Microfinance Information eXchange

MICROFINANCE CENTRE
for Central and Eastern Europe and the New Independent States

Benchmarking Microfinance in Eastern Europe and Central Asia

A report from the
Microfinance Information eXchange

Microfinance institutions in Eastern Europe and Central Asia (ECA) are the youngest in the global industry. With seven years of operating experience, the region's most senior MFI is still younger than its global peer. The average ECA MFI has only four years of experience, compared to eight years globally. ECA microfinance has many of the characteristics of a young sector: it is predominately comprised of NGOs, which almost exclusively serve their clients through working capital loans and offer very limited savings. As the sector continues to rapidly evolve, MFIs in ECA microfinance are expected to soon be operating at the same levels as their peers in more developed markets such as Latin America.

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How does this young growing sector stack up against its more mature global peers? What factors are driving the performance of MFIs in the region? What are key differences among ECA MFIs? This report addresses these questions by investigating the performance of ECA MFIs through the lens of industry standard performance metrics.[1]

In Brief

Despite the fact that MFIs in ECA are relatively young when compared to the rest of the world, their financial performance is amongst the strongest. Indeed, they have earned a place at the podium, preceded only by their Asian counterparts. Still, ECA microfinance could significantly improve in efficiency and productivity.

ECA MFIs earn relatively more on their portfolios, achieving profitability through tightly managed portfolios and larger loan sizes to a higher-income earning clientele. As demand for, and competition in, microfinance continues to increase in ECA, MFIs will begin to seek new clients in underserved markets where individuals typically have less access to financial services. Furthermore, as ECA microfinance matures and institutions learn from the best practices demonstrated by more developed markets in Latin America and Asia, it will most likely become less donor driven and more efficient and productive.

[1] See pages 10-11 for regional benchmark tables and ratio definitions. For more information on microfinance ratio definitions, log on to www.mixmbb.org

Overview of Benchmarking and Analysis

The *MicroBanking Bulletin* (MBB), one of the principal benchmarking products of the Microfinance Information eXchange (MIX), fills a unique niche in the microfinance arena; it offers the global industry metrics and tools by which to analyze the performance of microfinance institutions. Its biannual publication of global industry benchmarks and customized benchmarking services create comparative performance results with which the industry and its retail institutions can contextualize MFI performance within relevant peer groups. Benchmarks allow institutions to understand relative trends and drivers in their own performance in a comparative perspective. Through standard metrics and analysis processes, the *Bulletin* analyzes the performance of MFIs – their profitability, efficiency, and productivity, as well as their scale and outreach. Benchmarks support the transparency necessary for improved institutional performance and greater access to diversified sources of funding for growth, such as access to capital markets.

This report occupies a new place in industry literature on ECA microfinance. While small in scale, ECA microfinance has attracted a fair amount of literature from country case studies and thematic analyses to regional surveys and in-depth research papers.[2] This ECA benchmark report brings the *Bulletin's* global analysis to ECA the region. The analysis dissects and compares ECA MFI performance measures and their drivers in the global and regional context. The first part of each of the following sections places ECA MFI performance in the spectrum of global industry results by region. Each section then explores the relative diversity within the young, but rapidly growing regional industry. It analyses the varying performance of ECA institutions by scale, charter type and financial self sufficiency.

Data for this report come from the 2002[3] results of 22 participating ECA MFIs from 12 countries.[4] The results published here represent averages of all observations, excluding those whose extreme results unduly affect group averages. To account for diverse institutional and environmental factors, these data are adjusted for inflation, cost-of-funds subsidy, in-kind subsidy and standardized loan loss provisioning. As analyzed in this report, the MFIs are grouped into peer groups by charter type, sustainability and size of operations, allowing for comparisons among like institutions and to analyze the impact of different factors on institutional performance.[5]

