	15%	85%	0%	0%	100%	0%
ICCO	12/31/2004	21%	12%	67%	100%	0%	0%
IFC	09/30/2004	27%	65%	8%	0%	0%	100%
Impulse	12/31/2004	0%	100%	0%	0%	0%	100%
Incofin	05/31/2005	43%	56%	1%	0%	100%	0%
Kolibri	12/31/2004	0%	100%	0%	0%	0%	100%
LABF	05/31/2004	0%	0%	100%	0%	100%	0%
LFP	10/25/2004	100%	0%	0%	0%	0%	100%
Luxmint - ADA	12/31/2004	10%	78%	12%	0%	100%	0%
MicroVest	06/30/2005	11%	89%	0%	0%	0%	100%
MIF/IADB	12/31/2004	63%	37%	0%	0%	0%	100%
NOVIB	12/31/2004	3%	84%	13%	100%	0%	0%
Oikocredit	12/31/2004	6%	92%	2%	0%	100%	0%
OTI	08/31/2004	91%	9%	0%	0%	0%	100%
PCG	09/30/2004	0%	100%	0%	0%	100%	0%
PlaNet Finance Fund	07/22/2004	0%	100%	0%	0%	0%	100%
ProCredit Holding	09/30/2004	70%	30%	0%	0%	100%	0%
PROFUND	06/30/2004	91%	9%	0%	0%	0%	100%
Rabobank	06/30/2004	2%	94%	4%	50%	50%	0%
responsAbility Fund	03/31/2005	12%	88%	0%	0%	100%	0%
SGIF	09/30/2004	32%	68%	0%	0%	100%	0%
ShoreCap Intl.	12/31/2003	100%	0%	0%	0%	75%	25%
SIDI ⁽¹⁾	12/31/2004	62%	38%	0%	0%	100%	0%
TDF	12/31/2004	30%	69%	1%	0%	0%	100%
TFSF	12/31/2004	8%	92%	0%	0%	0%	100%
Unitus	08/31/2004	5%	92%	3%	0%	0%	100%
USAID Credit Guarantees	09/30/2004	0%	0%	100%	0%	100%	0%

⁽¹⁾ Breakdown per instrument not available as of 12/31/2004 – breakdown corresponds to 2003.

Supply Table 12b: Portfolio Breakdown (Currency)					
MFF	As of (date)	Currency			
		USD (%)	Euro (%)	Other Hard Currency*	Local Currency**
				(%)	(%)
ACCION Gateway	06/30/2004	0%	0%	0%	100%
AfriCap	07/31/2004	0%	0%	0%	100%
AIM	12/31/2004	29%	0%	0%	71%
Alterfin	12/31/2004	60%	31%	9%	0%
ANF	12/31/2003	67%	33%	0%	0%
AWF Development Debt	09/15/2004	100%	0%	0%	0%
BIO	06/30/2004	42%	46%	0%	12%
CAF	10/31/2004	50%	50%	0%	0%
Calvert Foundation	12/31/2004	100%	0%	0%	0%
Cordaid	12/31/2003	17%	31%	0%	52%
CreSud	09/30/2004	93%	7%	0%	0%
DB MDF	05/31/2005	100%	0%	0%	0%
DEG	12/31/2001	0%	100%	0%	0%
Dexia Microcredit Fund	12/31/2004	94%	6%	0%	0%
DID - Fonidi	03/31/2004	0%	0%	0%	100%
DID - Guarantee	06/30/2004	0%	0%	0%	100%
DID - Partership	06/30/2004	97%	0%	0%	3%
DOEN	12/31/2004	14%	84%	0%	2%
Etimos	12/31/2004	59%	41%	0%	0%
FIG	12/31/2003	84%	16%	0%	0%
FMO	12/31/2003	0%	61%	0%	39%
Gray Ghost	06/30/2004	100%	0%	0%	0%
HTF	12/31/2004	34%	21%	0%	45%
I&P Développement	03/31/2005	22%	5%	0%	73%
ICCO	12/31/2004	37%	26%	0%	37%
IFC	09/30/2004	73%	0%	0%	27%
Impulse	12/31/2004	40%	60%	0%	0%
Incofin	05/31/2005	32%	47%	0%	21%
Kolibri	12/31/2004	100%	0%	0%	0%
LABF	05/31/2004	100%	0%	0%	0%
LFP	10/25/2004	0%	0%	0%	100%
Luxmint - ADA	12/31/2004	79%	21%	0%	0%
MicroVest	06/30/2005	81%	19%	0%	0%
MIF/IADB	12/31/2004	71%	0%	0%	29%
NOVIB	12/31/2004	28%	40%	0%	32%
Oikocredit	12/31/2004	54%	17%	0%	29%
OTI	08/31/2004	49%	49%	0%	2%
PCG	09/30/2004	100%	0%	0%	0%
PlaNet Finance Fund	07/22/2004	0%	100%	0%	0%
ProCredit Holding	09/30/2004	73%	20%	0%	7%
PROFUND	06/30/2004	9%	0%	0%	91%
Rabobank	06/30/2004	34%	10%	7%	49%
responsAbility Fund	03/31/2005	74%	26%	0%	0%
SGIF ⁽¹⁾	09/30/2004	50%	0%	50%	0%
ShoreCap Intl.	12/31/2003	0%	0%	0%	100%
SIDI	12/31/2004	23%	6%	0%	71%
TDF	12/31/2004	56%	22%	0%	22%
TFSF	12/31/2004	61%	28%	0%	11%
Unitus	08/31/2004	0%	0%	0%	100%
USAID Credit Guarantees	09/30/2004	100%	0%	0%	0%

* Other Hard Currency: if different than USD or Euro; **Local Currency: if not a hard currency; ⁽¹⁾ Breakdown per currency is 100% USD and CAD. No additional breakdown provided.

Supply Table 13b: Portfolio Breakdown (Region)										
MFF	As of (date)	Region								
		EAP	ECA	LAC	MENA	SA	SSA	North America	Western Europe	World
		(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
ACCION Gateway	06/30/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
AfriCap	07/31/2004	0%	0%	0%	0%	0%	100%	0%	0%	0%
AIM	12/31/2004	0%	0%	94%	0%	0%	6%	0%	0%	0%
Alterfin	12/31/2004	12%	0%	65%	0%	0%	20%	0%	0%	3%
ANF	12/31/2003	0%	21%	79%	0%	0%	0%	0%	0%	0%
AWF Development Debt	09/15/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
BIO	06/30/2004	0%	0%	29%	0%	0%	9%	0%	0%	62%
CAF	10/31/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
Calvert Foundation	12/31/2004	1%	1%	19%	1%	2%	0%	0%	0%	76%
Cordaid	12/31/2003	11%	18%	25%	3%	23%	18%	0%	0%	2%
CreSud	09/30/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
DB MDF	05/31/2005	10%	23%	28%	9%	16%	14%	0%	0%	0%
DEG	12/31/2001	10%	41%	48%	0%	0%	1%	0%	0%	0%
Dexia Microcredit Fund	12/31/2004	5%	16%	52%	3%	4%	2%	0%	0%	18%
DID - Fonidi	03/31/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
DID - Guarantee	06/30/2004	0%	0%	0%	0%	0%	100%	0%	0%	0%
DID - Partnership	06/30/2004	0%	0%	96%	0%	0%	4%	0%	0%	0%
DOEN	12/31/2004	0%	25%	20%	0%	1%	10%	0%	0%	44%
Etimos	12/31/2004	0%	7%	66%	0%	0%	27%	0%	0%	0%
FIG	12/31/2003	0%	0%	85%	0%	0%	15%	0%	0%	0%
FMO	12/31/2003	9%	25%	31%	0%	0%	8%	0%	0%	27%
Gray Ghost	06/30/2004	0%	0%	0%	0%	0%	0%	0%	0%	100%
HTF	12/31/2004	3%	3%	51%	0%	12%	31%	0%	0%	0%
I&P Développement	03/31/2005	0%	0%	41%	0%	33%	26%	0%	0%	0%
ICCO	12/31/2003	26%	0%	74%	0%	0%	0%	0%	0%	0%
IFC	09/30/2004	3%	52%	34%	0%	2%	3%	0%	0%	6%
Impulse	12/31/2004	0%	0%	84%	0%	0%	16%	0%	0%	0%
Incofin	05/31/2005	0%	0%	50%	0%	0%	40%	0%	10%	0%
Kolibri	12/31/2004	0%	50%	50%	0%	0%	0%	0%	0%	0%
LABF	05/31/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
LFP	10/25/2004	13%	0%	0%	0%	0%	87%	0%	0%	0%
Luxmint - ADA	12/31/2004	0%	0%	79%	0%	0%	21%	0%	0%	0%
MicroVest	06/30/2005	16%	36%	42%	0%	0%	0%	6%	0%	0%
MIF/IADB	12/31/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
NOVIB	12/31/2004	8%	22%	42%	0%	2%	22%	0%	0%	4%
Oikocredit	12/31/2004	13%	10%	60%	0%	0%	13%	2%	2%	0%
OTI	08/31/2004	2%	71%	15%	0%	0%	12%	0%	0%	0%
PCG	09/30/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
PlaNet Finance Fund	07/22/2004	15%	0%	38%	9%	0%	38%	0%	0%	0%
ProCredit Holding	09/30/2004	0%	40%	53%	0%	1%	6%	0%	0%	0%
PROFUND	06/30/2004	0%	0%	100%	0%	0%	0%	0%	0%	0%
Rabobank	06/30/2004	12%	10%	42%	0%	31%	5%	0%	0%	0%
responsAbility Fund	03/31/2005	9%	39%	41%	0%	0%	11%	0%	0%	0%
SGIF	09/30/2004	0%	32%	37%	0%	0%	0%	0%	0%	31%
ShoreCap Intl.	12/31/2003	0%	0%	0%	0%	100%	0%	0%	0%	0%
SIDI	12/31/2003	9%	4%	39%	9%	0%	39%	0%	0%	0%
TDF	12/31/2004	16%	19%	52%	2%	0%	11%	0%	0%	0%
TFSF	12/31/2004	15%	10%	65%	0%	0%	10%	0%	0%	0%
Unitus	08/31/2004	0%	0%	23%	0%	62%	15%	0%	0%	0%
USAID Credit Guarantees	09/30/2004	0%	3%	51%	11%	0%	13%	0%	0%	22%

EAP: East Asia Pacific, ECA: Eastern Europe & Central Asia, LAC: Latin America & The Caribbean, SA: South Asia, SSA: Sub-Saharan Africa.

BULLETIN TABLES: MICROFINANCE INSTITUTIONS

Introduction to the Peer Groups and Tables

Setting up Peer Groups

The *MicroBanking Bulletin* is designed to create performance benchmarks against which managers and directors of microfinance institutions can compare their institution's performance with that of similar institution. Since the microfinance industry consists of a range of institutions and operating environments, some with very different characteristics, an MFI should be compared to similar institutions for the reference points to be useful.

The *Bulletin* addresses this issue with its peer group framework. Peer groups are sets of programs that have similar characteristics—similar enough that their managers find utility in comparing their results with those of other organizations in their peer group. The *Bulletin* forms peer groups on two bases: simple and compound peer groups.

Simple Peer Groups look at MFIs based on a single characteristic. This allows users to analyze performance based on a common factor, such as age, location or scale of operations. MFIs have been grouped according to the following ten characteristics for this edition of the *Bulletin*:

- 1) *Age*: The *Bulletin* classifies MFIs into three categories (new, young, and mature) based on the maturity of their microfinance operations. This is calculated as the difference between the year they started their microfinance operations and the year of data submitted by the institutions.
- 2) *Charter Type*: The charter under which the MFIs are registered is used to classify the MFIs as banks, credit unions/cooperatives, NGOs, and non bank financial institutions.
- 3) *Financial Intermediation*: This classification measures the extent to which an MFI intermediates between savers and borrowers, funding its assets through mobilized deposits. It is calculated as a percentage of total assets funded by voluntary savings.
- 4) *Lending Methodology*: Performance may vary by the way the institution delivers its loan products and serves borrowers. The *Bulletin* classifies MFIs based on the *primary* methodology used, determined by the number and volume of loans outstanding.

- 5) *Outreach*: Scale of outreach is measured as the total number of borrowers served.
- 6) *Profit Status*: According to their registration, MFIs are classified as 'not for profit' and 'for profit' institutions.
- 7) *Region*: MFIs are divided into five main geographic region: Africa, Asia, Eastern Europe and Central Asia (ECA), Latin America, and Middle East and North Africa (MENA).
- 8) *Scale*: Institutional scale is measured by the size of an institution's loan portfolio in U.S. dollars. The measure of scale is regionalized to reflect differences in income levels across regions.
- 9) *Sustainability*: MFIs are grouped according to their level of financial self-sufficiency, representing their ability to cover all costs on an adjusted basis.
- 10) *Target Market*: The *Bulletin* classifies MFIs into three categories—low-end, broad, and high-end—according to the average balance of loans served. For international comparison, this balance is stated as a percentage local income levels (GNI per capita).

Compound Peer Groups use a more complex set of variables to analyze MFI performance. This creates benchmarks where institutions have a greater number of similar factors affecting performance. The *Bulletin* considers two main indicators in forming these groups: 1) *Region*; and 2) *Scale*.

A third indicator is used to further group similar institutions. Past editions of the *Bulletin* have traditionally used *Target market* as a final grouping factor. Given the growth of retail financial intermediation, both within the industry and in the *Bulletin* data set, *Financial intermediation* has become a more decisive factor for comparing MFIs. Either one factor or the other is used in this edition, depending on the distribution within the resulting compound peer group.

Peer Group Composition

The quantitative criteria used to categorize these groups are summarized in Figure 1. The entire sample of institutions that fall into these categories is located in the guide to the peer groups (pages

96 to 102). Confidentiality limits the publication of names of financially self-sufficient MFIs included in the database.

More detailed information about each institution can be found in Appendix II.

Data Quality and Statistical Issues

Since the *Bulletin* relies primarily on self-reported data, we grade the quality of the information based

on the degree to which we have independent verification of its reliability. The data quality grade is not a rating of the institution's performance. In the statistical tables that follow, the *median* values are displayed for each indicator. This represents a change from previous editions of the *Bulletin* where averages have been reported. For more details on both Data Quality and Statistical Issues, see Appendix I.

Figure 1: Peer group criteria

Group	Categories	Criteria
Age	New Young Mature	1 to 4 years 5 to 8 years over 8 years
Charter Type	Bank Credit Union NBFI NGO Rural Bank	
Financial Intermediation	Non FI Low FI High FI	No voluntary savings Voluntary savings < 20% of total assets Voluntary savings ≥ 20 % of total assets
Lending Methodology	Individual Solidarity Group Individual / Solidarity Village Banking	
Outreach	Large Medium Small	Number of Borrowers > 30,000 Number of Borrowers ≥ 10,000 and ≤ 30,000 Number of Borrowers < 10,000
Profit Status	For Profit Not for Profit	Registered as a for profit institution Registered in a non profit status
Region	Africa Asia ECA LAC MENA	Sub-Saharan Africa South & East Asia Europe & Central Asia Latin America & the Caribbean Middle East & North Africa
Scale (Gross Loan Portfolio, in US\$)	Large Medium Small	Africa, Asia, ECA, MENA > 8 million Latin America > 15 million Africa, Asia, ECA, MENA 2 million to 8 million Latin America 4 million to 15 million Africa, Asia, ECA, MENA < 2 million Latin America < 4 million
Sustainability	Non FSS FSS	Financial Self-Sufficiency < 100% Financial Self-Sufficiency ≥ 100%
Target Market (*Depth = Average Loan Balance per Borrower/ GNI per Capita)	Low end Broad High end Small Business	depth* < 20% OR average loan size < US\$150 depth* between 20% and 149% depth* between 150% and 250% depth* over 250%

Abbreviations: ECA = Eastern Europe and Central Asia; FI = Financial Intermediary; FSS = Financially Self-Sufficient; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; NBFI = Non Bank Financial Institution; NGO = Non Governmental Organization