Peer Groups	Characteristics	MBB Peer Groups member MFIs
All ECA		ACF (Asia Credit Foundation), AgroInvest, Bai Tushum, BESA Foundation, Constanta, EKI, FM (Fundusz Mikro), FINCA-AZE, FINCA-KGZ, Kamurj, KCLF (Kazakhstan Coummunity Loan Fund), KEP (ICMC Kosovo Enterprise Foundation), Mi-Bospo, Mikra BiH, Mikrofin, NOA, Partner, Prizma, PSHM (Partneri Shqiptar Ne Mikrokredi),Sunrise, Women for Women, XAC (XACBank)
Size[6]		
ECA Large	Gross Loan Portfolio > $8,000,000. Target: High-End	BESA, EKI, FM, Mikrofin, Partner
ECA Medium	Gross Loan Portfolio = $2,000,000 - $8,000,000. Target: Broad	Constanta, FINCA-KGZ, KEP, MI-Bospo, NOA, Prizma, PSHM, Sunrise, XAC
ECA Small	Gross Loan Portfolio < $2,000,000. Target Low-End	AgroInvest, FINCA-AZE, Kamurj, KCLF, Mikra BiH, Women for Women
Charter[7]		
ECA NGOs	Non Governmental Organizations	AgroInvest, BESA, Constanta, EKI, FINCA-KGZ, Kamurj, KEP, Partner, Mi-Bospo, Mikrofin, Prizma, Sunrise, Women for Women
ECA NBFIs	Non Banking Financial Institutions	ACF, Bai Tushum, FINCA-AZE, FM, KCLF, Mikra BiH

[2] Forster, Sarah., Greene, Seth., and Pytkowska, Justyna. *The State of Microfinance in Central and Eastern Europe and the New Independent States*. The Microfinance Center. Warsaw, Poland., 2003.

[3] Five institutions reported their 2001 figures.

[4] The 12 countries and their respective MFIs are the following: Albania (BESA, PSHM), Armenia (Kamurj), Azerbaijan (FINCA-AZE), Bosnia and Herzegovina (EKI, Mi-Bospo, Mikra BiH, Mikrofin, Partner, Prizma, Sunrise, Women for Women), Croatia (NOA), Georgia (Constanta), Kazakhstan (ACF, KCLF), Kosovo (KEP), Mongolia (XAC), Montenegro (AgroInvest), Poland (FM).

[5] For more information on the MBB peer grouping and benchmarking processes, log on to www.mixmbb.org.

[6] ACF and Bai Tushum are included in the MBB's Worldwide Small Business peer group and are not listed here.

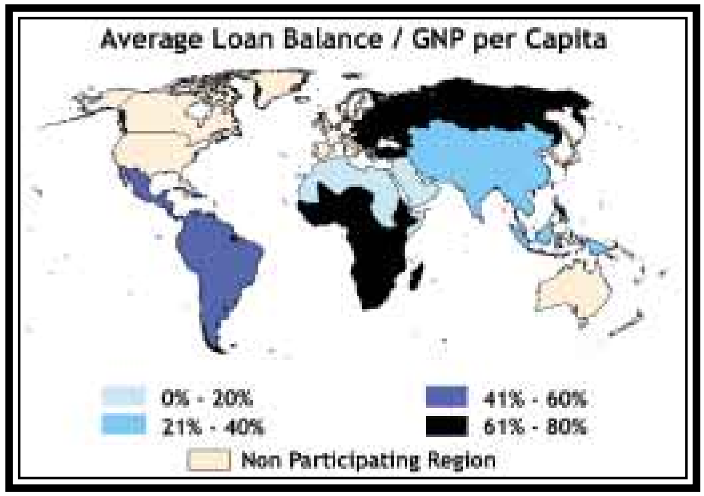
[7] NOA, PSHM, and XAC do not fall under these two charter types; NOA and PSHM are Cooperatives/Credit Unions and XAC is a licensed bank. These peer groups were created for the purpose of this report and do not appear in an edition of the MBB.

Scale and Outreach

Indicators of scale measure the size of services to microfinance clients – be they loans or deposits. Outreach indicators report on the number and types of clients reached.

ECA microfinance in the world

MFIs in ECA provide fewer loans and serve higher income clients than any other region. In the youngest microfinance sector in the industry, the average MFI in ECA serves 6,040 active borrowers, only 38% of that of the average MFI. Although MFIs in ECA have – on average – the smallest asset base in the industry, their Gross Loan Portfolio is on par with that of other regions, highlighting the fact that their assets are highly productive. Besides the region's growing proportion of microfinance banks, additionally leveraged from saving deposits, MFIs in ECA typically only offer a few loan products and almost no savings – the latter mainly due to their NGO status. However, competition in a few of the countries, such as Bosnia, has led to significant product diversification.



Outreach to the poor by MFIs in the region is weak compared to in the rest of the world. The MFIs in ECA have focused on meeting the needs of micro and small enterprises rather than targeting lower-income individuals or clients in poorer remote areas.[8] MFIs in the region offer a loan that is on average five times the size of loans offered by their peers in Asia and almost two times the size of the average loan offered by all MFIs. Even in a region with a higher GNP per capita, MFIs in ECA serve a higher income client with larger loans. The average loan relative to the GNP per capita is more than three times than that of the Middle East and North Africa (MENA) and higher than Latin America. The disparity in loan size underscores the fact that micro-entrepreneurs in the region have a higher demand for larger loans than Africa and Latin America due to ECA's economic growth and opportunity.

Microfinance in ECA

OUTREACH INDICATORS	All MFIs	All ECA	ECA FSS	ECA NGOs	ECA NBFIs	ECA Small	ECA Medium	ECA Large
Number of Active Borrowers (no.)	15,553	6,040	7,755	7,354	4,713	3,842	8,074	7,132
Percent of Women Borrowers	62.9%	59.5%	61.6%	63.0%	62.0%	83.3%	57.5%	39.5%
Gross Loan Portfolio (US$)	5,347,516	4,454,067	5,653,760	5,296,457	3,542,876	1,175,688	3,865,741	10,670,240
Average Loan Balance per Borrower (US$)	532	926	1,276	882	744	354	739	1,584
Average Loan Balance per Borrower/ GNP per Capita	54.3%	79.7%	82.2%	79.5%	131.0%	34.9%	77.2%	113.0%

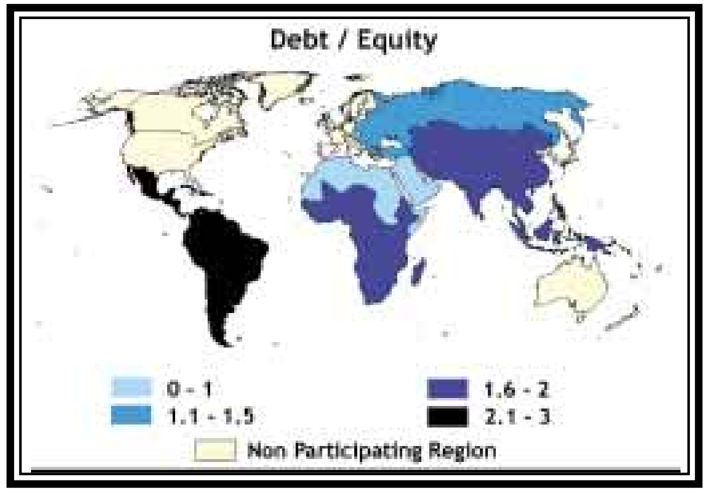
FSS = Financially Self-Sufficient; NGOs = Non Governmental Organizations; NBFIs = Non Banking Financial Institutions.

The number of active borrowers served by different MFIs within the region is not as diverse as within other regions. Besides the Small and Non-Bank Financial Intermediaries peer groups, which only serve about half the number of clients of the other groups (by size or charter), most MFIs in the region have a similar number of active borrowers. ECA Medium serves the largest number of borrowers in the region. Similar to other small MFIs around the globe, ECA Small targets lower-income earning clients and more women borrowers; the peer group's average loan per GNP per Capita is one fourth that of ECA FSS and half that of other ECA MFIs. In contrast, as in the case of ECA, larger MFIs often focus less on serving women borrowers and maintain a broader client base in order to grow in scale. Competition from both commercial banks and within the sector is expected to push more MFIs to seek new clients down market as well develop a wider selection of loan products in order to improve the region's outreach.

8 Forster, Sarah., Greene, Seth., and Pytkowska, Justyna. *The State of Microfinance in Central and Eastern Europe and the New Independent States*. The Microfinance Center. Warsaw, Poland., 2003

Financial Structure

MFIs finance their activities with a variety of funding sources. Measures of financial structure describe these sources of funds, whether debt or equity, as well as the use of these resources.