BULLETIN TABLES

Median values	INSTITUTIONAL CHARACTERISTICS						FINANCING STRUCTURE					
	Number of MFIs	Age	Total Assets	Offices	Personnel	Capital/Asset Ratio	Commercial Funding Liabilities Ratio	Debt/Equity Ratio	Deposits to Loans	Deposits to Total Assets	Gross Loan Portfolio/ Total Assets	
PEER GROUP	Units Year:	nb	US\$	nb	nb	%	%	x	%	%	%	
	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	2003	
All MFIs	231	7	3,797,214	10	78	38.6	44.1	1.5	-	-	74.5	
SIMPLE PEER GROUPS												
Age												
New	47	3	2,399,127	6	48	44.5	20.8	1.2	0.1	0.1	67.3	
Young	88	6	3,623,480	11	70	48.4	26.1	0.9	-	-	76.6	
Mature	96	13	8,207,668	12	124	28.2	62.9	2.6	4.5	3.2	75.6	
Charter Type												
Bank	31	11	10,793,021	17	123	19.3	101.8	3.9	89.0	56.1	70.1	
Credit Union	20	8	2,266,444	4	28	24.9	75.2	3.0	69.7	53.2	74.8	
NBFI	72	6	5,494,636	11	94	42.0	29.3	1.3	-	-	76.4	
NGO	95	8	3,101,747	10	73	51.8	8.4	0.8	-	-	76.1	
Rural Bank	12	12	2,885,214	6	58	15.4	173.8	5.5	173.8	71.4	35.9	
Financial Intermediation												
Non FI	121	7	3,449,747	10	66	55.8	8.2	0.7	-	-	80.6	
Low FI	36	6	3,349,587	12	114	43.9	17.7	1.2	8.8	5.2	66.6	
High FI	74	11	5,994,977	8	74	17.8	101.0	4.6	85.7	57.8	70.4	
Methodology												
Individual	74	11	4,682,123	8	50	22.3	89.6	3.3	56.0	44.7	77.1	
Individual/ Solidarity	96	7	6,419,947	12	103	43.9	38.4	1.3	0.3	0.2	75.1	
Solidarity	35	6	1,216,507	8	60	49.6	1.4	1.0	-	-	66.7	
Village Banking	26	7	2,217,049	13	85	66.8	21.4	0.5	-	-	71.0	
Outreach												
Small(Outreach)	126	6	1,668,411	5	36	42.4	28.1	1.1	-	-	72.8	
Medium(Outreach)	53	8	8,210,770	13	115	33.2	39.9	2.0	-	-	78.1	
Large(Outreach)	52	12	25,207,126	34	339	32.9	56.8	2.0	5.8	4.5	74.5	
Profit Status												
For Profit	84	8	4,831,836	9	108	21.1	89.3	3.2	46.2	32.6	68.6	
Not for Profit	147	7	3,684,918	10	67	47.6	19.5	1.0	-	-	77.9	
Region												
Africa	57	6	2,979,937	8	88	39.1	46.4	1.5	20.7	11.9	65.8	
Asia	57	11	2,850,580	10	106	29.8	69.6	2.1	14.8	13.2	73.4	
ECA	49	5	2,585,893	8	52	69.1	-	0.4	-	-	83.7	
LAC	52	13	10,119,454	12	113	24.4	71.2	3.1	-	-	79.7	
MENA	16	7	5,779,488	12	80	76.5	5.2	0.3	-	-	78.6	
Scale												
Small(Scale)	112	6	1,308,101	5	33	45.8	24.4	1.1	-	-	69.0	
Medium(Scale)	64	9	7,340,584	13	124	39.6	36.7	1.5	-	-	75.8	
Large(Scale)	55	10	29,359,571	29	252	27.9	70.1	2.6	27.8	21.7	80.9	
Sustainability												
FSS	139	8	7,236,128	12	100	31.8	61.2	2.1	2.1	1.5	79.1	
Non-FSS	92	6	2,045,037	8	61	51.8	13.6	0.8	-	-	67.6	
Target Market												
Low end	91	8	2,474,031	11	93	49.1	12.7	0.9	-	-	71.2	
Broad	116	7	4,523,390	9	67	31.8	61.6	2.1	-	-	76.4	
High end	12	10	16,708,295	15	73	30.3	62.0	2.3	1.2	1.0	81.5	
Small Business	12	9	3,657,684	5	110	18.8	109.2	4.4	99.1	65.1	61.5	
COMPOUND PEER GROUPS												
Africa Large FI	8	7	31,555,607	41	309	23.0	77.9	3.7	68.0	46.2	64.3	
Africa Large Non FI	5	10	25,725,652	15	132	28.2	22.9	2.5	-	-	91.7	
Africa Medium FI	4	12	6,724,479	12	163	19.0	88.3	4.5	55.0	40.1	68.3	
Africa Medium Non FI	6	6	6,039,109	14	136	44.4	61.0	1.3	13.8	9.4	71.8	
Africa Small FI	12	4	2,885,214	6	63	17.3	296.7	4.8	296.7	72.6	25.0	
Africa Small Non FI	22	5	889,816	6	49	59.9	11.3	0.6	0.3	0.2	66.6	
Asia Large FI	4	16	34,614,712	91	1,152	40.6	67.4	1.5	58.7	43.9	76.1	
Asia Large Non FI	5	12	22,173,401	109	1,004	33.0	37.8	2.0	0.3	0.2	79.1	
Asia Medium FI	4	16	6,684,819	5	85	15.0	96.1	5.7	80.4	67.1	80.6	
Asia Medium Non FI	15	10	6,364,759	28	227	32.8	11.8	1.5	0.2	0.1	67.4	
Asia Small FI	19	11	1,045,576	2	22	24.8	104.3	2.6	94.6	64.2	72.2	
Asia Small Non FI	10	9	784,404	9	66	43.2	1.5	0.8	-	-	67.1	
ECA High	5	6	14,320,989	18	64	40.5	45.1	1.5	-	-	76.6	
ECA Large Broad	8	6	13,487,568	24	89	39.3	10.6	1.5	-	-	85.9	
ECA Medium Broad	11	6	6,838,049	12	52	85.7	9.3	0.2	-	-	81.5	
ECA Small Broad	21	5	1,541,177	4	23	78.9	-	0.3	-	-	85.0	
ECA Small Low	4	4	526,538	5	27	88.7	-	0.1	-	-	65.0	
LAC Large FI	13	14	77,522,788	30	338	13.6	97.6	6.3	78.3	58.8	79.8	
LAC Large Non FI	6	12	32,773,841	17	215	25.3	71.2	3.2	-	-	88.9	
LAC Medium Broad	11	13	10,793,021	10	115	24.3	61.2	3.1	-	-	80.1	
LAC Medium Low	4	14	9,355,130	17	143	35.3	39.2	1.8	-	-	74.2	
LAC Small Broad	10	7	3,257,609	5	25	26.1	66.8	2.8	-	-	72.6	
LAC Small Low	8	11	1,304,493	4	42	59.0	20.2	0.7	-	-	71.8	
MENA Large	3	6	28,491,985	75	421	61.9	10.1	0.6	-	-	82.7	
MENA Medium	8	7	6,016,021	11	77	84.5	1.0	0.2	-	-	76.3	
MENA Small	5	7	1,418,161	12	49	75.8	8.4	0.3	-	-	74.5	

All data presented are **median** values. For definitions of Peer Group criteria, refer to pages 84 to 85; For details on indicator definitions, refer to pages 94 to 95; For averages, standard deviations or other results, please visit www.mixmbb.org

PEER GROUP	OUTREACH INDICATORS										
	Units Year:	Number of Active Borrowers	Percent of Women Borrowers	Number of Loans Outstanding	Gross Loan Portfolio	Loan Balance per Borrower	Average Loan Balance per Borrower/ GNI per Capita	Average Outstanding Balance	Average Outstanding Balance/ GNI per Capita	Number of Voluntary Savers	Number of Voluntary Savings Accounts
	nb 2003	% 2003	nb 2003	US\$ 2003	US\$ 2003	% 2003	US\$ 2003	% 2003	nb 2003	nb 2003	
All MFIs	7,250	63.4	7,250	2,568,905	335	45.1	343	41.6	-	-	
SIMPLE PEER GROUPS											
Age											
New	4,288	66.0	4,008	1,282,402	340	64.5	426	55.9	179	164	
Young	7,215	63.3	7,250	2,388,033	315	48.9	302	42.0	-	-	
Mature	18,026	62.9	17,563	5,487,700	350	33.8	357	33.1	3,397	1,436	
Charter Type											
Bank	7,250	40.0	5,937	5,981,116	779	75.6	779	74.6	8,867	9,543	
Credit Union	2,387	67.7	1,755	1,331,173	513	47.1	616	37.9	8,866	8,372	
NBFI	8,369	55.8	8,855	3,068,157	442	76.6	567	62.4	-	-	
NGO	10,140	75.9	10,092	2,502,084	183	21.1	209	22.0	-	-	
Rural Bank	2,896	48.1	3,428	953,869	253	66.1	248	58.5	13,593	18,116	
Financial Intermediation											
Non FI	7,233	68.1	7,209	2,607,288	337	29.6	352	29.7	-	-	
Low FI	12,151	71.8	14,271	2,343,970	101	46.7	84	38.3	3,733	4,151	
High FI	4,498	43.3	4,288	2,845,944	538	74.4	566	68.4	13,564	13,593	
Methodology											
Individual	4,498	40.0	4,403	3,546,434	879	67.2	857	66.7	4,067	2,587	
Individual/ Solidarity	8,409	62.8	8,189	3,718,401	321	41.9	306	35.8	35	-	
Solidarity	6,886	82.0	8,467	637,671	93	27.1	84	25.3	-	-	
Village Banking	16,338	90.3	13,047	1,650,437	88	16.5	94	16.4	-	-	
Outreach											
Small(Outreach)	2,949	56.8	2,995	1,012,264	401	50.4	421	46.3	-	-	
Medium(Outreach)	17,563	71.8	18,026	6,186,769	305	44.4	310	40.0	-	-	
Large(Outreach)	60,113	68.0	60,141	16,875,911	156	25.1	143	21.7	17,445	18,144	
Profit Status											
For Profit	7,404	51.3	7,828	2,268,398	434	78.4	455	71.1	5,150	5,761	
Not for Profit	7,250	71.4	7,209	2,600,585	315	29.5	321	29.3	-	-	
Region											
Africa	9,196	65.3	8,628	1,333,949	148	81.2	133	76.1	3,733	3,481	
Asia	8,167	70.1	8,097	1,797,775	117	24.5	121	24.8	4,597	4,446	
ECA	5,061	66.1	5,061	1,847,405	916	51.3	831	50.5	-	-	
LAC	17,509	42.5	14,519	7,957,422	712	43.8	651	42.1	-	-	
MENA	8,931	84.0	9,388	3,467,444	263	15.7	259	15.0	-	-	
Scale											
Small(Scale)	2,932	65.6	2,986	798,537	258	43.5	264	41.2	101	-	
Medium(Scale)	18,588	75.9	16,870	5,140,427	319	29.7	353	34.0	-	-	
Large(Scale)	42,867	51.8	39,452	21,579,211	766	71.6	818	57.8	13,258	14,816	
Sustainability											
FSS	11,068	60.0	10,586	5,577,873	396	49.0	360	44.1	349	-	
Non-FSS	6,115	67.4	6,051	1,276,646	187	41.9	207	41.1	-	-	
Target Market											
Low end	15,422	84.7	15,422	1,617,258	93	17.6	86	15.8	-	-	
Broad	5,967	53.2	5,745	3,144,623	528	55.7	542	50.4	-	-	
High end	10,973	37.5	7,426	16,460,106	1,586	177.4	1,542	175.9	-	-	
Small Business	1,628	37.6	1,628	2,438,433	2,311	307.7	2,416	285.4	7,828	8,487	
COMPOUND PEER GROUPS											
Africa Large FI	55,262	40.2	225,996	21,126,048	386	105.8	95	106.1	140,578	150,640	
Africa Large Non FI	17,200	70.5	23,653	22,750,064	753	171.1	970	220.4	-	-	
Africa Medium FI	31,300	66.1	24,103	3,370,306	122	47.9	183	76.1	19,019	19,019	
Africa Medium Non FI	25,104	57.8	22,110	4,565,858	164	87.6	163	67.8	5,262	5,262	
Africa Small FI	1,635	43.3	2,296	554,753	306	95.5	287	89.8	13,593	13,593	
Africa Small Non FI	6,470	71.7	8,494	523,161	71	50.7	71	46.0	85	85	
Asia Large FI	98,905	n/a	151,465	27,186,978	350	32.4	350	32.4	92,074	184,609	
Asia Large Non FI	1,162,294	100.0	278,895	17,966,027	84	16.9	72	13.7	71,376	71,376	
Asia Medium FI	9,131	43.6	9,314	4,898,207	976	113.8	971	113.4	14,118	10,615	
Asia Medium Non FI	45,142	99.5	40,840	3,628,274	81	18.7	73	17.1	220	176	
Asia Small FI	1,600	42.5	1,600	759,217	396	44.5	396	44.5	5,038	4,994	
Asia Small Non FI	8,167	90.8	8,167	567,110	62	12.4	62	12.4	90	90	
ECA High	5,061	36.5	5,061	14,622,912	4,133	178.9	4,133	178.9	-	-	
ECA Large Broad	10,782	54.0	10,782	9,536,777	1,271	82.6	1,271	82.6	-	-	
ECA Medium Broad	7,160	85.3	7,162	5,173,517	831	63.6	831	63.6	-	-	
ECA Small Broad	1,409	66.0	1,409	1,172,861	553	47.7	553	39.1	-	-	
ECA Small Low	2,922	74.0	2,922	421,282	133	23.4	133	23.4	-	-	
LAC Large FI	46,266	37.6	33,704	61,726,877	1,094	54.5	1,209	67.6	59,179	57,855	
LAC Large Non FI	47,549	55.7	53,033	29,843,792	720	35.8	695	34.5	-	-	
LAC Medium Broad	11,068	0.5	11,068	8,167,494	712	49.1	651	49.1	-	-	
LAC Medium Low	30,669	86.6	22,958	6,804,867	242	17.9	310	17.1	-	-	
LAC Small Broad	2,557	53.0	2,557	2,089,793	1,005	66.3	1,005	66.3	-	-	
LAC Small Low	6,107	4.2	6,153	572,664	129	8.1	126	8.0	n/a	n/a	
MENA Large	101,568	60.5	101,568	15,785,795	279	21.1	279	21.1	-	-	
MENA Medium	8,931	70.3	9,388	4,018,688	422	17.6	408	16.8	-	-	
MENA Small	6,886	94.0	6,886	725,846	149	11.3	149	11.3	-	-	

All data presented are median values. For definitions of Peer Group criteria, refer to pages 84 to 85; For details on indicator definitions, refer to pages 94 to 95; For averages, standard deviations or other results, please visit www.mixmbb.org

BULLETIN TABLES

PEER GROUP	OUTREACH INDICATORS		MACROECONOMIC INDICATORS					OVERALL FINANCIAL PERFORMANCE					
	Units Year:	Voluntary Savings US\$ 2003	Average Savings Balance per Saver US\$ 2003	Average Savings Account Balance US\$ 2003	GNI per Capita US\$ 2003	GDP Growth Rate %	Deposit Rate %	Inflation Rate %	Financial Depth %	Return on Assets %	Return on Equity %	Operational Self- Sufficiency %	Financial Self- Sufficiency %
Median values													
All MFIs	-	142	119	890	4.5	5.2	4.3	35.8	1.2	4.6	117.5	108.5	
SIMPLE PEER GROUPS													
Age													
New	1,145	155	132	470	4.5	4.1	11.1	22.5	(0.6)	(2.2)	112	100	
Young	-	63	61	860	5.2	5.4	4.2	38.9	(0.3)	(0.1)	112	104	
Mature	193,327	153	140	890	4.1	5.2	3.1	40.3	2.9	11.0	124	113	
Charter Type													
Bank	4,130,000	351	334	810	4.1	6.5	2.9	51.6	1.9	15.8	120	112	
Credit Union	1,032,132	156	75	1,080	4.5	5.2	3.0	30.1	2.5	9.8	128	117	
NBFI	-	132	119	630	3.5	3.8	4.5	32.2	(0.5)	(1.7)	114	102	
NGO	-	18	16	950	5.2	6.0	4.8	35.8	1.1	2.1	116	108	
Rural Bank	2,052,499	135	77	320	5.2	14.3	26.7	-	5.4	34.4	141	129	
Financial Intermediation													
Non FI	-	n/a	n/a	1,320	4.5	4.8	4.3	32.4	-	1.7	117	104	
Low FI	103,501	20	18	310	4.7	4.1	6.8	58.3	(1.6)	(4.0)	104	95	
High FI	3,074,711	167	150	810	4.3	5.5	3.3	35.3	2.5	13.0	127	114	
Methodology													
Individual	429,559	189	190	1,402	4.0	5.5	4.8	32.4	1.9	10.0	119	110	
Individual/ Solidarity	3,940	96	89	830	5.2	5.2	3.9	33.0	2.3	6.3	124	112	
Solidarity	-	10	16	320	4.5	3.7	4.8	58.3	(3.8)	(10.1)	104	89	
Village Banking	-	14	14	630	4.7	4.5	3.8	29.7	(0.9)	0.2	100	98	
Outreach													
Small(Outreach)	-	144	88	1,025	4.5	5.9	4.8	29.8	(0.4)	(0.7)	113	102	
Medium(Outreach)	-	310	334	730	4.5	4.5	4.8	33.6	1.1	2.0	113	106	
Large(Outreach)	515,110	110	115	670	4.5	3.8	3.3	43.6	3.5	11.4	128	119	
Profit Status													
For Profit	889,384	175	172	505	4.1	4.9	5.5	47.3	0.3	3.7	116	105	
Not for Profit	-	47	28	1,080	4.9	5.2	4.0	32.4	1.9	4.6	119	110	
Region													
Africa	311,350	87	75	290	5.2	4.1	17.8	23.6	(1.9)	(5.8)	111	94	
Asia	216,721	124	85	810	4.5	5.2	3.0	58.3	3.2	9.9	125	116	
ECA	-	2,649	433	1,540	7.3	5.9	4.8	23.0	1.1	3.4	123	110	
LAC	-	459	848	1,810	2.6	4.5	5.2	32.4	1.8	9.5	115	109	
MENA	-	n/a	n/a	1,355	3.2	4.5	2.5	90.7	0.7	1.3	124	105	
Scale													
Small(Scale)	-	130	81	810	4.7	5.5	4.8	29.8	(1.9)	(3.2)	111	96	
Medium(Scale)	-	78	63	1,080	4.1	5.2	3.7	41.9	1.7	4.6	120	109	
Large(Scale)	4,130,000	375	334	1,080	4.0	3.8	3.3	40.2	3.6	14.9	129	120	
Sustainability													
FSS	68,747	156	140	890	4.5	5.2	3.0	38.2	4.7	13.6	134	122	
Non-FSS	-	57	48	670	4.4	5.5	6.6	33.6	(6.0)	(14.6)	97	80	
Target Market													
Low end	-	23	26	480	4.5	4.8	4.3	58.3	(1.0)	(2.3)	107	94	
Broad	-	153	135	1,080	4.3	5.5	4.8	29.6	2.3	6.9	122	111	
High end	222,712	384	387	850	4.9	4.3	2.4	45.3	4.3	16.1	134	122	
Small Business	3,090,754	274	208	380	5.2	10.6	6.1	22.7	1.2	13.2	120	110	
COMPOUND PEER GROUPS													
Africa Large FI	11,070,612	127	96	290	3.1	3.7	8.8	37.0	(0.1)	(0.2)	130	107	
Africa Large Non FI	-	n/a	n/a	440	5.6	3.5	1.5	21.8	7.6	17.1	155	139	
Africa Medium FI	2,211,794	78	89	315	4.0	8.2	7.9	10.4	0.2	(1.7)	112	105	
Africa Medium Non FI	479,397	39	39	240	4.9	9.9	7.8	21.3	(2.9)	(4.9)	106	96	
Africa Small FI	2,052,499	88	75	320	5.2	14.3	26.7	-	3.8	24.1	140	127	
Africa Small Non FI	2,964	21	23	90	(3.9)	3.7	17.8	58.3	(11.8)	(19.2)	89	67	
Asia Large FI	12,272,245	124	108	605	4.9	6.5	2.7	46.8	4.8	12.0	135	128	
Asia Large Non FI	536,764	16	16	530	8.0	6.0	3.8	63.9	3.2	21.1	127	118	
Asia Medium FI	3,895,026	260	364	945	4.3	7.9	2.7	56.9	2.0	13.0	132	117	
Asia Medium Non FI	4,920	4	4	480	5.8	5.2	3.0	60.4	0.7	3.5	105	103	
Asia Small FI	679,842	144	144	810	4.5	5.2	2.9	58.3	7.7	27.3	146	136	
Asia Small Non FI	-	19	18	470	5.8	2.1	2.9	58.3	(8.0)	(11.4)	81	81	
ECA High	-	n/a	n/a	1,780	7.3	5.9	6.4	29.8	1.1	11.3	115	111	
ECA Large Broad	-	n/a	n/a	1,725	3.5	4.0	2.3	45.7	1.3	2.2	136	112	
ECA Medium Broad	-	n/a	n/a	1,540	4.3	4.0	1.6	21.0	8.4	11.0	135	134	
ECA Small Broad	-	n/a	n/a	970	8.6	9.3	4.8	14.7	(2.1)	(2.8)	115	105	
ECA Small Low	-	n/a	n/a	615	8.8	9.6	15.1	12.2	(0.4)	3.4	175	98	
LAC Large FI	48,529,609	919	916	1,810	2.6	3.8	3.3	32.4	2.2	19.7	114	114	
LAC Large Non FI	-	n/a	n/a	1,810	3.2	5.0	6.2	31.0	7.3	29.9	135	134	
LAC Medium Broad	-	n/a	n/a	1,790	2.3	4.5	5.2	29.6	1.4	4.6	115	108	
LAC Medium Low	-	n/a	n/a	1,350	3.1	5.1	5.2	42.4	4.8	11.8	127	122	
LAC Small Broad	-	172	n/a	1,790	2.6	5.5	7.9	5.0	(1.3)	(4.2)	108	95	
LAC Small Low	-	n/a	n/a	2,150	2.2	4.2	3.8	31.1	(0.6)	(0.8)	105	99	
MENA Large	-	n/a	n/a	1,320	5.5	3.8	1.2	90.7	5.9	9.6	151	144	
MENA Medium	-	n/a	n/a	1,850	3.2	7.1	4.0	118.6	(0.9)	(1.2)	116	92	
MENA Small	-	n/a	n/a	1,320	5.5	3.8	1.2	90.7	(0.8)	(1.2)	98	98	