ECA microfinance in the world

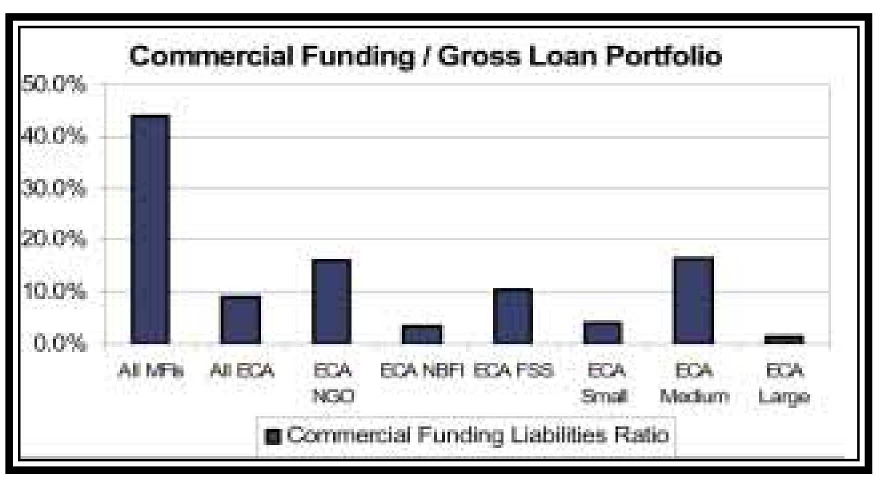
ECA MFIs participating in the MBB rely more heavily on donations and retained earnings to finance their growth. Outside the Microfinance Bank sector, these institutions have fewer sources of funding than their peers in Asia and Latin America. MFIs in ECA, comprised predominately of NGOs, are prohibited from raising capital through savings and therefore source their funds from donations and retained earnings. With the exception of MENA, the average ECA MFI Capital/Asset Ratio is smaller than any other region. This is most likely due to the sector's age as many institutions are still in a start-up phase and heavily supported by donors. In terms of attracting commercial funds, MFIs in the region have been much less successful than MFIs in any other region. Commercial Liabilities with "market" prices represents only 9% of the average ECA MFI's Gross Loan Portfolio; five times less than the average MFI (44.1%) and seven times less than a Latin American MFI (71.8%).

Microfinance in ECA

FINANCE STRUCTURE [10]	All MFIs	All ECA	ECA FSS	ECA NGOs	ECA NBFIs	ECA Small	ECA Medium	ECA Large
Capital Asset Ratio	42.7%	60.1%	46.3%	57.1%	82.8%	70.9%	60.9%	42.0%
Commercial Funding Liabilities Ratio	44.1%	9.0%	10.5%	16.0%	3.2%	4.1%	16.6%	1.2%
Debt/Equity	1.8	1.1	2.5	1.4	0.3	0.4	1.0	2.4
Deposits to Loans	15.3%	0.0%	0.5%	0.0%	0.0%	0.0%	0.8%	0.0%
Deposits to Total Assets	12.3%	0.0%	0.5%	0.0%	0.0%	0.0%	0.8%	0.0%
Gross Loan Portfolio/Total Assets	70.9%	78.1%	84.1%	84.0%	68.0%	64.5%	77.4%	95.6%

FSS = Financially Self-Sufficient; NGOs = Non Governmental Organizations; NBFIs = Non Banking Financial Institutions.

Due to their NGO and NBFI status, many MFIs in ECA are often overlooked by equity investors and commercial banks who tend to invest in the region's microfinance banks. ECA NGOs tend to be registered as foundations or organizations and often lack transparent accounts;[11] factors which increase risk and dissuade investors from investing. Nonetheless, given their revenue generating nature,[12] NGOs are positioned to leverage more debt, even from commercial sources, than they currently do. As a result, ECA MFIs have the second lowest Debt/Equity ratio of institutions in all regions. Surprisingly, NBFIs have the lowest Debt to Equity ratio in the region. This is most likely a result of their young age. Although less than 1% of both their respective loan portfolios and total assets, only ECA FSS and ECA large exhibit any savings activities in the region. Unlike the global average where FSS MFIs tend to have higher Debt/Equity Ratios, ECA Medium has a higher ratio than that of ECA FSS. However, the ECA Medium group includes the one licensed bank participating in this Bulletin, highlighting the ability of licensed banks to leverage debt easier than other charter types.