All data presented are **median** values. For definitions of Peer Group criteria, refer to pages 84 to 85; For details on indicator definitions, refer to pages 94 to 95; For averages, standard deviations or other results, please visit www.mixmbb.org

PEER GROUP	REVENUES		EXPENSES									
	Financial Revenue Ratio	Profit Margin	Yield on Gross Portfolio (nominal)	Yield on Gross Portfolio (real)	Total Expense Ratio	Financial Expense Ratio	Loan Loss Provision Expense Ratio	Operating Expense Ratio	Personnel Expense Ratio	Administrative Expense Ratio	Adjustment Expense Ratio	
	Units Year: 2003	% 2003	% 2003	% 2003	% 2003	% 2003	% 2003	% 2003	% 2003	% 2003	% 2003	
Median values												
All MFIs	26.7	7.8	34.3	27.8	26.2	5.4	1.2	16.4	9.0	6.8	1.8	
SIMPLE PEER GROUPS												
Age												
New	24.2	(0.3)	34.9	22.5	26.2	5.8	1.0	16.4	8.2	7.8	3.3	
Young	26.9	3.4	35.6	31.6	27.2	4.8	1.2	17.8	10.6	6.8	2.5	
Mature	27.4	11.9	33.7	27.7	24.0	5.7	1.3	15.3	8.3	6.7	1.2	
Charter Type												
Bank	23.1	10.5	27.8	22.9	19.0	6.6	1.0	10.3	5.6	4.1	0.6	
Credit Union	20.7	14.5	26.2	23.6	17.5	5.3	1.8	9.6	5.0	4.7	1.1	
NBFI	26.5	2.0	34.0	25.6	26.3	5.0	1.3	16.4	9.3	6.7	2.3	
NGO	30.1	7.4	39.2	31.0	33.6	5.2	1.2	22.8	12.8	8.5	2.3	
Rural Bank	27.3	22.7	43.5	27.4	23.6	5.9	0.9	12.8	5.3	7.6	2.5	
Financial Intermediation												
Non FI	30.5	3.8	38.1	32.2	31.6	4.8	1.1	20.6	12.4	8.4	2.5	
Low FI	23.7	(5.8)	31.2	22.5	27.6	8.9	2.1	13.6	8.0	6.6	3.1	
High FI	23.1	12.0	30.5	23.5	19.2	5.8	1.4	11.2	5.4	5.5	1.1	
Methodology												
Individual	24.2	8.9	31.9	24.4	22.5	6.8	1.7	12.5	6.7	6.3	1.2	
Individual/ Solidarity	26.5	10.9	34.1	28.4	23.4	4.7	1.0	16.6	9.8	6.6	1.8	
Solidarity	24.2	(12.7)	35.3	29.1	31.4	6.2	1.1	20.3	12.3	7.5	3.1	
Village Banking	38.7	(2.1)	58.9	47.4	40.1	5.2	1.2	33.3	16.7	13.5	2.2	
Outreach												
Small(Outreach)	26.0	1.9	35.0	25.7	27.3	5.7	1.1	17.3	9.5	6.9	2.7	
Medium(Outreach)	29.6	5.7	36.3	29.1	27.4	5.1	1.3	17.0	9.1	7.6	1.5	
Large(Outreach)	25.5	16.3	33.0	28.8	20.9	5.3	1.4	14.9	8.0	5.8	0.9	
Profit Status												
For Profit	23.1	5.2	30.8	20.9	23.8	6.5	1.4	12.9	6.8	6.3	2.0	
Not for Profit	28.2	8.7	36.6	30.5	27.8	5.0	1.2	18.6	11.2	7.5	1.8	
Region												
Africa	22.9	(6.8)	31.6	19.8	26.2	6.0	1.9	14.1	7.1	6.6	3.8	
Asia	24.1	13.6	32.8	28.9	23.2	5.7	1.2	12.6	6.5	5.8	0.8	
ECA	29.6	8.8	37.1	32.6	30.3	4.7	1.0	19.6	11.6	8.5	3.2	
LAC	29.3	8.3	35.9	27.1	26.9	6.2	1.5	16.3	8.4	6.9	1.0	
MENA	24.7	4.1	38.0	33.0	22.2	2.4	0.2	19.6	14.3	5.8	1.9	
Scale												
Small(Scale)	27.7	(3.8)	38.7	29.8	31.1	5.9	1.2	19.0	10.8	8.2	2.9	
Medium(Scale)	28.0	8.1	35.3	28.8	26.1	5.0	1.3	17.9	10.0	7.6	1.6	
Large(Scale)	24.0	16.8	29.9	23.0	19.4	5.3	1.3	11.4	6.9	5.5	0.7	
Sustainability												
FSS	28.2	18.2	35.9	29.9	22.0	5.0	1.0	15.5	8.4	6.6	1.1	
Non-FSS	23.1	(25.0)	32.5	23.0	31.5	6.7	2.2	19.4	10.7	8.3	4.7	
Target Market												
Low end	28.5	(6.0)	37.5	29.1	31.4	5.6	1.2	20.3	11.2	7.9	2.1	
Broad	27.7	9.8	35.2	28.9	23.7	5.3	1.3	16.1	9.0	6.7	1.9	
High end	20.9	17.7	22.8	20.9	16.1	5.3	1.0	10.6	5.8	4.5	0.7	
Small Business	21.9	8.7	26.1	21.6	18.2	6.3	1.7	10.4	5.2	6.1	1.1	
COMPOUND PEER GROUPS												
Africa Large FI	16.5	6.8	24.2	20.4	15.4	2.5	2.8	10.8	5.0	5.8	3.2	
Africa Large Non FI	21.0	27.8	22.3	20.5	12.4	3.2	0.8	8.4	5.1	4.6	1.0	
Africa Medium FI	25.1	5.0	33.6	24.3	27.5	4.4	2.7	19.8	9.9	10.4	2.0	
Africa Medium Non FI	43.8	(4.2)	53.5	42.4	38.7	8.9	1.9	27.3	13.7	10.7	3.9	
Africa Small FI	26.0	21.5	57.9	24.7	23.1	5.6	0.9	13.5	5.5	8.2	2.5	
Africa Small Non FI	22.2	(49.7)	30.5	8.2	34.4	11.0	2.7	15.8	9.9	6.9	9.7	
Asia Large FI	26.4	21.6	34.9	30.5	21.0	5.8	0.8	11.1	7.7	3.5	0.7	
Asia Large Non FI	26.0	15.0	29.3	23.0	19.0	6.4	2.5	11.4	7.5	3.9	1.5	
Asia Medium FI	22.2	12.8	25.2	21.9	19.7	7.7	2.0	8.6	3.8	5.0	1.4	
Asia Medium Non FI	27.7	2.6	38.1	36.4	27.0	5.0	1.7	16.8	10.4	8.4	1.1	
Asia Small FI	22.9	26.3	27.8	24.8	15.6	6.0	0.8	6.0	3.3	3.1	0.7	
Asia Small Non FI	27.6	(25.0)	38.7	35.0	38.8	4.2	2.5	28.7	17.1	13.8	0.7	
ECA High	23.1	9.6	22.9	21.3	19.4	5.9	0.9	12.6	7.2	6.6	3.1	
ECA Large Broad	27.1	10.0	32.2	27.0	24.3	5.3	0.9	17.4	10.1	6.8	2.7	
ECA Medium Broad	29.6	25.2	34.7	34.4	21.6	4.0	1.1	17.3	10.2	7.5	2.6	
ECA Small Broad	35.4	4.8	46.9	38.5	37.4	4.7	0.9	29.6	17.1	13.0	3.6	
ECA Small Low	37.2	(3.2)	61.8	35.8	36.9	14.1	1.2	18.6	11.5	6.0	7.9	
LAC Large FI	25.0	12.1	30.1	18.9	19.7	6.6	2.1	11.3	6.9	4.7	0.0	
LAC Large Non FI	34.3	24.7	35.9	28.9	23.5	8.6	1.0	13.6	7.8	6.4	0.1	
LAC Medium Broad	32.3	7.2	36.3	25.6	32.0	8.5	2.5	18.4	8.3	7.6	1.1	
LAC Medium Low	31.5	17.7	37.6	29.4	26.3	8.0	0.9	16.5	8.9	7.6	0.8	
LAC Small Broad	24.5	(5.1)	35.8	26.2	27.2	5.5	2.3	16.9	10.0	6.5	2.8	
LAC Small Low	43.0	(1.1)	54.7	39.8	47.6	3.9	1.6	35.7	18.5	12.6	3.0	
MENA Large	25.2	30.4	35.3	33.7	20.5	2.4	0.3	17.7	12.2	5.5	0.8	
MENA Medium	22.5	(8.6)	30.0	24.9	21.5	3.3	0.1	19.6	14.3	5.5	2.3	
MENA Small	44.8	(2.1)	50.8	48.1	34.9	1.6	0.4	33.0	16.4	15.9	1.9	

All data presented are median values. For definitions of Peer Group criteria, refer to pages 84 to 85; For details on indicator definitions, refer to pages 94 to 95; For averages, standard deviations or other results, please visit www.mixmbb.org

BULLETIN TABLES

PEER GROUP	Median values		EFFICIENCY					PRODUCTIVITY					
	Operating Expense/ Loan Portfolio	Personnel Expense/ Loan Portfolio	Average Salary/ GNI per Capita	Cost per Borrower	Cost per Loan	Borrowers per Staff Member	Loans per Staff Member	Borrowers per Loan Officer	Loans per Loan Officer	Voluntary Savers per Staff Member	Savings Accounts per Staff Member	Personnel Allocation Ratio	
	Units Year: 2003	% 2003	x 2003	US\$ 2003	US\$ 2003	nb 2003	nb 2003	nb 2003	nb 2003	nb 2003	nb 2003	% 2003	
All MFIs	22.8	12.9	5.3	82	82	111	102	222	223	-	-	53.2	
SIMPLE PEER GROUPS													
Age													
New	31.1	16.2	6.8	122	120	87	85	173	146	2	2	53.2	
Young	25.7	13.1	5.6	101	99	109	112	212	222	-	-	53.5	
Mature	20.4	11.4	4.8	65	65	126	110	253	251	27	11	51.5	
Charter Type													
Bank	13.4	9.2	5.7	126	113	72	72	202	197	146	147	45.5	
Credit Union	13.3	6.4	3.5	69	59	98	94	253	219	316	297	47.2	
NBFI	21.2	12.3	9.4	149	141	109	111	249	235	-	-	52.0	
NGO	31.4	18.2	4.3	62	70	137	139	218	234	-	-	58.8	
Rural Bank	45.6	16.8	4.2	90	90	72	68	136	136	280	395	53.0	
Financial Intermediation													
Non FI	30.4	18.1	5.2	98	108	126	120	216	214	-	-	56.7	
Low FI	20.6	11.3	9.3	21	17	129	152	260	261	33	38	53.2	
High FI	16.8	8.9	5.0	107	90	77	72	210	197	259	211	45.8	
Methodology													
Individual	16.5	9.3	4.8	153	148	84	83	212	205	124	61	45.7	
Individual/ Solidarity	21.7	13.0	5.7	98	93	96	94	178	173	0	-	56.7	
Solidarity	32.1	18.7	6.0	22	24	165	167	266	263	-	-	61.2	
Village Banking	51.0	26.2	5.5	57	60	147	148	245	249	-	-	57.5	
Outreach													
Small(Outreach)	28.5	15.8	4.6	119	115	78	76	169	169	-	-	52.8	
Medium(Outreach)	21.5	12.5	6.8	70	73	143	142	255	254	-	-	50.7	
Large(Outreach)	19.8	11.9	5.6	37	28	205	230	324	373	39	66	61.6	
Profit Status													
For Profit	20.6	10.8	7.9	110	90	92	88	226	222	105	98	48.0	
Not for Profit	26.8	14.7	4.6	76	78	126	124	215	224	-	-	57.5	
Region													
Africa	36.2	14.8	12.5	58	64	132	129	253	237	59	63	55.7	
Asia	18.2	10.2	2.7	30	30	125	134	242	253	140	131	58.1	
ECA	25.9	14.1	5.6	218	215	85	83	132	133	-	-	53.2	
LAC	21.1	11.2	5.1	140	135	109	104	256	256	-	-	47.9	
MENA	31.9	19.6	3.8	65	65	139	146	229	229	-	-	68.9	
Scale													
Small(Scale)	35.0	18.8	4.6	73	80	88	87	190	190	1	-	51.0	
Medium(Scale)	25.0	12.9	4.9	70	76	133	142	229	242	-	-	58.9	
Large(Scale)	16.2	9.4	7.8	161	142	154	131	260	253	24	41	56.3	
Sustainability													
FSS	20.6	12.1	5.0	98	87	109	108	232	240	3	-	51.8	
Non-FSS	32.0	17.5	5.6	66	76	115	97	205	211	-	-	58.4	
Target Market													
Low end	30.4	17.5	4.1	32	32	163	164	263	263	-	-	61.1	
Broad	22.0	12.5	5.7	149	148	88	87	175	175	-	-	51.3	
High end	12.0	6.8	11.1	239	181	85	86	219	197	-	-	39.1	
Small Business	18.5	8.2	5.2	343	410	31	31	84	84	199	259	34.7	
COMPOUND PEER GROUPS													
Africa Large FI	16.7	8.5	15.8	102	6	178	190	270	299	430	274	61.1	
Africa Large Non FI	10.2	5.8	20.5	73	87	220	193	433	333	-	-	40.9	
Africa Medium FI	37.5	18.3	16.8	42	65	330	142	460	164	442	387	74.6	
Africa Medium Non FI	41.6	21.0	17.8	67	71	173	213	261	266	54	54	64.6	
Africa Small FI	60.2	24.4	5.8	157	138	42	46	65	88	280	412	53.6	
Africa Small Non FI	23.6	14.8	12.9	22	17	146	150	270	264	1	4	53.0	
Asia Large FI	16.8	11.7	6.0	16	16	126	148	n/a	241	181	861	58.2	
Asia Large Non FI	14.9	9.8	3.3	2	8	261	265	358	419	146	146	75.6	
Asia Medium FI	10.7	4.6	3.1	67	62	101	95	261	305	233	193	36.5	
Asia Medium Non FI	22.1	12.8	3.6	21	21	179	208	240	318	1	1	64.1	
Asia Small FI	8.2	5.1	1.8	38	38	70	70	205	205	259	259	35.7	
Asia Small Non FI	56.5	27.6	4.5	34	34	165	162	225	231	1	1	62.7	
ECA High	12.9	7.5	4.7	875	875	29	29	83	83	-	-	60.9	
ECA Large Broad	21.2	12.7	10.5	225	225	98	98	165	165	-	-	67.4	
ECA Medium Broad	23.0	12.5	8.1	160	160	90	90	171	171	-	-	54.5	
ECA Small Broad	37.8	22.4	4.6	178	164	52	58	104	104	-	-	50.0	
ECA Small Low	23.8	18.7	3.4	50	50	100	100	218	218	-	-	45.0	
LAC Large FI	14.3	8.1	7.1	223	181	130	104	281	250	162	82	37.6	
LAC Large Non FI	16.1	9.4	5.0	161	161	168	168	400	400	-	-	48.9	
LAC Medium Broad	22.8	11.4	5.0	152	180	93	95	253	284	-	-	42.0	
LAC Medium Low	24.2	12.9	4.5	51	70	209	213	412	492	-	-	57.1	
LAC Small Broad	23.0	13.7	5.3	176	176	72	75	189	189	-	-	36.1	
LAC Small Low	46.4	21.1	2.7	66	66	142	137	229	229	n/a	n/a	50.6	
MENA Large	21.8	13.3	5.6	50	50	241	241	322	322	-	-	78.4	
MENA Medium	29.1	19.8	3.8	122	121	89	89	132	132	-	-	67.2	
MENA Small	48.3	27.5	4.1	54	54	166	166	261	261	-	-	64.9	