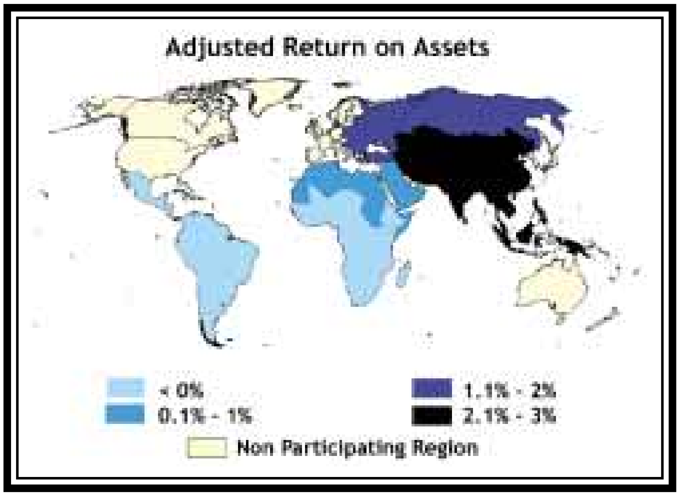
[10] Definitions of ratios are on pages 10-11
[11] Forster, Sarah., Greene, Seth., and Pytkowska, Justyna. *The State of Microfinance in Central and Eastern Europe and the New Independent States.* The Microfinance Center. Warsaw, Poland., 2003.
[12] Ibid.

Profitability and Sustainability

Profitable and sustainable institutions earn positive returns on their operations. In microfinance, this means that an institution earns a positive net income without depending on donor support to make up for an operating loss. To account for institutional scale, these returns are compared to the institution's assets and equity. Sustainability measures how much these returns cover total institutional expenses.

ECA microfinance in the world

ECA MFIs are some of the most profitable and financially sustainable in the industry. The ECA microfinance sector, as a whole, counts itself among the most profitable regions in microfinance. In fact, apart from sub-Saharan Africa, all regions of the world demonstrate positive adjusted returns on their asset (AROA) and equity (AROE) bases. Institutions in ECA financially outperform MFIs in other regions, with the exception of Asia. With a smaller asset base and larger size loans, MFIs in ECA are able to produce higher returns than even mature institutions in Latin America. Furthermore, MFIs in ECA leverage their highest earning asset, the gross loan portfolio, more than MFIs do in other regions, contributing to a higher return on their assets. Even with a larger capital base than in other parts of the world, ECA MFIs still have a higher AROE than Latin American, African, and MENA MFIs.

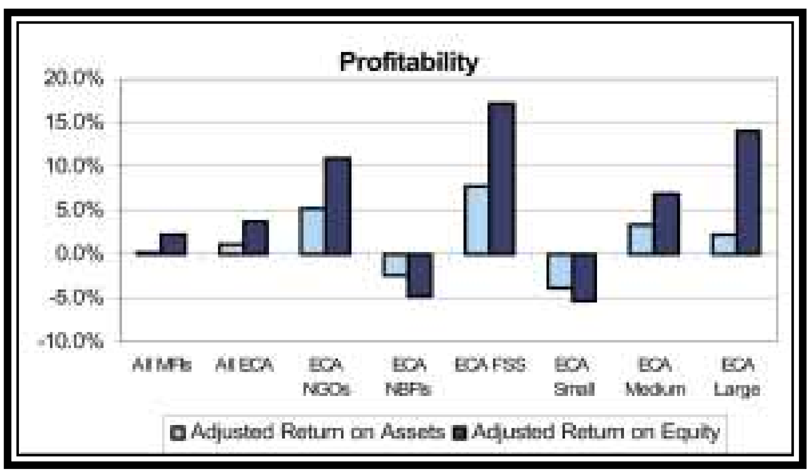


Microfinance ECA

PROFITABILITY AND SUSTAINABILITY	All MFIs	All ECA	ECA FSS	ECA NGOs	ECA NBFIs	ECA Small	ECA Medium	ECA Large
Adjusted Return on Assets (AROA)	0.1%	1.1%	7.7%	5.2%	-2.4%	-4.0%	3.4%	2.2%
Adjusted Return on Equity (AROE)	2.3%	3.7%	17.2%	10.9%	-4.8%	-5.4%	6.9%	14.1%
Operational Self-Sufficiency (OSS)	114.9%	123%	138.3%	133.5%	112.6%	110%	121.2%	134.4%
Financial Self-Sufficiency (FSS)	104.2%	107%	127.8%	119.4%	98.9%	93.2%	110.4%	115.1%