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PEER GROUP	RISK AND LIQUIDITY						
	Median values	Portfolio at Risk > 30 Days	Portfolio at Risk > 90 Days	Write-off Ratio	Loan Loss Rate	Risk Coverage	Non-earning Liquid Assets as % Total Assets
	Units Year:	% 2003	% 2003	% 2003	% 2003	x 2003	% 2003
All MFIs		2.5	1.2	0.8	0.7	0.9	8.5
SIMPLE PEER GROUPS							
Age							
New		2.4	1.1	0.4	0.4	1.0	11.8
Young		2.1	0.8	0.8	0.7	1.0	7.6
Mature		3.1	1.5	1.1	0.9	0.8	7.0
Charter Type							
Bank		4.7	1.9	0.4	0.2	0.8	9.8
Credit Union		4.5	1.7	1.4	1.4	0.5	3.4
NBFI		2.7	1.1	1.1	0.7	1.0	6.3
NGO		1.6	0.6	0.8	0.7	1.0	8.9
Rural Bank		5.4	4.1	1.6	1.6	0.8	15.5
Financial Intermediation							
Non FI		1.4	0.6	0.7	0.6	1.0	7.4
Low FI		3.0	1.4	0.9	0.6	0.9	11.1
High FI		4.8	1.9	1.3	1.1	0.7	9.8
Methodology							
Individual		3.8	1.6	0.9	0.7	0.9	5.7
Individual/ Solidarity		2.4	1.2	1.1	0.7	0.9	6.9
Solidarity		1.7	0.8	0.6	0.6	1.0	15.6
Village Banking		1.1	0.5	0.5	0.4	1.1	14.6
Outreach							
Small(Outreach)		3.5	1.4	0.6	0.6	0.9	10.8
Medium(Outreach)		2.2	1.0	0.9	0.8	0.8	7.7
Large(Outreach)		1.5	0.7	1.3	1.3	1.1	4.8
Profit Status							
For Profit		4.8	1.9	1.0	0.8	0.8	12.5
Not for Profit		1.7	0.7	0.8	0.7	1.0	6.7
Region							
Africa		5.3	2.1	0.8	0.8	0.6	14.2
Asia		4.4	1.6	0.8	0.6	0.8	8.8
ECA		1.1	0.4	0.6	0.5	1.3	6.5
LAC		3.3	1.7	1.2	1.1	1.0	4.6
MENA		0.5	0.4	0.3	0.2	1.0	8.1
Scale							
Small(Scale)		3.9	1.5	0.6	0.6	0.8	11.3
Medium(Scale)		1.7	0.8	0.8	0.7	1.0	9.6
Large(Scale)		1.8	0.8	1.3	1.1	1.0	3.4
Sustainability							
FSS		1.8	0.8	0.8	0.6	1.0	5.7
Non-FSS		4.0	1.8	1.2	1.0	0.8	11.7
Target Market							
Low end		1.9	0.8	0.6	0.6	1.0	10.3
Broad		3.0	1.4	1.0	0.8	0.9	6.8
High end		1.8	0.7	1.0	0.6	1.1	3.3
Small Business		6.4	1.8	0.5	0.3	0.7	10.5
COMPOUND PEER GROUPS							
Africa Large FI		6.6	5.1	1.9	1.9	0.5	10.8
Africa Large Non FI		1.1	0.4	1.3	1.3	0.7	2.7
Africa Medium FI		4.8	2.3	0.6	0.5	0.7	13.5
Africa Medium Non FI		2.9	1.4	0.2	0.2	1.1	12.7
Africa Small FI		5.9	4.5	1.1	1.1	0.6	14.3
Africa Small Non FI		5.4	2.3	0.5	0.5	0.5	21.1
Asia Large FI		3.3	1.7	2.4	2.1	0.7	1.7
Asia Large Non FI		0.3	0.2	0.2	0.2	1.1	3.5
Asia Medium FI		8.3	2.1	0.2	0.2	0.3	13.7
Asia Medium Non FI		1.1	0.4	1.8	1.7	1.1	10.3
Asia Small FI		6.2	1.9	-	-	0.5	20.6
Asia Small Non FI		5.1	3.8	4.6	1.4	0.8	9.7
ECA High		0.5	0.4	1.1	0.5	3.9	3.6
ECA Large Broad		1.2	0.2	0.3	0.2	1.0	6.7
ECA Medium Broad		1.1	0.4	0.8	0.8	1.7	5.1
ECA Small Broad		1.1	0.4	0.6	0.6	1.2	6.5
ECA Small Low		1.4	0.3	-	-	2.2	17.0
LAC Large FI		3.1	1.7	3.5	2.2	1.6	3.5
LAC Large Non FI		1.0	0.4	0.5	0.4	1.4	2.1
LAC Medium Broad		3.9	1.9	1.0	1.0	1.2	6.9
LAC Medium Low		1.0	0.4	0.8	0.6	3.7	1.9
LAC Small Broad		5.0	2.7	1.6	1.6	0.8	5.1
LAC Small Low		4.8	2.4	1.3	1.2	0.9	22.8
MENA Large		0.1	-	0.3	0.3	0.9	10.3
MENA Medium		1.2	0.8	0.6	0.2	1.0	8.8
MENA Small		0.3	0.2	-	-	1.0	4.3

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Index of Terms and Definitions (Balance Sheet)

Terms	Definitions
Cash and Due from Banks	Cash, petty cash, balances in banks, including non-interest bearing deposits
Reserves from Central Bank	Cash reserves in a central bank
Short Term Financial Assets	Treasury bills and other short term investments, including interest-bearing deposits, convertible to cash within 12 months. Usually used in liquidity management.
Net Loan Portfolio	Gross Loan Portfolio minus Loan Loss Reserve
Gross Loan Portfolio	All outstanding principal for all outstanding client loans, including current, delinquent and restructured loans, but not loans that have been written off. It does not include interest receivable. It does not include employee loans.
(Loan Loss Reserve)	The portion of the gross loan portfolio that has been expensed (provisioned for) in anticipation of losses due to default. This item represents the cumulative value of the loan loss provision expense, less the cumulative value of loans written off.
Interest Receivable	Interest receivable on all asset accounts. Recorded by institutions using accrual accounting.
Accounts Receivable and Other Assets	Accounts receivable, notes receivables and other receivables. This includes all receivables other than client loan accounts, including employee loans.
Long Term Financial Assets	Long term investments not convertible to cash within 12 months
Net Fixed Assets	The purchase value of property, plant and equipment, less accumulated depreciation. This includes intangibles, such as MIS development or goodwill, less accumulated amortization.
TOTAL ASSETS	Total of all net asset accounts
Demand Deposits	Total of Voluntary and Compulsory Savings
Voluntary Savings	Demand deposits from the general public and members that are not maintained as a condition for accessing a current or future loan and are held with the institution
Compulsory Savings	Client savings accounts that are maintained as a condition for a current or future loan and are held with the institution
Time Deposits	Certificates of deposit or other fixed term deposits
Borrowings	Total of Commercial and Concessional Borrowings
Borrowings at concessional interest rates	Principal balance of all borrowings, including overdraft accounts, for which the institution pays a nominal rate of interest that is less than the local commercial interest rate
Borrowings at commercial interest rates	Principal balance of all borrowings, including overdraft accounts, for which the institution pays a nominal rate of interest that is greater than to or equal to the local commercial interest rate
Interest Payable	Interest payable on all liability accounts. Recorded by institutions using accrual accounting.
Accounts Payable and Other Liabilities	Other liabilities including tax and salary liabilities, social withholdings, deferred income, other accounts payable, including liabilities that do not fund the portfolio, such as mortgages on real estate.
TOTAL LIABILITIES	Total of all liability accounts
Paid-in Capital	Capital paid by shareholders or members
Donated Equity	Accumulated donations
Prior Years	Accumulated donations from prior periods
Current Year	Donations from the current year
Retained Earnings	Accumulated net income after taxes and before donations
Prior Years	Accumulated net income after taxes and before donations from prior periods
Current Year	Net income after taxes and before donations from the current year
Adjustments	Value of all adjustments, including inflation adjustment
Inflation Adjustment	Value of inflation adjustment expense
Subsidized Costs of Funds Adjustment	Value of subsidized cost of funds adjustment expense
In-Kind Subsidy Adjustment	Value of in-kind subsidy adjustment
Reserves	Reserves such as those imposed by law or statute.
Other Equity Accounts	Other equity accounts not included elsewhere
TOTAL EQUITY	Total of all equity accounts
TOTAL LIABILITIES AND EQUITY	Total of Total Liabilities and Total Equity

Index of Terms and Definitions (Income Statement)

Terms	Definitions
<u>Financial Revenue</u>	Total of revenue from loan portfolio and other financial assets, as well as other financial revenue from financial services
Financial Revenue from Loan Portfolio	Total interest, fees and commission on loan portfolio
Interest on Loan Portfolio	Interest earned on loan portfolio
Fees and Commissions on Loan Portfolio	Penalties, commissions and other fees charged on loan portfolio
Financial Revenue from Other Financial Assets	Net gains on other financial assets
Other Revenue Related to Financial Services	Other revenue from provision of financial services, including revenue from insurance or transfer services or non-financial revenue from the provision of financial services, such as the sale of passbooks or SmartCards. This account also includes net exchange gains.
<u>Financial Expense</u>	Total of financial expense on liabilities, net inflation adjustment, cost-of-funds adjustment and other expenses from financial services
Financial Expense on Liabilities	Total of interest and fees paid on deposits and borrowings
Interest and Fess Expense on Deposits	Interest and fees paid on demand or term deposits.
Interest and Fee Expense on Borrowings	Interest and fees paid on borrowings.
Net Inflation Adjustment Expense	Reserved for institutions that use inflation based accounting. Net amount of inflation adjustment.
Inflation Adjustment Expense	Cost of maintaining the value of the institution's equity
Inflation Adjustment Revenue	Gain on the value of fixed assets due to inflation
Subsidized Cost-of-Funds Adjustment Expense	Adjustment expense for difference between market rate and concessional rate on borrowings.
Other Financial Expenses	Other expenses from provision of financial services, including non-financial expenses on financial products, as well as net exchange depreciation.
NET FINANCIAL INCOME	Financial Revenue minus Financial Expense
<u>Net Loan Loss Provision Expense</u>	Sum of loan loss provision expense and recovery on loans written off.
Loan Loss Provision Expense	Loan Loss Provision Expense for the period
Recovery on Loans Written-Off	Total recovery on loans written off
<u>Operating Expense</u>	Total of Personnel Expense and Administrative Expense
Personnel Expense	Salaries, withholdings, fringe benefits and personnel taxes paid on all those who work for the institution
Administrative Expense	Total of Rent and Utilities, Transportation, Office Supplies, Depreciation and Other Administrative Expenses
Rent and Utilities	Rent and utility charges
Transportation	Transportation of staff to attend to clients and to manage operations
Office Supplies	Printed matter, supplies, photocopies, books, etc.
Depreciation and Amortization	Allowance for deterioration, eventual replacement of equipment
Other Administrative Expenses	Other non-personnel administrative expenses
NET OPERATING INCOME	Financial Revenue less Financial Expense, Net Loan Loss Provision Expense and Operating Expense
<u>Net Non-Operating Income</u>	Non-operating Revenue less Non-operating Expense
Non-Operating Revenue	Revenue from activity unrelated to the MFI's core activity of providing financial services. This could include consulting income, sale of IT products, or fees for business development services (BDS).
Non-Operating Expense	Expenses from activity unrelated to the MFIs core activity of providing financial services, such as BDS development costs or consulting expenses
NET INCOME (BEFORE TAXES AND DONATIONS)	Net Operating Income less Net Non-operating Income
Taxes	Includes all taxes paid on Net Income or other measure of profits as defined by local tax authorities.
NET INCOME (AFTER TAXES AND BEFORE DONATIONS)	Net Income (before Taxes and Donations) less Taxes
Donations to Subsidize Financial Services	Donations made to the MFI to subsidize its operations
NET INCOME (AFTER TAXES AND DONATIONS)	Net Income (after Taxes and before Donations) plus Donations.

Index of Indicators and Definitions

Indicators	Definitions	
INSTITUTIONAL CHARACTERISTICS		
Number of MFIs	Sample size of group	(number)
Age	Years functioning as an MFI	(years)
Total Assets	Total Assets, adjusted for Inflation and standardized loan portfolio	(US \$)
Offices	Number, including head office	(number)
Personnel	Total number of employees	(number)
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	(x)
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	(number)
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	(number)
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs	(US \$)
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/ Adjusted Number of Active Borrowers	(US \$)
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	(US \$)
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)
Number of Voluntary Savings Accounts	Number of voluntary savings demand deposit and time deposit accounts	(number)
Voluntary Savings	Total value of voluntary savings demand deposit and time deposit accounts	(US \$)
Average Savings Balance per Saver	Voluntary Savings/ Number of Voluntary Savers	(US \$)
Average Savings Account Balance	Voluntary Savings/ Number of Voluntary Savings Accounts	(US \$)
MACROECONOMIC INDICATORS		
GNI per Capita	US Dollars	(US \$)
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)	(%)

Index of Indicators and Definitions (continued)

Indicators	Definitions	
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	(x)
Cost per Loan	Adjusted Operating Expense/ Adjusted Average Number of Loans	(x)
PRODUCTIVITY		
Borrowers per Staff Member	Adjusted Number of Active Borrowers/ Number of Personnel	(number)
Loans per Staff Member	Adjusted Number of Loans Outstanding/ Number of Personnel	(number)
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/ Number of Loan Officers	(number)
Loans per Loan Officer	Adjusted Number of Loans Outstanding/ Number of Loan Officers	(number)
Voluntary Savers per Staff Member	Number of Voluntary Savers/ Number of Personnel	(number)
Savings Accounts per Staff Member	Number of Saving Accounts/ Number of Personnel	(number)
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	(%)

Guide to the Peer Groups

Peer Groups	n	Data Quality †			Participating Institutions
		***	**	*	
All MFIs	231	46	139	46	ABA, ACCOVI, ACEP SENEGAL, ACLEDA, ACODEP, ACTUAR - Tolima, Adansi RB, ADCSI, ADRI, Agroinvest, Ahantaman RB, Akiba, AKRB, Akuapem RB, Al Amana, Al Karama, Al Majmoua, Al Tadamun, Alternativa, AMC, AMEEN, AMK, AMRET, AMSSF, Apoyo Integral, AREGAK, ASA, ASEI, ASTI, AVFS, BAI, Banco Ademi, Banco del Trabajo, Banco Solidario, BancoSol, Bandesarrollo Microempresas, BanGente, Bank of Khyber, Barakot, BASIX, BBK, BCS, BESA, BG, BPR AK, BRAC, BRI, BURO Tangail, BZMF, Capa Fdn., CARD NGO, CARD RB, CEP, CERUDEB, CHF - ROM, CMAC - Arequipa, CMAC - Sullana, CMEDFI, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, Compartamos, Constanta, CRAN, CRECER, Credi Fe, CREDIMUJER, CREDIT MFI, CRG, Crystal Fund, DAMEN, DBACD, DECSI, DEMOS, EBS, ECLOF - ECU, EDPYME Edyficar, EDPYME Proempresa, EKI, El Comercio Financiera, Enda, Enowid, Eshet, FAMA, FATEN, Faulu - UGA, FBPMC, FCBF, FDL, FED, FICCO, FIE, Finadev, Finamérica, FINCA - ARM, FINCA - AZE, FINCA - GEO, FINCA - GTM, FINCA - HAI, FINCA - KGZ, FINCA - MWI, FINCA - PER, FINCA - Toms, FINCA - TZA, FINCA - UGA, FINDESA, First Allied S&L, FM, FMFB, FMM - Popayán, FOCCAS, FONDEP, FORA, Fundación Paraguaya, Garden City S&L, Gasha, GEF, Genesis, GK, GV, HKL, HOPE Ukraine, IDF, Integra, JMCC, Johnson S&L, José Nieborowski, Kafo Jigineu, Kamurj, Kashf, KC, KEP, KLF, KMB, KMBI, K-Rep, KSF, Los Andes FFP, Lower Pra RB, LPD Bedha, LPD Buah, LPD Celuk, LPD Ketewel, LPD Kuku, LPD Kuta, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung, Meklit, Mepe Area RB, Metemamen, MFW, MiBanco, MI-BOSPO, Midland S&L, MIKRA, Mikro ALDI, MIKROFIN, MMPC, MTA, NABWT, Nirdhan, NOA, Norfil, Normicro, Nwabiagya RB, NWTF, OBM, OCSSC, OIS, OMB, OMRO, OTIV Sava, PADME, PAMECAS, PAPME, Partner, PCCC, PEACE, Prasac, PRIDE - TZA, PRIZMA, Pro Mujer - BOL, Pro Mujer - NIC, Pro Mujer - PER, PRODEM FFP, PSHM, PTF, RBKV, RBTC, RBV, REDES, SAFWCO, SBDF, SCMP, SEDA, SEF - ZAF, SFPI, SHARE, Sidama, Sikaman S&L, SKS, SODEYSTVIE, Spandana, Sungi, Sunrise, Tchuma, TPC, TSKI, TSPI, UMU, UNRWA, USPD, USTOI, UWFT, Vital Finance, Voronezh, WAGES, Wasasa, Wisdom, WWB - Bogotá, WWB - Cali, WWB - Medellín, XAC, Zakoura.
SIMPLE PEER GROUPS					
Age: New (0 to 4 Years)	47	6	33	8	Adansi RB, ADCSI, Agroinvest, AKRB, Akuapem RB, Al Karama, AMC, ASTI, BanGente, Barakot, BBK, BG, BZMF, COAC Sac Aiet, Credi Fe, CREDIT MFI, DEMOS, Eshet, Finadev, FINCA - ARM, FINCA - Toms, FINCA - TZA, FINCA - UGA, FMFB, Garden City S&L, Integra, JMCC, KC, KEP, KMB, K-Rep, Meklit, Mepe Area RB, Metemamen, Midland S&L, NABWT, OBM, OIS, OMB, PEACE, Pro Mujer - PER, RBV, Sikaman S&L, USTOI, Voronezh, Wasasa, Wisdom.
Age: Young (5 to 8 Years)	88	18	52	18	ACF, ACME, ACSI, Akiba, Al Amana, Al Majmoua, Al Tadamun, Alternativa, AMEEN, AMSSF, AREGAK, AVFS, BAI, Banco Solidario ECUADOR, Bank of Khyber, Bhartiya Samruddhi Finance Ltd., Capa Fdn., CHF - ROM, CMEDFI, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, Constanta, CRAN, Crystal Fund, DAMEN, DBACD, DECSI, EDPYME Edyficar, EDPYME Proempresa, EKI, Enda, FATEN, Faulu - UGA, FBPMC, FIE, FINCA - AZE, FINCA - GEO, FINCA - GTM, FINCA - KGZ, First Allied S&L, FM, FOCCAS, FONDEP, Gasha, GEF, Genesis, GK, GV, HKL, HOPE Ukraine, Johnson S&L, Kamurj, Kashf, KLF, KSF, LPD Kuta, MI-BOSPO, MIKRA, Mikro ALDI, MIKROFIN, MTA, NOA, Norfil, Normicro, OCSSC, OMRO, OTIV Sava, PAMECAS, Partner, Prasac, PRIZMA, Pro Mujer - NIC, PSHM, SBDF, SEDA, SFPI, Sidama, SKS, SODEYSTVIE, Spandana, Sunrise, Tchuma, UMU, USPD, Vital Finance, XAC, Zakoura.
Age: Mature (> 8 Years)	96	22	54	20	ABA, ACCOVI, ACEP SENEGAL, ACLEDA, ACODEP, ACTUAR - Tolima, ADRI, Ahantaman RB, AMK, AMRET, Apoyo Integral, ASA, ASEI, Banco Ademi, Banco del Trabajo, BancoSol, Bandesarrollo Microempresas, BCS, BESA, BPR Arta Kencana, BRAC, BRI, BURO Tangail, CARD NGO, CARD RB, CEP, CERUDEB, CMAC - Arequipa, CMAC - Sullana, COAC San José, Compartamos, CRECER, CREDIMUJER, CRG, EBS, ECLOF - ECU, El Comercio Financiera, Enowid, FAMA, FCBF, FDL, FED, FICCO, Finamérica, FINCA - HAI, FINCA - MWI, FINCA - PER, FINDESA, FMM - Popayán, FORA, Fundación Paraguaya, IDF, José Nieborowski, Kafo Jigineu, KMBI, Los Andes FFP, Lower Pra RB, LPD Bedha, LPD Buah, LPD Celuk, LPD Ketewel, LPD Kuku, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung, MFW, MiBanco, MMPC, Nirdhan, Nwabiagya RB, NWTF, PADME, PAPME, PCCC, PRIDE - TZA, Pro Mujer - BOL, PRODEM FFP, PTF, RBKV, RBTC, REDES, SAFWCO, SCMP, SEF - ZAF, SHARE, Sungi, TPC, TSKI, TSPI, UNRWA, UWFT, WAGES, WWB - Bogotá, WWB - Cali, WWB - Medellín.

Peer Group	n	Data Quality †			Participating Institutions
		***	**	*	
Charter Type: Bank (Bank)	31	9	11	11	ACLEDA, Akiba, Banco Ademi, Banco del Trabajo, Banco Solidario, BancoSol, Bandesarrollo Microempresas, BanGente, Bank of Khyber, BRI, CERUDEB, CRG, FMFB, KMB, K-Rep, LPD Bedha, LPD Buahhan, LPD Celuk, LPD Ketewel, LPD Kukuh, LPD Kuta, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung, MiBanco, Nirdhan, OBM, OIS, OMB, XAC.
Charter Type: Credit Union (Credit Union)	20	4	4	12	ACEP SENEGAL, Alternativa, BCS, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, DEMOS, FICCO, Kafo Jiginew, KC, MMPC, NOA, OTIV Sava, PAMECAS, PCCC, SCMPCC, SODEYSTVIE, USPDC.
Charter Type: NBFi (Non - Bank Financial Intermediary)	72	17	49	6	ACCOVI, ACF, ACSI, ADCSI, AMC, AMK, AMRET, Apoyo Integral, AVFS, BBK, BG, Bhartiya Samruddhi Finance Ltd., CMAC - Arequipa, CMAC - Sullana, Compartamos, Credi Fe, CREDIT MFI, DECSI, EBS, EDPYME Edyficar, EDPYME Proempresa, EKI, El Comercio Financiera, Eshet, FATEN, Faulu - UGA, FIE, Finadev, Finamérica, FINCA - AZE, FINCA - KGZ, FINCA - MWI, FINCA - TZA, FINDESA, First Allied S&L, FM, FOCCAS, Garden City S&L, Gasha, HKL, JMCC, Johnson S&L, KEP, KLF, Los Andes FFP, Meklit, Metemamen, MFW, MI-BOSPO, Midland S&L, MIKRA, Mikro ALDI, MIKROFIN, Normicro, OCSSC, OMRO, Partner, PEACE, Prasac, PRIZMA, PRODEM FFP, PSHM, SFPI, SHARE, Sidama, Sikaman S&L, Sunrise, Tchuma, TPC, Voronezh, Wasasa, Wisdom.
Charter Type: NGO (Non Government Organization)	95	16	63	16	ABA, ACME, ACODEP, ACTUAR - Tolima, ADRI, Agroinvest, Al Amana, Al Karama, Al Majmoua, Al Tadamun, AMEEN, AMSSF, AREGAK, ASA, ASEI, ASTI, BAI, Barakot, BESA, BRAC, BURO Tangail, BZMF, Capa Fdn., CARD NGO, CEP, CHF - ROM, CMEDFI, Constanta, CRAN, CRECER, CREDIMUJER, Crystal Fund, DAMEN, DBACD, ECLOF - ECU, Enda, Enowid, FAMA, FBPMC, FCBF, FDL, FED, FINCA - ARM, FINCA - GEO, FINCA - GTM, FINCA - HAI, FINCA - PER, FINCA - Tomsk, FINCA - UGA, FMM - Popayán, FONDEP, FORA, Fundación Paraguaya, GEF, Genesis, GK, GV, HOPE Ukraine, IDF, Integra, José Nieborowski, Kamurj, Kashf, KMBI, KSF, MTA, NABWT, Norfil, NWTf, PADME, PAPME, PRIDE - TZA, Pro Mujer - BOL, Pro Mujer - NIC, Pro Mujer - PER, PTF, REDES, SAFWCO, SBDF, SEDA, SEF - ZAF, SKS, Spandana, Sungi, TSKI, TSPI, UMU, USTOI, UWFT, Vital Finance, WAGES, WWB - Bogotá, WWB - Cali, WWB - Medellín, Zakoura.
Charter Type: Rural Bank (Rural Bank)	12	0	11	1	Adansi RB, Ahantaman RB, AKRB, Akuapem RB, BPR Arta Kencana, CARD RB, Lower Pra RB, Mepe Area RB, Nwabiagya RB, RBKV, RBTC, RBV.
Financial Intermediation: Non FI (Voluntary Savings/ Total Assets = 0)	121	22	78	21	ABA, ACF, ACME, ACODEP, ACTUAR - Tolima, ADRI, Agroinvest, Al Amana, Al Karama, Al Majmoua, Al Tadamun, AMC, AMEEN, AMK, AMSSF, Apoyo Integral, AREGAK, ASEI, ASTI, BAI, Bank of Khyber, Barakot, BBK, BESA, Bhartiya Samruddhi Finance Ltd., BZMF, Capa Fdn., CARD NGO, CHF - ROM, Compartamos, Constanta, CRECER, Credi Fe, CREDIMUJER, Crystal Fund, DAMEN, DBACD, DEMOS, ECLOF - ECU, EDPYME Edyficar, EDPYME Proempresa, EKI, Enda, Enowid, Eshet, FAMA, FATEN, FBPMC, FDL, FED, Finadev, FINCA - ARM, FINCA - AZE, FINCA - GEO, FINCA - GTM, FINCA - HAI, FINCA - KGZ, FINCA - MWI, FINCA - PER, FINCA - Tomsk, FINCA - TZA, FM, FMM - Popayán, FOCCAS, FONDEP, FORA, Fundación Paraguaya, GEF, Genesis, GV, HOPE Ukraine, Integra, JMCC, José Nieborowski, Kamurj, KEP, KLF, KMBI, KSF, Metemamen, MFW, MI-BOSPO, MIKRA, Mikro ALDI, MIKROFIN, MTA, NABWT, NOA, Norfil, Normicro, OIS, OMRO, PADME, Partner, Prasac, PRIDE - TZA, PRIZMA, Pro Mujer - BOL, Pro Mujer - NIC, Pro Mujer - PER, PSHM, PTF, REDES, SAFWCO, SBDF, SEDA, SEF - ZAF, SHARE, Sungi, Sunrise, TPC, TSKI, TSPI, UNRWA, USTOI, Vital Finance, Voronezh, WWB - Bogotá, WWB - Cali, WWB - Medellín, Zakoura.
Financial Intermediation: Low FI (Voluntary Savings/ Total Assets > 0 and < 20%)	36	6	28	2	ACEP SENEGAL, ADCSI, AMRET, ASA, AVFS, BanGente, BG, BRAC, CEP, CRAN, CREDIT MFI, El Comercio Financiera, Faulu - UGA, FCBF, FINCA - UGA, FINDESA, Gasha, GK, HKL, IDF, Kashf, Meklit, Nirdhan, NWTf, OCSSC, OMB, PAPME, PEACE, SFPI, Sidama, SKS, Spandana, Tchuma, UMU, Wasasa, Wisdom.
Financial Intermediation: High FI (Voluntary Savings/ Total Assets ≥ 20%)	74	18	33	23	ACCOVI, ACLEDA, ACSI, Adansi RB, Ahantaman RB, Akiba, AKRB, Akuapem RB, Alternativa, Banco Ademi, Banco del Trabajo, Banco Solidario, BancoSol, Bandesarrollo Microempresas, BCS, BPR Arta Kencana, BRI, BURO Tangail, CARD RB, CERUDEB, CMAC - Arequipa, CMAC - Sullana, CMEDFI, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, CRG, DECSI, EBS, FICCO, FIE, Finamérica, First Allied S&L, FMFB, Garden City S&L, Johnson S&L, Kafo Jiginew, KC, KMB, K-Rep, Los Andes FFP, Lower Pra RB, LPD Bedha, LPD Buahhan, LPD Celuk, LPD Ketewel, LPD Kukuh, LPD Kuta, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung, Mepe Area RB, MiBanco, Midland S&L, MMPC, Nwabiagya RB, OBM, OTIV Sava, PAMECAS, PCCC, PRODEM FFP, RBKV, RBTC, RBV, SCMPCC, Sikaman S&L, SODEYSTVIE, USPDC, UWFT, WAGES, XAC.

Peer Group	n	Data Quality †			Participating Institutions
		***	**	*	
Methodology: Individual	74	16	40	18	ACCOVI, ACF, ACME, ACODEP, ADRI, Akuapem RB, Alternativa, AMC, AMEEN, BAI, Banco Ademi, Banco del Trabajo, Bandedarrollo Microempresas, Bank of Khyber, BBK, BESA, BRI, BZMF, Capa Fdn., CERUDEB, CMAC - Arequipa, CMAC - Sullana, CMEDFI, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, Credi Fe, CREDIMUJER, EBS, ECLOF - ECU, EDPYME Proempresa, El Comercio Financiera, FAMA, FED, FIE, Finamérica, FINDESA, FMM - Popayán, Genesis, Integra, Johnson S&L, José Nieborowski, Kafo Jiginew, KMB, Los Andes FFP, LPD Bedha, LPD Buahán, LPD Celuk, LPD Ketewel, LPD Kuku, LPD Kuta, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung, Mepe Area RB, MiBanco, Midland S&L, MMPC, OIS, Partner, PRODEM FFP, RBKV, RBTC, RBV, REDES, Sikaman S&L, SODEYSTVIE, Sunrise, WWB - Bogotá, WWB - Cali, WWB - Medellín.
Methodology: Individual/ Solidarity (Individual & Solidarity; or Individual, Solidarity & Village Banking)	96	24	51	21	ABA, ACEP SENEGAL, ACLEDA, ACSI, ACTUAR - Tolima, Adansi RB, Akiba, AKRB, Al Amana, Al Majmoua, AMRET, Apoyo Integral, AREGAK, ASA, Banco Solidario, BancoSol, BanGente, BCS, Bhartiya Samruddhi Finance Ltd., BPR Arta Kencana, BRAC, BURO Tangail, CARD RB, CEP, CHF - ROM, Constanta, CRAN, CREDIT MFI, CRG, Crystal Fund, DBACD, DEMOS, EDPYME Edyficar, EKI, Enda, Enowid, FATEN, FCBF, FDL, FICCO, Finadev, FINCA - ARM, FINCA - GEO, First Allied S&L, FM, FMFB, FONDEP, FORA, Fundación Paraguaya, Garden City S&L, GEF, HKL, HOPE Ukraine, IDF, JMCC, KC, KEP, KLF, K-Rep, Lower Pra RB, MFW, MI-BOSPO, Mikro ALDI, MIKROFIN, NABWT, Nirdhan, NOA, Normicro, Nwabiagya RB, NWTf, OBM, OCSSC, OMB, OMRO, OTIV Sava, PADME, PAMECAS, PAPME, PCCC, Prasac, PRIZMA, PSHM, SCMPC, SHARE, Sidama, Tchuma, UMU, UNRWA, USPD, UWFT, Vital Finance, Voronezh, WAGES, Wisdom, XAC, Zakoura.
Methodology: Solidarity	35	1	28	6	ADCSI, Ahantaman RB, Al Karama, Al Tadamun, AMK, AMSSF, ASTI, AVFS, Barakot, BG, CARD NGO, CRECER, DAMEN, DECSI, Eshet, Faulu - UGA, FBPMC, Gasha, Kamurj, Kashf, KMBI, KSF, Meklit, MTA, Norfil, PEACE, PRIDE - TZA, PTF, SAFWCO, SBDF, SEF - ZAF, SFPI, SKS, USTOI, Wasasa.
Methodology: Village Banking	26	5	20	1	Agroinvest, ASEI, Compartamos, FINCA - AZE, FINCA - GTM, FINCA - HAI, FINCA - KGZ, FINCA - MWI, FINCA - PER, FINCA - Toms, FINCA - TZA, FINCA - UGA, FOCCAS, GK, GV, Metemamen, MIKRA, Pro Mujer - BOL, Pro Mujer - NIC, Pro Mujer - PER, SEDA, Spandana, Sungi, TPC, TSKI, TSPI.
Outreach: Small (Number of Borrowers < 10,000)	126	13	74	39	ACCOVI, ACF, ACME, ACTUAR - Tolima, Adansi RB, ADRI, Agroinvest, Ahantaman RB, Akiba, AKRB, Akuapem RB, Al Karama, Al Majmoua, Al Tadamun, Alternativa, AMC, AMEEN, AMSSF, ASEI, ASTI, AVFS, BAI, BanGente, Bank of Khyber, Barakot, BBK, BCS, BESA, BG, BPR Arta Kencana, BZMF, Capa Fdn., CHF - ROM, CMEDFI, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, CRAN, CREDIMUJER, CREDIT MFI, Crystal Fund, DEMOS, ECLOF - ECU, EDPYME Proempresa, Enowid, Eshet, FATEN, FCBF, FINCA - ARM, FINCA - AZE, FINCA - GEO, FINCA - GTM, FINCA - HAI, FINCA - PER, FINCA - Toms, First Allied S&L, FM, FMFB, Fundación Paraguaya, Garden City S&L, Gasha, GEF, Genesis, GK, HKL, HOPE Ukraine, Integra, JMCC, Johnson S&L, Kamurj, KC, KEP, KLF, KSF, Lower Pra RB, LPD Bedha, LPD Buahán, LPD Celuk, LPD Ketewel, LPD Kuku, LPD Kuta, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung, Meklit, Mepe Area RB, Metemamen, MFW, MI-BOSPO, Midland S&L, MIKRA, Mikro ALDI, MIKROFIN, MMPC, MTA, NABWT, NOA, Normicro, Nwabiagya RB, OBM, OIS, OMRO, OTIV Sava, PCCC, PEACE, PSHM, PTF, RBTC, RBV, REDES, SAFWCO, SBDF, SCMPC, SFPI, Sikaman S&L, SODEYSTVIE, Sungi, Sunrise, Tchuma, UNRWA, USPD, USTOI, Voronezh, Wasasa.
Outreach: Medium (Number of Borrowers ≥ 10,000 and ≤ 30,000)	53	16	34	3	ACEP SENEGAL, ACODEP, ADCSI, AMK, Apoyo Integral, AREGAK, Banco Ademi, COAC Jardín Azuayo, Constanta, Credi Fe, DAMEN, DBACD, EKI, El Comercio Financiera, Enda, FAMA, Faulu - UGA, FDL, FED, Finadev, Finamérica, FINCA - KGZ, FINCA - MWI, FINCA - TZA, FINDESA, FOCCAS, FONDEP, FORA, José Nieborowski, KMB, KMBI, Nirdhan, Norfil, OMB, PAMECAS, PAPME, Partner, PRIZMA, Pro Mujer - NIC, Pro Mujer - PER, PRODEM FFP, RBKV, SEDA, SEF - ZAF, Sidama, SKS, UMU, UWFT, Vital Finance, Wisdom, WWB - Bogotá, WWB - Medellín, XAC.
Outreach: Large (Number of Borrowers > 30,000)	52	17	31	4	ABA, ACLEDA, ACSI, Al Amana, AMRET, ASA, Banco del Trabajo, Banco Solidario ECUADOR, BancoSol BOLIVIA, Bandedarrollo Microempresas, Bhartiya Samruddhi Finance Ltd., BRAC, BRI, BURO Tangail, CARD NGO, CARD RB, CEP, CERUDEB, CMAC - Arequipa, CMAC - Sullana, Compartamos, CRECER, CRG, DECSI, EBS, EDPYME Edyficar, FBPMC, FICCO, FIE, FINCA - UGA, FMM - Popayán, GV, IDF, Kafo Jiginew, Kashf, K-Rep, Los Andes FFP, MiBanco, NWTf, OCSSC, PADME, Prasac, PRIDE - TZA, Pro Mujer - BOL, SHARE, Spandana, TPC, TSKI, TSPI, WAGES, WWB - Cali, Zakoura.