FSS = Financially Self-Sufficient; NGOs = Non Governmental Organizations; NBFIs = Non Banking Financial Institutions.

Levels of profitability and sustainability vary across ECA peer groups and especially along the lines of institutional size group and charter type. The often noted correlation of scale and profitability seems to hold true for ECA MFIs. ECA Large showed stronger positive earnings than did its peers, at more than three times the peer group average. More efficient operations and lower total expenses were the driving factors behind their profitability. In contrast, smaller MFIs generated net losses and did not, on average, cover their adjusted total costs (< 100% FSS). On the whole, these smaller institutions had much higher expenses than did their regional peers.



It is noteworthy that NBFIs fared less well than their NGO counterparts, earning negative returns on both their average total assets and average total equity. This is interesting given that NGOs focus their efforts on sustainability; NGOs do not aim to maximize profitability, but reinvest surplus or income back into their operations.[13] The negative returns are for NBFIs is mainly due to their age and recent transition.

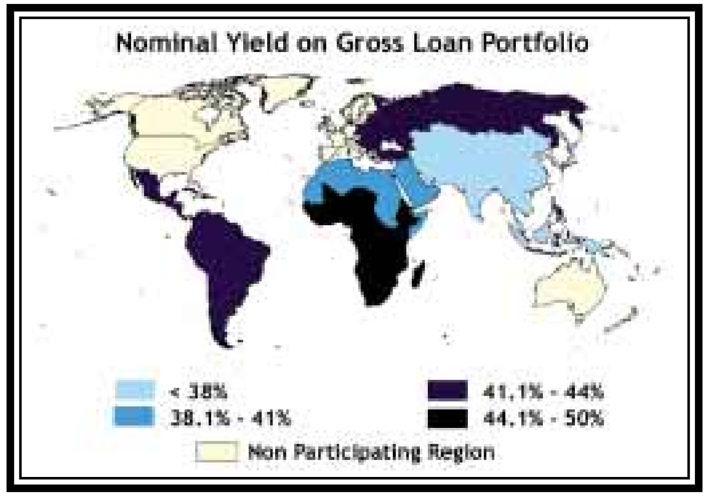
[13] Ibid.

Revenue

MFIs earn revenues from their loan portfolio. Revenue metrics look at financial revenue over the loan portfolio, as well as over the total asset base, to assess the impact of revenue structure on profitability and sustainability.

ECA microfinance in the world

ECA portfolios yield as much as the industry average, but retain more real value. When comparing the yields of MFIs across regions, the portfolios of ECA MFIs are more or less on par with their global peers. Although yields on Latin American and MENA loan portfolios are several points higher than the yield on ECA portfolios, ECA yields more on its portfolio than all MFIs that are financially-self sufficient. The higher yields potentially indicate that MFIs in ECA and the abovementioned regions charge higher effective interest rates to their borrowers than do MFIs in other regions. When taking into account the impact of inflation on the portfolio yield, ECA portfolios retain more of their value than do portfolios in all other regions, excluding Africa.