Peer Group	n	Data Quality †			Participating Institutions
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Profit Status: Profit	84	16	54	14	ACCOVI, ACLEDA, ACSI, Adansi RB, ADCSI, Ahantaman RB, Akiba, AKRB, Akuapem RB, AMC, AMK, AMRET, Apoyo Integral, AVFS, Banco Ademi, Banco del Trabajo, Banco Solidario, BancoSol, Bandesarrollo Microempresas, BanGente, Bank of Khyber, BBK, BG, Bhartiya Samruddhi Finance Ltd., BPR Arta Kencana, BRI, CARD RB, CERUDEB, Compartamos, Credi Fe, CREDIT MFI, CRG, DECSI, EBS, EDPYME Edyficar, El Comercio Financiera, Eshet, Faulu - UGA, FIE, Finamérica, FINDESA, First Allied S&L, FMFB, Garden City S&L, Gasha, Johnson S&L, KMB, K-Rep, Los Andes FFP, Lower Pra RB, LPD Bedha, LPD Buah, LPD Celuk, LPD Ketewel, LPD Kukuh, LPD Kuta, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung, Meklit, Mepe Area RB, Metemamen, MiBanco, Midland S&L, Nirdhan, Nwabiagya RB, OBM, OCSSC, OIS, OMB, PEACE, PRODEM FFP, RBKV, RBTC, RBV, SFPI, SHARE, Sidama, Sikaman S&L, TPC, Wasasa, Wisdom, XAC.
Profit Status: Not for Profit	147	30	85	32	ABA, ACEP SENEGAL, ACF, ACME, ACODEP, ACTUAR - Tolima, ADRI, Agroinvest, Al Amana, Al Karama, Al Majmoua, Al Tadamun, Alternativa, AMEEN, AMSSF, AREGAK, ASA, ASEI, ASTI, BAI, Barakot, BCS, BESA, BRAC, BURO Tangail, BZMF, Capa Fdn., CARD NGO, CEP, CHF - ROM, CMAC - Arequipa, CMAC - Sullana, CMEDFI, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, Constanta, CRAN, CRECER, CREDIMUJER, Crystal Fund, DAMEN, DBACD, DEMOS, ECLOF - ECU, EDPYME Proempresa, EKI, Enda, Enowid, FAMA, FATEN, FBPMC, FCBF, FDL, FED, FICCO, Finadev, FINCA - ARM, FINCA - AZE, FINCA - GEO, FINCA - GTM, FINCA - HAI, FINCA - KGZ, FINCA - MWI, FINCA - PER, FINCA - Tomsk, FINCA - TZA, FINCA - UGA, FM, FMM - Popayán, FOCCAS, FONDEP, FORA, Fundación Paraguaya, GEF, Genesis, GK, GV, HKL, HOPE Ukraine, IDF, Integra, JMCC, José Nieborowski, Kafo Jiginew, Kamurj, Kashf, KC, KEP, KLF, KMBI, KSF, MFW, MI-BOSPO, MIKRA, Mikro ALDI, MIKROFIN, MMPC, MTA, NABWT, NOA, Norfil, Normicro, NWTF, OMRO, OTIV Sava, PADME, PAMECAS, PAPME, Partner, PCCC, Prasac, PRIDE - TZA, PRIZMA, Pro Mujer - BOL, Pro Mujer - NIC, Pro Mujer - PER, PSHM, PTF, REDES, SAFWCO, SBDF, SCMP, SEDA, SEF - ZAF, SKS, SODEYSTVIE, Spandana, Sungi, Sunrise, Tchuma, TSKI, TSPI, UMU, UNRWA, USPD, USTOI, UWFT, Vital Finance, Voronezh, WAGES, WWB - Bogotá, WWB - Cali, WWB - Medellín, Zakoura.
Region: Africa (Sub - Saharan Africa)	57	6	47	4	ACEP SENEGAL, ACSI, Adansi RB, ADCSI, Ahantaman RB, Akiba, AKRB, Akuapem RB, AVFS, BG, CERUDEB, CRAN, CRG, DECSI, EBS, Enowid, Eshet, Faulu - UGA, Finadev, FINCA - MWI, FINCA - TZA, FINCA - UGA, First Allied S&L, FOCCAS, Garden City S&L, Gasha, Johnson S&L, Kafo Jiginew, K-Rep, KSF, Lower Pra RB, Meklit, Mepe Area RB, Metemamen, Midland S&L, MTA, Nwabiagya RB, OCSSC, OTIV Sava, PADME, PAMECAS, PAPME, PEACE, PRIDE - TZA, PTF, SEDA, SEF - ZAF, SFPI, Sidama, Sikaman S&L, Tchuma, UMU, UWFT, Vital Finance, WAGES, Wasasa, Wisdom.
Region: Asia (South & East Asia)	57	7	28	22	ACLEDA, AMK, AMRET, ASA, Bank of Khyber, BCS, Bhartiya Samruddhi Finance Ltd., BPR Arta Kencana, BRAC, BRI, BURO Tangail, CARD NGO, CARD RB, CEP, CMEDFI, CREDIT MFI, DAMEN, FCBF, FICCO, FMFB, GK, GV, HKL, IDF, Kashf, KC, KMBI, LPD Bedha, LPD Buah, LPD Celuk, LPD Ketewel, LPD Kukuh, LPD Kuta, LPD Panjer, LPD Pecatu, LPD Pemogan, LPD Ubung, MMPC, Nirdhan, Norfil, NWTF, OMB, PCCC, Prasac, RBKV, RBTC, RBV, SAFWCO, SCMP, SHARE, SKS, Spandana, Sungi, TPC, TSKI, TSPI, USPD.
Region: ECA (Eastern Europe & Central Asia)	49	10	19	20	ACF, Agroinvest, Alternativa, AREGAK, ASTI, BAI, Barakot, BBK, BESA, BZMF, Capa Fdn., CHF - ROM, Constanta, Crystal Fund, DEMOS, EKI, FINCA - ARM, FINCA - AZE, FINCA - GEO, FINCA - KGZ, FINCA - Tomsk, FM, FORA, GEF, HOPE Ukraine, Integra, Kamurj, KEP, KLF, KMB, MI-BOSPO, MIKRA, Mikro ALDI, MIKROFIN, NABWT, NOA, Normicro, OBM, OIS, OMRO, Partner, PRIZMA, PSHM, SBDF, SODEYSTVIE, Sunrise, USTOI, Voronezh, XAC.
Region: LAC (Latin America & the Caribbean)	52	19	32	1	ACCOVI, ACME, ACODEP, ACTUAR - Tolima, ADRI, AMC, Apoyo Integral, ASEI, Banco Ademi, Banco del Trabajo, Banco Solidario, BancoSol, Bandesarrollo Microempresas, BanGente, CMAC - Arequipa, CMAC - Sullana, CMM - Bogota, CMM - Medellín, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, Compartamos, CRECER, Credi Fe, CREDIMUJER, ECLOF - ECU, EDPYME Edyficar, EDPYME Proempresa, El Comercio Financiera, FAMA, FDL, FED, FIE, Finamérica, FINCA - GTM, FINCA - HAI, FINCA - PER, FINDESA, FMM - Popayán, Fundación Paraguaya, Genesis, José Nieborowski, Los Andes FFP, MiBanco, Pro Mujer - BOL, Pro Mujer - NIC, Pro Mujer - PER, PRODEM FFP, REDES, WWB - Bogotá, WWB - Cali, WWB - Medellín.
Region: MENA (Middle East & North Africa)	16	4	12	0	ABA, Al Amana, Al Karama, Al Majmoua, Al Tadamun, AMEEN, AMSSF, DBACD, Enda, FATEN, FBPMC, FONDEP, JMCC, MFW, UNRWA, Zakoura.

Peer Group	n	Data Quality †			Participating Institutions
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Scale: Small (GLP in USD, LAC < 4,000,000; Others < 2,000,000)	112	7	70	35	ACF, ACME, ACTUAR - Tolima, Adansi RB, ADCSI, ADRI, Ahantaman RB, AKRB, Akuapem RB, Al Karama, Al Tadamun, Alternativa, AMC, AMK, AMSSF, ASEI, ASTI, AVFS, BAI, Barakot, BBK, BCS, BG, BPR Arta Kencana, BZMF, Capa Fdn., CMEDFI, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, CRAN, CREDIMUJER, CREDIT MFI, Crystal Fund, DAMEN, DEMOS, ECLOF - ECU, Enowid, Eshet, FATEN, FCBF, FINCA - ARM, FINCA - AZE, FINCA - GEO, FINCA - GTM, FINCA - HAI, FINCA - MWI, FINCA - PER, FINCA - Tomsk, FINCA - TZA, FMFB, FOCCAS, FONDEP, Fundación Paraguaya, Garden City S&L, Gasha, GEF, Genesis, GK, HKL, HOPE Ukraine, Integra, Johnson S&L, Kamurj, KC, KMBI, KSF, Lower Pra RB, LPD Bedha, LPD Buah, LPD Celuk, LPD Ketewel, LPD Kuku, LPD Panjer, LPD Pemogan, LPD Ubung, Meklit, Mepe Area RB, Metemamen, Midland S&L, Mikro ALDI, MMPC, MTA, NABWT, Norfil, Normicro, Nwabiagya RB, OMRO, OTIV Sava, PCCC, PEACE, Pro Mujer - NIC, Pro Mujer - PER, PTF, RBTC, RBV, REDES, SAFWCO, SBDF, SCMPC, SEDA, SFPI, Sidama, Sikaman S&L, SODEYSTVIE, Sungi, Tchuma, USPD, USTOI, Voronezh, Wasasa, Wisdom.
Scale: Medium (GLP in USD, LAC ≥ 4,000,000 and ≤ 15,000,000; Others ≥ 2,000,000 and ≤ 8,000,000)	64	17	40	7	ABA, ACCOVI, ACODEP, Al Majmoua, AMEEN, AMRET, Apoyo Integral, AREGAK, BanGente, Bank of Khyber, CARD NGO, CARD RB, CEP, CHF - ROM, COAC San José, Constanta, CRECER, CRG, DBACD, EDPYME Proempresa, El Comercio Financiera, Enda, FAMA, Faulu - UGA, FDL, FED, FINCA - KGZ, FINCA - UGA, First Allied S&L, GV, IDF, JMCC, José Nieborowski, Kashf, KEP, KLF, LPD Kuta, LPD Pecatu, MFW, MI-BOSPO, MIKRA, Nirdhan, NOA, NWTF, OCSSC, OIS, OMB, Prasac, PRIZMA, Pro Mujer - BOL, PSHM, RBKV, SEF - ZAF, SKS, TPC, TSKI, TSPI, UMU, UNRWA, UWFT, Vital Finance, WAGES, WWB - Bogotá, WWB - Medellín.
Scale: Large (GLP in USD, LAC > 15,000,000; Others > 8,000,000)	55	22	29	4	ACEP SENEGAL, ACLEDA, ACSI, Agroinvest, Akiba, Al Aman, ASA, Banco Ademi, Banco del Trabajo, Banco Solidario, BancoSol, Bandesarrollo Microempresas, BESA, Bhartiya Samruddhi Finance Ltd., BRAC, BRI, BURO Tangail, CERUDEB, CMAC - Arequipa, CMAC - Sullana, COAC Jardín Azuayo, Compartamos, Credi Fe, DECSI, EBS, EDPYME Edyficar, EKI, FBPMC, FICCO, FIE, Finadev, Finamérica, FINDESA, FM, FMM - Popayán, FORA, Kafo Jiginew, KMB, K-Rep, Los Andes FFP, MiBanco, MIKROFIN, OBM, PADME, PAMECAS, PAPME, Partner, PRIDE - TZA, PRODEM FFP, SHARE, Spandana, Sunrise, WWB - Cali, XAC, Zakoura.
Sustainability: FSS (Financial Self-Sufficiency > 100%)	139	37	73	29	[These names are held confidential]
Sustainability: Non-FSS (Financial Self-Sufficiency < 100%)	92	9	66	17	[These names are held confidential]
Target Market: Low End (Avg. Balance per Borrower/ GNI per Capita < 20% and Avg. Balance per Borrower < USD 150)	91	12	70	9	ABA, ACSI, ADCSI, Al Karama, Al Majmoua, Al Tadamun, Alternativa, AMEEN, AMK, AMRET, AMSSF, ASA, ASEI, ASTI, AVFS, Bandesarrollo Microempresas, Barakot, BG, Bhartiya Samruddhi Finance Ltd., BRAC, BURO Tangail, CARD NGO, CARD RB, CEP, CMEDFI, Compartamos, CRAN, CRECER, CREDIMUJER, CREDIT MFI, CRG, DAMEN, DBACD, DECSI, Enda, Enowid, Eshet, FCBF, FINCA - AZE, FINCA - GTM, FINCA - HAI, FINCA - MWI, FINCA - PER, FINCA - TZA, FINCA - UGA, FMM - Popayán, FOCCAS, FONDEP, Gasha, GK, GV, IDF, Kashf, KMBI, KSF, Meklit, Metemamen, MFW, MTA, Nirdhan, Norfil, NWTF, OCSSC, OMB, PCCC, PEACE, Prasac, PRIDE - TZA, Pro Mujer - BOL, Pro Mujer - NIC, Pro Mujer - PER, PTF, REDES, SAFWCO, SEDA, SEF - ZAF, SFPI, SHARE, Sidama, SKS, Spandana, Sungi, TPC, TSKI, TSPI, WAGES, Wasasa, Wisdom, WWB - Bogotá, WWB - Medellín, Zakoura.
Target Market: Broad (Avg. Balance per Borrower/ GNI per Capita ≥ 20% and ≤ 150%)	116	28	57	31	ACCOVI, ACLEDA, ACME, ACODEP, ACTUAR - Tolima, Adansi RB, ADRI, Agroinvest, Ahantaman RB, AKRB, Akuapem RB, Al Aman, AMC, Apoyo Integral, AREGAK, BAI, Banco Ademi, Banco del Trabajo, Banco Solidario, BanGente, Bank of Khyber, BBK, BCS, BPR Arta Kencana, BRI, BZMF, Capa Fdn., CMAC - Arequipa, CMAC - Sullana, COAC Jardín Azuayo, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, COAC San José, Constanta, Credi Fe, Crystal Fund, DEMOS, EBS, ECLOF - ECU, EDPYME Edyficar, EDPYME Proempresa, EKI, El Comercio Financiera, FAMA, FATEN, Faulu - UGA, FBPMC, FDL, FED, FICCO, FIE, Finamérica, FINCA - ARM, FINCA - GEO, FINCA - KGZ, FINCA - Tomsk, First Allied S&L, FM, FMFB, FORA, Fundación Paraguaya, GEF, Genesis, HKL, HOPE Ukraine, Integra, JMCC, José Nieborowski, Kafo Jiginew, Kamurj, KC, KEP, KLF, K-Rep, Lower Pra RB, LPD Bedha, LPD Buah, LPD Ketewel, LPD Kuku, LPD Panjer, Mepe Area RB, MiBanco, MI-BOSPO, MIKRA, Mikro ALDI, MMPC, NABWT, NOA, Normicro, Nwabiagya RB, OBM, OIS, OMRO, OTIV Sava, PAMECAS, Partner, PRIZMA, PSHM, RBKV, RBTC, RBV, SBDF, SCMPC, SODEYSTVIE, Sunrise, Tchuma, UMU, UNRWA, USPD, USTOI, UWFT, Vital Finance, Voronezh, WWB - Cali, XAC.
Target Market: High End (Avg. Balance per Borrower/ GNI per Capita > 150% and ≤ 250%)	12	5	4	3	ACEP SENEGAL, ACF, BancoSol, BESA, CHF - ROM, Finadev, FINDESA, Los Andes FFP, LPD Kuta, LPD Ubung, MIKROFIN, PADME.

Peer Group	Data Quality †				Participating Institutions
	n	***	**	*	
Target Market: Small Business (Avg. Balance per Borrower/ GNI per Capita > 250%)	12	1	8	3	Akiba, CERUDEB, Garden City S&L, Johnson S&L, KMB, LPD Celuk, LPD Pecatu, LPD Pemogan, Midland S&L, PAPME, PRODEM FFP, Sikaman S&L.
COMPOUND PEER GROUPS					
Africa Large FI (Africa; GLP > \$8,000,000; Voluntary Savings/ Total Assets ≥ 20%)	8	0	7	1	ACSI, Akiba, CERUDEB, DECSI, EBS, Kafo Jiginew, K-Rep, PAMECAS.
Africa Large Non FI (Africa; GLP > \$8,000,000; Voluntary Savings/ Total Assets < 20%)	5	2	3	0	ACEP SENEGAL, Finadev, PADME, PAPME, PRIDE - TZA.
Africa Medium FI (Africa; GLP ≥ \$2,000,000 and ≤ \$8,000,000; Voluntary Savings/ Total Assets ≥ 20%)	4	2	1	1	CRG, First Allied S&L, UWFT, WAGES.
Africa Medium Non FI (Africa; GLP ≥ \$2,000,000 and ≤ \$8,000,000; Voluntary Savings/ Total Assets < 20%)	6	1	5	0	Faulu - UGA, FINCA - UGA, OCSSC, SEF - ZAF, UMU, Vital Finance.
Africa Small FI (Africa; GLP < \$2,000,000; Voluntary Savings/ Total Assets ≥ 20%)	12	0	12	0	Adansi RB, Ahantaman RB, AKRB, Akuapem RB, Garden City S&L, Johnson S&L, Lower Pra RB, Mepe Area RB, Midland S&L, Nwabiagya RB, OTIV Sava, Sikaman S&L.
Africa Small Non FI (Africa; GLP < \$2,000,000; and Voluntary Savings/ Total Assets < 20%)	22	1	19	2	ADCSI, AVFS, BG, CRAN, Enowid, Eshet, FINCA - MWI, FINCA - TZA, FOCCAS, Gasha, KSF, Meklit, Metemamen, MTA, PEACE, PTF, SEDA, SFPI, Sidama, Tchuma, Wasasa, Wisdom.
Asia Large FI (Asia; GLP > \$8,000,000; Voluntary Savings/ Total Assets ≤ 20%)	4	0	2	2	ACLEDA, BRI, BURO Tangail, FICCO.
Asia Large Non FI (Asia; GLP > \$8,000,000; Voluntary Savings/ Total Assets < 20%)	5	1	4	0	ASA, Bhartiya Samruddhi Finance Ltd., BRAC, SHARE, Spandana.
Asia Medium FI (Asia; GLP ≥ \$2,000,000 and ≤ \$8,000,000; Voluntary Savings/ Total Assets ≥ 20%)	4	0	2	2	CARD RB, LPD Kuta, LPD Pecatu, RBKV.
Asia Medium Non FI (Asia; GLP ≥ \$2,000,000 and ≤ \$8,000,000; Voluntary Savings/ Total Assets < 20%)	15	5	9	1	AMRET, Bank of Khyber, CARD NGO, CEP, GV, IDF, Kashf, Nirdhan, NWTf, OMB, Prasac, SKS, TPC, TSKI, TSPI.
Asia Small FI (Asia; GLP < \$2,000,000; Voluntary Savings/ Total Assets ≥ 20%)	19	1	3	15	BCS, BPR Arta Kencana, CMEDFI, FMFB, KC, LPD Bedha, LPD Buahon, LPD Celuk, LPD Ketewel, LPD Kuku, LPD Panjer, LPD Pemogan, LPD Ubung, MMPC, PCCC, RBTC, RBV, SCMPCL, USPD.
Asia Small Non FI (Asia; GLP < \$2,000,000; Voluntary Savings/ Total Assets < 20%)	10	0	8	2	AMK, CREDIT MFI, DAMEN, FCBF, GK, HKL, KMBI, Norfil, SAFWCO, Sungi.
ECA High (ECA; Avg. Balance per Borrower/ GNI per Capita > 150% and ≤ 250%)	5	0	4	1	ACF, BESA, CHF - ROM, KMB, MIKROFIN.
ECA Large Broad (ECA; GLP > \$8,000,000; Avg. Balance per Borrower/ GNI per Capita ≥ 20% and ≤ 150%)	8	6	1	1	Agroinvest, EKI, FM, FORA, OBM, Partner, Sunrise, XAC.
ECA Medium Broad (ECA; GLP ≥ \$2,000,000 and ≤ \$8,000,000; Avg. Balance per Borrower/ GNI per Capita ≥ 20% and ≤ 150%)	11	3	6	2	AREGAK, Constanta, FINCA - KGZ, KEP, KLF, MI-BOSPO, MIKRA, NOA, OIS, PRIZMA, PSHM.
ECA Small Broad (ECA; GLP < \$2,000,000; Avg. Balance per Borrower/ GNI per Capita ≥ 20% and ≤ 150%)	21	1	7	13	BAI, BBK, BZMF, Capa Fdn., Crystal Fund, DEMOS, FINCA - ARM, FINCA - GEO, FINCA - Tomsk, GEF, HOPE Ukraine, Integra, Kamurj, Mikro ALDI, NABWT, Normicro, OMRO, SBDF, SODEYSTVIE, USTOI, Voronezh.
ECA Small Low (ECA; GLP < \$2,000,000; Avg. Balance per Borrower/ GNI per Capita < 20% and Avg. Balance per Borrower < USD 150)	4	0	1	3	Alternativa, ASTI, Barakot, FINCA - AZE.

Peer Group	n	Data Quality †			Participating Institutions
		***	**	*	
LAC Large FI (LAC; GLP > \$15,000,000; Voluntary Savings/ Total Assets ≥ 20%)	13	10	3	0	Banco Ademi, Banco del Trabajo, Banco Solidario, BancoSol, Bandesarrollo Microempresas, CMAC - Arequipa, CMAC - Sullana, COAC Jardín Azuayo, FIE, Finamérica, Los Andes FFP, MiBanco, PRODEM FFP.
LAC Large Non FI (LAC; GLP > \$15,000,000; Voluntary Savings/ Total Assets < 20%)	6	2	4	0	Compartamos, Credi Fe, EDPYME Edyficar, FINDESA, FMM - Popayán, WWB - Cali
LAC Medium Broad (LAC; GLP ≥ \$4,000,000 and ≤ \$15,000,000; Avg. Balance per Borrower/ GNI per Capita ≥ 20% and ≤ 150%)	11	4	7	0	ACCOVI, ACODEP, Apoyo Integral, BanGente, COAC San José, EDPYME Proempresa, El Comercio Financiera, FAMA, FDL, FED, José Nieborowski.
LAC Medium Low (LAC; GLP ≥ \$4,000,000 and ≤ \$15,000,000; Avg. Balance per Borrower/ GNI per Capita < 20% and Avg. Balance per Borrower < USD 150)	4	0	4	0	CRECER, Pro Mujer - BOL, WWB - Bogotá, WWB - Medellín.
LAC Small Broad (LAC; GLP < \$4,000,000; Avg. Balance per Borrower/ GNI per Capita ≥ 20% and ≤ 150%)	10	3	7	0	ACME, ACTUAR - Tolima, ADRI, AMC, COAC La Merced, COAC Maquita Cushunchic, COAC Sac Aiet, ECLOF - ECU, Fundación Paraguaya, Genesiss.
LAC Small Low (LAC; GLP < \$4,000,000; Avg. Balance per Borrower/ GNI per Capita < 20% and Avg. Balance per Borrower < USD 150)	8	0	7	1	ASEI, CREDIMUJER, FINCA - GTM, FINCA - HAI, FINCA - PER, Pro Mujer - NIC, Pro Mujer - PER, REDES.
MENA Large (MENA; GLP > \$8,000,000)	3	1	2	0	Al Amana, FBPMC, Zakoura.
MENA Medium (MENA; GLP ≥ \$2,000,000 and ≤ \$8,000,000)	8	2	6	0	ABA, Al Majmoua, AMEEN, DBACD, Enda, JMCC, MFW, UNRWA.
MENA Small (MENA; GLP < \$2,000,000)	5	1	4	0	Al Karama, Al Tadamun, AMSSF, FATEN, FONDEP.

† The MicroBanking Bulletin uses the following grading system to classify information received from MFIs:

*** The information is supported by an in-depth financial analysis conducted by an independent entity in the last three years

** The MBB questionnaire plus audited financial statements, annual reports and other independent evaluations

* The MBB questionnaire or audited financial statements without additional documentation

APPENDICES

Appendix I: Notes to Adjustments and Statistical Issues

The *MicroBanking Bulletin* is open to all MFIs that are willing to disclose financial data that meet a simple quality test. Participating MFIs typically have three characteristics: 1) they are willing to be transparent by submitting their performance data to an independent agency; 2) they display a strong social orientation by providing financial services to low-income persons; and 3) they are able to answer all the questions needed for our analysis.

Data Quality Issues

The *Bulletin* has a data quality grade to represent the degree to which we have independent verification of an MFI's data. Three star information (***) has been independently generated through a detailed financial analysis by an independent third party, such as a CAMEL evaluation, a CGAP appraisal, or assessments by reputable rating agencies. Two star information (**) is backed by accompanying documentation, such as audited financial statements, annual reports, and independent program evaluations that provide a reasonable degree of confidence for our adjustments. One star information (*) is from MFIs that have limited themselves to completing our questionnaire. These grades signify confidence levels on the reliability of the information; and in no way represent a rating of the financial performance of the MFIs.

The criteria used in constructing the statistical tables are important for understanding and interpreting the information presented. Given the voluntary nature and origin of the data, the *Bulletin* staff, Editorial Board and funders cannot accept responsibility for the validity of the results presented, or for consequences resulting from their use. The data quality grade makes tentative distinctions about the quality of data presented to us, and we include only information for which we have a reasonable level of comfort. However, we cannot exclude the possibility of misrepresented self-reported results.

Potential distortions may arise from: (1) unreported subsidies and (2) misrepresented loan portfolio quality. There can also be inaccuracies in reporting the costs of financial services in multipurpose institutions that also provide non-financial services, in part because of difficulties in assigning overhead costs. These risks are highest for younger institutions, and for institutions with a record of optimistic

statement of results. If we have grounds for caution about the reliability of an MFI's disclosure, we will not include its information in a peer group unless it has been externally validated by a third party in which we have confidence.

Adjustments to Financial Data

The *Bulletin* adjusts the financial data it receives to ensure comparable results. The financial statements of each organization are converted to the standard financial statement presentation used by the *Bulletin*. This presentation can be simpler than that used by most MFIs; so, the conversion consists mainly of consolidation into fewer, more general accounts. In some instances, and where the original accounts did not have appropriate disclosure, the *Bulletin's* accounts reveal more details on the financial service operations than did the originals. After this reclassification, three analytical adjustments are applied to produce a common treatment for the effect of: a) inflation, b) subsidies, and c) loan loss provisioning and write-off. In the statistical tables the reader can compare these adjusted results.

Inflation

The *Bulletin* reports the net effect of inflation by calculating increases in expenses and revenues due to inflation. Inflation decreases the value of net monetary assets, represented by the *Bulletin* as the difference between equity and fixed assets. This erosion in the value of net monetary assets is obtained by multiplying the prior year-end equity balance by the current-year inflation rate.⁶¹ Fixed asset accounts, on the other hand, are revalued upward by the current year's inflation rate, which results in inflation adjustment income, offsetting to some degree the expense generated by adjusting equity.⁶² On the balance sheet, this inflation adjustment results in a reordering of equity accounts: profits are redistributed between real profit and the nominal profits required to maintain the real value of equity.

⁶¹ Inflation data are obtained from line 64x of the International Financial Statistics, International Monetary Fund, various years.

⁶² In fact, an institution that holds fixed assets equal to its equity avoids the cost of inflation that affects MFIs which hold much of their equity in financial form.

MFIs that borrow from banks or mobilize savings have an actual interest expense, which is an operating cost. In comparison, similar MFIs that lend only their equity have no interest expense and therefore have lower operating costs. If an MFI focuses on sustainability and the maintenance of its capital/asset ratio, it must increase the size of its equity in nominal terms to continue to make the same value of loans in real (inflation-adjusted) terms. Inflation increases the cost of tangible items over time, so that a borrower needs more money to purchase them. MFIs that want to maintain their support to clients must therefore offer larger loans. Employees' salaries go up with inflation, so the average loan balance and portfolio must increase to compensate, assuming no increase in interest margin. Therefore, an institution that funds its loans with its equity must maintain the real value of that equity, and pass along the cost of doing so to the client. This expectation implies MFIs should charge interest rates that include the inflation adjustment expense as a cost of funds, even if this cost is not actually paid to anyone outside the institution.

Some countries with high or volatile levels of inflation require businesses to use inflation-based accounting on their audited financial statements. We use a proxy of this same technique in the *Bulletin*. Of course, we understand that in countries where high or volatile inflation is a new experience, MFIs may find it difficult to pass on the full cost of inflation to clients. These adjustments do reflect policy recommendations; rather, they provide a common analytical framework that compares real financial performance meaningfully.

Subsidies

We adjust participating institutions' financial statements for the effect of subsidies by presenting them as they would look on an unsubsidized basis. These adjustments do not intend to suggest that MFIs should or should not be subsidized. Rather, they allow the *Bulletin* to see how each MFI would look without subsidies for comparative purposes. Most of the participating MFIs indicate a desire to grow beyond the limitations imposed by subsidized funding. The subsidy adjustment permits an MFI to judge whether it is on track toward such an outcome. A focus on sustainable expansion suggests that subsidies should be used to defray start-up costs or support innovation. The subsidy adjustment simply indicates the extent to which the subsidy is being passed on to clients through lower interest rates or whether it is building the MFI's capital base for further expansion.

The *Bulletin* adjusts for three types of subsidies: (1) a cost-of-funds subsidy from loans at below-market rates, (2) current-year cash donations to fund port-

folio and cover expenses, and (3) in-kind subsidies, such as rent-free office space or the services of personnel who are not paid by the MFI and thus not reflected on its income statement. Additionally, for multipurpose institutions, the *MicroBanking Bulletin* attempts to isolate the performance of the financial services program, removing the effect of any cross subsidization.

The cost-of-funds adjustment reflects the impact of soft loans on the financial performance of the institution. The *Bulletin* calculates the difference between what the MFI actually paid in interest on its subsidized liabilities and what it would have paid at market terms.⁶³ This difference represents the value of the subsidy, which we treat as an additional financial expense. We apply this subsidy adjustment to the average balance of borrowings carried by the MFI over the year. The decreased profit is offset by generating a "cost of funds adjustment" account on the balance sheet.

If the MFI passes on the interest rate subsidy to its clients through a lower final rate of interest, this adjustment may result in an operating loss. If the MFI does not pass on this subsidy, but instead uses it to increase its equity base, the adjustment indicates the amount of the institution's profits that were attributable to the subsidy rather than operations.

Loan Loss Provisioning

Finally, we apply standardized policies for loan loss provisioning and write-off. MFIs vary tremendously in accounting for loan delinquency. Some count the entire loan balance as overdue the day a payment is missed. Others do not consider a loan delinquent until its full term has expired. Some MFIs write off bad debt within one year of the initial delinquency, while others never write off bad loans, thus carrying forward a defaulted loan that they have little chance of ever recovering.

We classify as "at risk" any loan with a payment over 90 days late. We provision 50 percent of the outstanding balance for loans between 90 and 180 days late, and 100 percent for loans over 180 days late. Some institutions also renegotiate (refinance or reschedule) delinquent. As these loans present a higher probability of default, we provision all re-

⁶³ Data for shadow interest rates are obtained from line 60I of the International Financial Statistics, IMF, various years. The deposit rate is used because it is a published benchmark in most countries. Sound arguments can be made for use of different shadow interest rates. NGOs that wish to borrow from banks would face interest significantly higher than the deposit rate. A licensed MFI, on the other hand, might mobilize savings at a lower financial cost than the deposit rate, but reserve requirements and administrative costs would drive up the actual cost of such liabilities.

negotiated balances at 50 percent. Wherever we have adequate information, we adjust to assure that all loans are fully written off within one year of their becoming delinquent. (Note: We apply these provisioning and write-off policies for benchmarking purposes only. We do not recommend that all MFIs use exactly the same policies.) In most cases, these adjustments are a rough approximation of risk. They are intended only to create a minimal

even playing field for cross institutional comparison and benchmarking. Nevertheless, most participating MFIs have high-quality loan portfolios; so, loan loss provision expense is not an important contributor to their overall cost structure. If we felt that a program did not fairly represent its general level of delinquency, and we were unable to adjust it accordingly, we would simply exclude it from the peer group.

Figure 1: Financial statement adjustments and their effects

Adjustment	Effect on Financial Statements	Type of Institution Most Affected by Adjustment
Inflation adjustment of equity (minus net fixed assets)	Increases financial expense accounts on income statement, to some degree offset by inflation income account for revaluation of fixed assets. Generates a reserve in the balance sheet's equity account, reflecting that portion of the MFI's retained earnings that has been consumed by the effects of inflation. Decreases profitability and "real" retained earnings.	MFIs funded more by equity than by liabilities will be hardest hit, especially in high inflation countries.
Reclassification of certain long term liabilities into equity, and subsequent inflation adjustment	Decreases concessional loan account and increases equity account; increases inflation adjustment on income statement and balance sheet.	NGOs that have very long-term, very low-interest "loans" from international agencies that function more as donations than loans, or transformed institutions with subordinated debt.
Cost of funds adjustment	Increases financial expense on income statement to the extent that the MFI's liabilities carry a below-market rate of interest. ⁶⁴ Decreases net income and increases subsidy adjustment account on balance sheet.	MFIs with heavily subsidized loans (i.e., large lines of credit from governments or international agencies at highly subsidized rates).
Reclassification of donations below net operating income	Reduces net operating income on the income statement. Increases accumulated donations account under equity on the balance sheet.	NGOs during their start-up phase. This adjustment is relatively less important for mature institutions.
In-kind subsidy adjustment (e.g., donation of goods or services: line staff paid for by technical assistance providers)	Increases administrative expense on income statement to the extent that the MFI is receiving subsidized or donated goods or services. Decreases net income, increases subsidy adjustment account on balance sheet.	MFIs using goods or services for which they are not paying a market-based cost (i.e., MFIs during their start-up phase).
Loan loss provisioning adjustment	Usually increases loan loss provision expense on income statement and loan loss reserve on balance sheet.	MFIs that have unrealistic loan loss provisioning policies.
Write-off adjustment	On balance sheet, reduces gross loan portfolio and loan loss reserve by an equal amount, so that neither net loan portfolio nor total assets is affected.	MFIs that leave non-performing loans on their books for over a year.

⁶⁴ For the *Bulletin*, subsidized liabilities are liabilities that incur interest expense below a proxy market rate. For consistency, the *Bulletin* uses the deposit rate (line 60I of the International Monetary Fund's International Financial Statistics).

Statistical Issues

The *Bulletin* reports the **median** of performance indicators for each peer group. At this stage, peer groups are still small and the resulting data sets highly skewed. Outliers heavily distort the results of some of the peer group averages.

Consequently, the *Bulletin* has decided to print the **median** value for each performance indicator. Medians represent the middle value in a series, that is, the point at which half of all observed values are higher and half are lower.

Readers used to using average values in their analysis will still find them in the electronic edition of the tables. However, when analyzing small peer groups, we recommend the use of the median.

The electronic version of the *Bulletin* tables contains a more extensive set of data, including all other descriptive statistics for each indicator and each peer group: average, median, standard deviation, minimum, maximum and number of observations. These tables can be found online at www.mixmbb.org.

Appendix II: Description of Participating MFIs

Acronym	Name	Country	Data Quality Grade	Year
ABA	Alexandria Businessmen Association	Egypt	**	2003
ACCOVI	Asociación Cooperativa de Ahorro y Crédito Vicentina de R.L. *	El Salvador	**	2003
ACEP SENEGAL	Alliance de Crédit et d'Epargne pour la Production	Senegal	***	2003
ACF	Asian Credit Fund	Kazakhstan	**	2003
ACLEDA	ACLEDA Bank	Cambodia	**	2003
ACME	Association Pour la Coopération avec la Micro-Enterprise	Haiti	***	2003
ACODEP	Asociación de Consultores para el Desarrollo de la Pequeña, Mediana y Microempresa	Nicaragua	**	2003
ACSI	Amhara Credit and Savings Institution	Ethiopia	**	2003
ACTUAR - Tolima	Corporación Acción por el Tolima	Colombia	**	2003
Adansi RB	Adansi Rural Bank*	Ghana	**	2003
ADCSI	Addis Credit and Savings Institution*	Ethiopia	*	2003
ADRI	Asociación ADRI	Costa Rica	**	2003
Agroinvest	Agroinvest	Montenegro	***	2003
Ahantaman RB	Ahantaman Rural Bank*	Ghana	**	2003
Akiba	Akiba Commercial Bank Ltd.	Tanzania	**	2003
AKRB	Atwima Kwanwoma Rural Bank*	Ghana	**	2003
Akuapem RB	Akuapem Rural Bank*	Ghana	**	2003
Al Amana	Association Al Amana	Morocco	***	2003
Al Karama	Al Karama	Morocco	**	2003
Al Majmoua	Al Majmoua	Lebanon	**	2003
Al Tadamun	Al Tadamun	Egypt	**	2003
Alternativa	CC Alternativa*	Russia	*	2003
AMC	Sociedad Cooperativa de Ahorro y Crédito AMC de R.L.*	El Salvador	**	2003
AMEEN	AMEEN	Lebanon	**	2003
AMK	Angkor Mikroheranhvatho Kampuchea Co. Ltd.	Cambodia	**	2003
AMRET	AMRET	Cambodia	***	2003
AMSSF	AMSSF/MC	Morocco	***	2003
Apoyo Integral	Apoyo Integral S.A. de C.V.	El Salvador	**	2003
AREGAK	AREGAK	Armenia	*	2003
ASA	ASA	Bangladesh	**	2003
ASEI	Asociación Salvadoreña de Extensionistas del INCAE	El Salvador	**	2003
ASTI	Association of Scientifica and Technical Intelligentsia	Tajikistan	*	2003
AVFS	Africa Village Financial Services	Ethiopia	**	2003
BAI	Business Assistance Initiative	Georgia	**	2003
Banco Ademi	Banco de Desarrollo ADEMI S.A.	Dominican Republic	***	2003
Banco del Trabajo	Banco del Trabajo*	Peru	***	2003
Banco Solidario	Banco Solidario S.A.	Ecuador	***	2003
BancoSol	Banco Solidario S.A.	Bolivia	***	2003
Bandesarrollo Micro-empresas	Bandesarrollo Filial Microempresas*	Chile	***	2003
BanGente	Banco de la Gente Emprendedora C.A.*	Venezuela	**	2003
Bank of Khyber	Bank of Khyber	Pakistan	**	2003
Barakot	Microfinance Program Barakot*	Uzbekistan	*	2003
BASIX	Bhartiya Samruddhi Finance Ltd.	India	**	2003
BBK	BBK Financial Group	Georgia	**	2003
BCS	Bansalan Cooperative Society	Philippines	*	2003
BESA	BESA Foundation	Albania	**	2003
BG	Buusa Gonofa	Ethiopia	**	2003
BPR AK	BPR Arta Kencana	Indonesia	*	2003
BRAC	BRAC	Bangladesh	**	2003
BRI	Bank Rakyat Indonesia	Indonesia	*	2003
BURO Tangail	BURO Tangail	Bangladesh	**	2003
BZMF	Beselidhja Zavet Microfinance	Kosovo	**	2003
Capa Fdn.	Capa Foundation*	Romania	*	2003
CARD NGO	Center for Agriculture and Rural Development, Inc.	Philippines	**	2003

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Acronym	Name	Country	Data Quality Grade	Year
CEP	Capital Aid Fund for Employment of the Poor	Vietnam	***	2003
CERUDEB	CERUDEB	Uganda	**	2003
CHF - ROM	CHF – Romania*	Romania	*	2003
CMAC - Arequipa	Caja Municipal de Ahorro y Crédito de Arequipa S.A.	Peru	***	2003
CMAC - Sullana	Caja Municipal de Ahorro y Crédito de Sullana S.A.	Peru	**	2003
CMEDFI	Cebu Micro Enterprise Development Foundation, Inc.	Philippines	**	2003
COAC Jardín Azuayo	Cooperativa de Ahorro y Crédito Jardín Azuayo	Ecuador	**	2003
COAC La Merced	Cooperativa de Ahorro y Crédito La Merced	Ecuador	***	2003
COAC Maquita Cushunchic	Cooperativa de Ahorro y Crédito Maquita Cushunchic	Ecuador	**	2003
COAC Sac Aiet	Cooperativa de Ahorro y Crédito Sac Aiet	Ecuador	***	2003
COAC San José	Cooperativa de Ahorro y Crédito San José	Ecuador	***	2003
Compartamos	Financiera Compartamos S.A. de C.V., SFOL	Mexico	**	2003
Constanta	Constanta Foundation	Georgia	***	2003
CRAN	Christian Rural Aid Network	Ghana	**	2003
CRECER	Asociación Civil Crédito con Educación Rural	Bolivia	**	2003
Credi Fe	Credi Fe Desarrollo Microempresarial S.A.	Ecuador	**	2003
CREDIMUJER	Asociación CREDIMUJER	Costa Rica	**	2003
CREDIT MFI	CREDIT MFI	Cambodia	**	2003
CRG	Crédit Rural de Guinée	Guinea	**	2003
Crystal Fund	Crystal Fund	Georgia	*	2003
DAMEN	Development Action for Mobilization and Emancipation	Pakistan	**	2003
DBACD	Dakahlya Businessmen Assoc. for Community Development	Egypt	***	2003
DECSI	Dedebit Credit and Savings Institution	Ethiopia	**	2003
DEMOS	DEMOS Savings and Loan Cooperative*	Croatia (Hrvatska)	*	2003
EBS	Equity Building Society	Kenya	**	2003
ECLOF - ECU	ECLOF Ecuador	Ecuador	**	2003
EDPYME Edyficar	EDPYME Edyficar S.A.	Peru	***	2003
EDPYME Proempresa	EDPYME Proempresa S.A.	Peru	***	2003
EKI	EKI Microcredit Institution	Bosnia and Herzegovina	***	2003
El Comercio Financiera	Financiera El Comercio S.A.*	Paraguay	**	2003
Enda	Enda inter-arabe*	Tunisia	**	2003
Enowid	Enowid Foundation*	Ghana	**	2003
Eshet	Eshet	Ethiopia	**	2003
FAMA	Fundación para el Apoyo a la Microempresa	Nicaragua	**	2003
FATEN	Palestine for Credit and Development	Palestine	**	2003
Faulu - UGA	Faulu Uganda	Uganda	**	2003
FBPMC	Fondation Banque Populaire pour le Micro-credit*	Morocco	**	2003
FCBF	First Consolidated Bank Fdn.*	Philippines	*	2003
FDL	Fondo de Desarrollo Local	Nicaragua	***	2003
FED	Fundación Ecuatoriana de Desarrollo	Ecuador	**	2003
FICCO	First Community Cooperative*	Philippines	*	2003
FIE	Fondo Financiero Privado para el Fomento Iniciativas Económicas S.A	Bolivia	***	2003
Finadev	Finadev	Benin	***	2003
Finamérica	Financiera América S.A.	Colombia	**	2003
FINCA - ARM	FINCA – Armenia	Armenia	**	2003
FINCA - AZE	FINCA – Azerbaijan	Azerbaijan	**	2003
FINCA - GEO	FINCA – Georgia	Georgia	*	2003
FINCA - GTM	Fundación Internacional para la Asistencia Comunitaria Guatemala	Guatemala	**	2003
FINCA - HAI	FINCA Haiti	Haiti	**	2003
FINCA - KGZ	FINCA – Kyrgyzstan	Kyrgyzstan	**	2003
FINCA - MWI	FINCA Malawi	Malawi	**	2003
FINCA - PER	FINCA Perú	Peru	**	2003
FINCA - Tomsk	FINCA – Tomsk*	Russia	**	2003
FINCA - TZA	FINCA Tanzania	Tanzania	***	2003
FINCA - UGA	FINCA Uganda	Uganda	**	2003
FINDESA	Financiera Nicaragüense de Desarrollo S.A.	Nicaragua	***	2003
First Allied S&L	First Allied Saving and Loans*	Ghana	*	2003
FM	Fundusz Mikro*	Poland	*	2003
FMFB	First MicroFinance Bank Ltd.	Pakistan	***	2003

Acronym	Name	Country	Data Quality Grade	Year
FOCCAS	FOCCAS	Uganda	**	2003
FONDEP	FONDEP Microcredit	Morocco	**	2003
FORA	FORA	Russia	***	2003
Fundación Paraguaya	Fundación Paraguaya de Cooperación y Desarrollo	Paraguay	**	2003
Garden City S&L	Garden City Savings and Loans*	Ghana	**	2003
Gasha	Gasha	Ethiopia	**	2003
GEF	World Vision International in Georgia	Georgia	*	2003
Genesiss	Fundación Genesiss*	El Salvador	**	2003
GK	Grameen Koota	India	**	2003
GV	ASA - Grama Vidiyal	India	**	2003
HKL	Hattha Kaksekar Ltd.	Cambodia	**	2003
HOPE Ukraine	HOPE Ukraine	Ukraine	*	2003
IDF	IDF	Bangladesh	**	2003
Integra	Integra Romania*	Romania	*	2003
JMCC	Jordan Micro Credit Company	Jordan	**	2003
Johnson S&L	Johnson Savings and Loans*	Ghana	**	2003
José Nieborowski	Fundación José Nieborowski*	Nicaragua	***	2003
Kafo Jiginew	Kafo Jiginew	Mali	*	2003
Kamurj	Microenterprise Development Fund Kamurj	Armenia	**	2003
Kashf	Kashf Foundation	Pakistan	**	2003
KC	Kapalong Cooperative	Philippines	*	2003
KEP	Kosovo Enterprise Program	Kosovo	**	2003
KLF	Kazakhstan Loan Fund	Kazakhstan	**	2003
KMB	KMB Bank*	Russia	**	2003
KMBI	Kabalikat para sa Maunlad na Buhay, Inc.	Philippines	**	2003
K-Rep	K-Rep Bank	Kenya	**	2003
KSF	Kraban Support Foundation	Ghana	**	2003
Los Andes FFP	Caja Los Andes FFP (Banco Los Andes ProCredit)	Bolivia	***	2003
Lower Pra RB	Lower Pra Rural Bank*	Ghana	**	2003
LPD Bedha	LPD Bedha*	Indonesia	*	2003
LPD Buah	LPD Buah*	Indonesia	*	2003
LPD Celuk	LPD Celuk*	Indonesia	*	2003
LPD Ketewel	LPD Ketewel*	Indonesia	*	2003
LPD Kukuh	LPD Kukuh*	Indonesia	*	2003
LPD Kuta	LPD Kuta*	Indonesia	*	2003
LPD Panjer	LPD Panjer*	Indonesia	*	2003
LPD Pecatu	LPD Pecatu*	Indonesia	*	2003
LPD Pemogan	LPD Pemogan*	Indonesia	*	2003
LPD Ubung	LPD Ubung*	Indonesia	*	2003
Meklit	Meklit	Ethiopia	**	2003
Mepe Area RB	Mepe Area Rural Bank*	Ghana	**	2003
Metemamen	Metemamen	Ethiopia	**	2003
MFV	Microfund for Women	Jordan	***	2003
MiBanco	MiBanco, Banco de la Microempresa S.A.	Peru	***	2003
MI-BOSPO	MI-BOSPO	Bosnia and Herzegovina	***	2003
Midland S&L	Midland Savings and Loans*	Ghana	**	2003
MIKRA	MIKRA	Bosnia and Herzegovina	**	2003
Mikro ALDI	Mikro ALDI	Bosnia and Herzegovina	***	2003
MIKROFIN	MIKROFIN	Bosnia and Herzegovina	**	2003
MMPC	Mediatrrix Multi-Purpose Cooperative	Philippines	*	2003
MTA	Maata-N-Tudu Association*	Ghana	**	2003
NABWT	National Association of Business Women of Tajikistan	Tajikistan	**	2003
Nirdhan	Nirdhan Utthan Bank, Ltd.	Nepal	**	2003
NOA	NOA Stedno Kreditna Zadruga	Croatia (Hrvatska)	*	2003
Norfil	Norfil Foundation, Inc.*	Philippines	*	2003
Normicro	Norwegian Microcredit LLC	Azerbaijan	*	2003
Nwabiagya RB	Nwabiagya Rural Bank*	Ghana	**	2003
NWTF	Negros Women for Tomorrow Foundation	Philippines	***	2003
OBM	Opportunity Bank Montenegro	Montenegro	***	2003
OCSSC	Oromia Credit and Saving Share Company	Ethiopia	**	2003
OIS	Stedionica Opportunity International	Yugoslavia	**	2003

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Acronym	Name	Country	Data Quality Grade	Year
OMRO	Opportunity Microcredit Romania*	Romania	*	2003
OTIV Sava	Otiv Sava*	Madagascar	**	2003
PADME	PADME	Benin	**	2003
PAMECAS	PAMECAS	Senegal	**	2003
PAPME	PAPME	Benin	**	2003
Partner	Partner Microcredit Organization	Bosnia and Herzegovina	***	2003
PCCC	Pantukan Community Credit Cooperative	Philippines	*	2003
PEACE	Poverty Eradication & Community Empowerment	Ethiopia	**	2003
Prasac	Prasac Credit Association	Cambodia	**	2003
PRIDE - TZA	PRIDE Tanzania	Tanzania	**	2003
PRIZMA	PRIZMA	Bosnia and Herzegovina	**	2003
Pro Mujer - BOL	Programas Pro Mujer la Mujer Bolivia	Bolivia	**	2003
Pro Mujer - NIC	Programas Pro Mujer la Mujer Nicaragua	Nicaragua	**	2003
Pro Mujer - PER	Programas Pro Mujer la Mujer Perú	Peru	**	2003
PRODEM FFP	Fondo Financiero Privado PRODEM S.A.	Bolivia	***	2003
PSHM	Partneri Shqiptar ne Mikrokredi	Albania	***	2003
PTF	Residential Trust Fund	Tanzania	**	2003
RBKV	Rural Bank of Kapatagan Valley, Inc.	Philippines	**	2003
RBTC	Rrural Bank of Tangub City	Philippines	**	2003
RBV	New Rural Bank of Victorias	Philippines	**	2003
REDES	Fundación Salvadoreña Para la Reconstrucción y el Desarrollo*	El Salvador	*	2003
SAFWCO	Sindh Agricultural and Forestry Worker's Coordinating Organization	Pakistan	**	2003
SBDF	Small Business Development Foundation	Georgia	*	2003
SCMPC	Santa Catalina Multi-Purpose Cooperative	Philippines	*	2003
SEDA	Small Enterprise Development Agency*	Tanzania	**	2003
SEF - ZAF	Small Enterprise Foundation South Africa	South Africa	**	2003
SFPI	Specialized Financial and Promotional Institution	Ethiopia	**	2003
SHARE	SHARE Microfin Ltd.	India	**	2003
Sidama	Sidama	Ethiopia	**	2003
Sikaman S&L	Sikama Savings and Loans*	Ghana	**	2003
SKS	Swayam Krishi Sangam	India	**	2003
SODEYSTVIE	Consumer Credit Cooperative of Citizens	Russia	*	2003
Spandana	Spandana	India	***	2003
Sungi	Sungi Development Foundation	Pakistan	**	2003
Sunrise	Microcredit Organization Sunrise	Bosnia and Herzegovina	**	2003
Tchuma	Tchuma Cooperativa de Crédito e Poupança	Mozambique	**	2003
TPC	Thaneakea Phum Cambodia Ltd.	Cambodia	***	2003
TSKI	Taytay sa Kauswagan, Inc.	Philippines	*	2003
TSPI	TSPI Development Corporation, Inc.	Philippines	***	2003
UMU	Uganda Microfinance Union	Uganda	**	2003
UNRWA	UNRWA Microfinance and Microenterprise Programme*	Palestine	**	2003
USPD	United Sugarcane Planters of Davao, SCC	Philippines	*	2003
USTOI	USTOI*	Bulgaria	*	2003
UWFT	Uganda Women's Finance Trust	Uganda	***	2003
Vital Finance	Vital Finance	Benin	***	2003
Voronezh	Voronezh Fund SME*	Russia	*	2003
WAGES	WAGES	Togo	***	2003
Wasasa	Wasasa	Ethiopia	**	2003
Wisdom	Wisdom	Ethiopia	**	2003
WWB - Bogotá	Women's World Banking - Bogotá	Colombia	**	2003
WWB - Cali	Women's World Banking - Cali	Colombia	**	2003
WWB - Medellín	Women's World Banking - Medellín	Colombia	**	2003
XAC	XAC Bank	Mongolia	***	2003
Zakoura	Fondation Zakoura	Morocco	**	2003

More information is available on these MFIs at www.mixmarket.org, except for those MFIs indicated by a (*)

Appendix III: List of Participating Funders

Acronym	Name	Country of Incorporation/ (Location)	Main Currency
ACCION Gateway	ACCION Gateway Fund	United States	USD
AfriCap	Africap	Mauritius/ (Senegal)	USD
AIM	ACCION Investments in Microfinance	Cayman Islands/ (USA)	USD
Alterfin	ALTERFIN	Belgium	EUR
ANF	ASN-Novib Fund	Netherlands	EUR
AWF Development Debt	Axa World Funds - Development Debt Fund	Luxembourg	EUR
BIO	Belgian Investment Company for Developing Countries (BIO)	Belgium	EUR
CAF	Corporacion Andina de Fomento	Venezuela	USD
Calvert Foundation	Calvert Social Investment Foundation - Community Investment Notes	United States	USD
Cordaid	Cordaid	Netherlands	EUR
CreSud	CreSud	Italy	EUR
DB MDF	Deutsche Bank Microcredit Development Fund	United States	USD
DEG	Deutsche Investitions- und Entwicklungsgesellschaft m.b.H. (DEG)	Germany	EUR
Dexia Microcredit Fund	Dexia Microcredit Fund	Luxembourg	USD
DID - Fonidi	Développement International Desjardins - FONIDI Fund	Canada	CAD
DID - Guarantee	Développement International Desjardins - Guarantee Fund	Canada	CAD
DID - Partnership	Développement International Desjardins - Partnership Fund	Canada	CAD
DOEN	Doen Foundation	Netherlands	EUR
Etimos	Consortio Etimos	Italy	EUR
FIG	Fonds International de Garantie	Switzerland	CHF
FMO	Netherlands Development Finance Company (FMO)	Netherlands	EUR
Gray Ghost	Gray Ghost Microfinance Fund LLC	United States	USD
HTF	Hivos Triodos Fund	Netherlands	EUR
I&P Développement	Investisseur et Partenaire pour le Développement	Mauritius/ (France)	EUR
ICCO	ICCO (Inter Church Organization for Development Co-operation)	Netherlands	EUR
IFC	International Finance Corporation (IFC)	United States	USD
Impulse	Impulse	Belgium	EUR
Incofin	Incofin	Belgium	USD
Kolibri	Kolibri Kapital ASA	Norway	USD
LABF	ACCION Latin American Bridge Fund	United States	USD
LFP	La Fayette Participations	France	EUR
Luxmint - ADA	ADA - Luxmint	Luxembourg	EUR
MicroVest	MicroVest	United States	USD
MIF/IADB	Multilateral Investment Fund (MIF/IADB)	United States	USD
NOVIB	NOVIB	Netherlands	USD
Oikocredit	Oikocredit	Netherlands	USD
OTI	Opportunity Transformation Investments Inc.	United States	USD
PCG	Partners for the Common Good	United States	USD
PlaNet Finance Fund	Planet Finance - Revolving Credit Fund	France	EUR
ProCredit Holding	IMI AG	Germany	EUR
PROFUND	PROFUND	Panama	USD
Rabobank	Rabobank foundation	Netherlands	EUR
responsAbility Fund	responsAbility Global Microfinance Fund	Luxembourg	USD
SGIF*	Sarona Global Investment Fund, Inc.	United States	USD
ShoreCap Intl.	ShoreCap International	Cayman Islands/ (USA)	USD
SIDI	Solidarité Internationale pour le Développement et l'Investissement	France	EUR
TDF	Triodos-Doen Foundation	Netherlands	EUR
TFSF	Triodos Fair Share Fund	Netherlands	EUR
Unitus	Unitus	United States	USD
USAID Credit Guarantees	US Agency for International Development	United States	USD

*As of December 31, 2004, the Sarona Global Investment Fund has dissolved operation. Sarona invited its investors to roll their investments over to a MicroVest mPower Note being offered through Calvert Social Investment Fund. For further information on the mPower Note, please contact info@microvestfund.com or www.microvest.com.