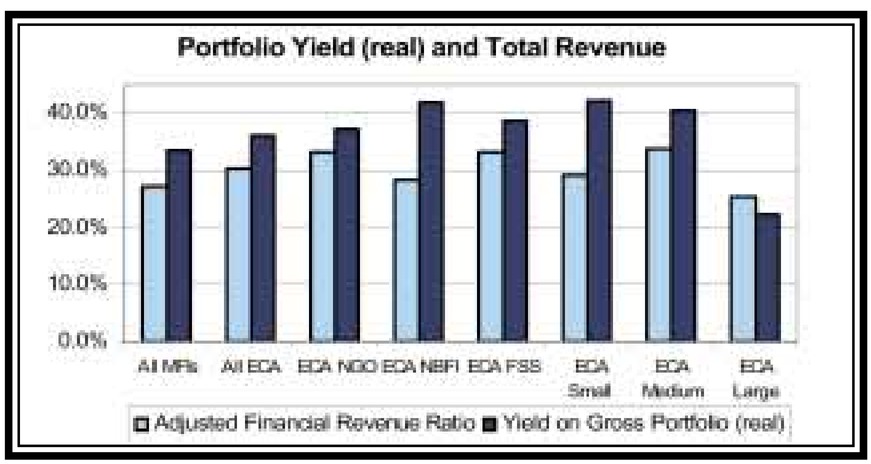
Microfinance in ECA

REVENUE	All MFIs	All ECA	ECA NGOs	ECA NBFIs	ECA FSS	ECA Small	ECA Medium	ECA Large
Adjusted Financial Revenue Ratio	27.1%	30.3%	33.3%	28.4%	33.3%	29.0%	33.7%	25.4%
Adjusted Profit Margin	0.3%	2.0%	9.8%	-11.9%	19.8%	-15.5%	5.8%	8.8%
Yield on Gross Portfolio	39.8%	41.3%	42.0%	46.6%	41.1%	50.2%	44.8%	25.6%
Yield on Gross Portfolio (real)	33.6%	36.1%	37.3%	41.7%	38.7%	42.2%	40.4%	22.3%

FSS = Financially Self-Sufficient; NGOs = Non Governmental Organizations; NBFIs = Non Banking Financial Institutions.

The loan portfolio is the major source of general revenue for an MFI. Asset allocation – and particularly maximizing the allocation of all available assets to productive assets (especially the loan portfolio) – is an important determinant in total earnings. ECA microfinance institutions reinvest in their portfolios more than any other region. With the exception of larger institutions, ECA MFIs earn similar yields (adjusted for inflation) on their portfolios, earning over 30%. It is noteworthy that as MFIs increase in size, their yield decreases. Due to its scale and ability to tightly control costs, ECA Large is able charge less interest on its loans than smaller institutions within ECA.

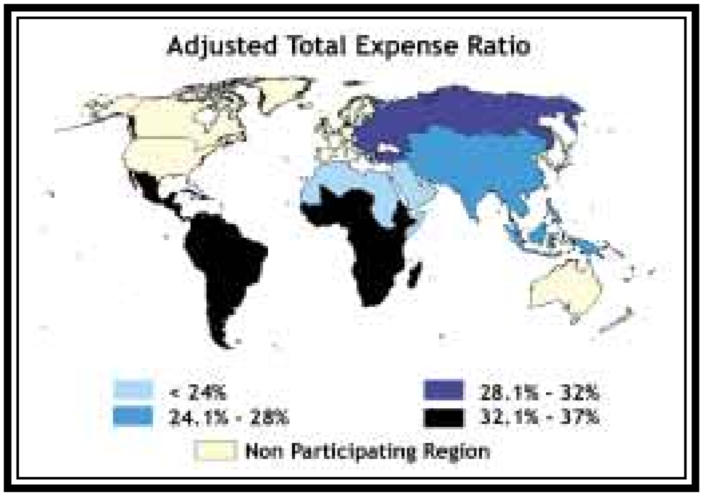
Although maintaining the lowest adjusted profit margins in the region, ECA NBFIs and smaller institutions have the highest yields in the region. The high yields illustrate a need for these institutions to charge higher rates in order to cover their higher operating costs and less efficient lending activities.



Expenses

An MFI's activities generate a variety of expenses, from funding of its asset base and general operating expenses, to provisioning for potential loss from default. Expense indicators measure the relative importance of different expense categories in order to determine their impact on profitability and sustainability.

ECA microfinance in the world



ECA MFIs have higher operating expenses than their peers in other regions. MFIs in ECA countries manage adjusted total expenses of less than 30%of their average total assets. This expense level is on par with the average institution and other regions, but higher than both MENA and Asia, the latter consistently having the tightest control of costs in the MicroBanking Bulletin. Lower than average financial expenses in ECA microfinance help keep its total expenses on par with those in other regions.

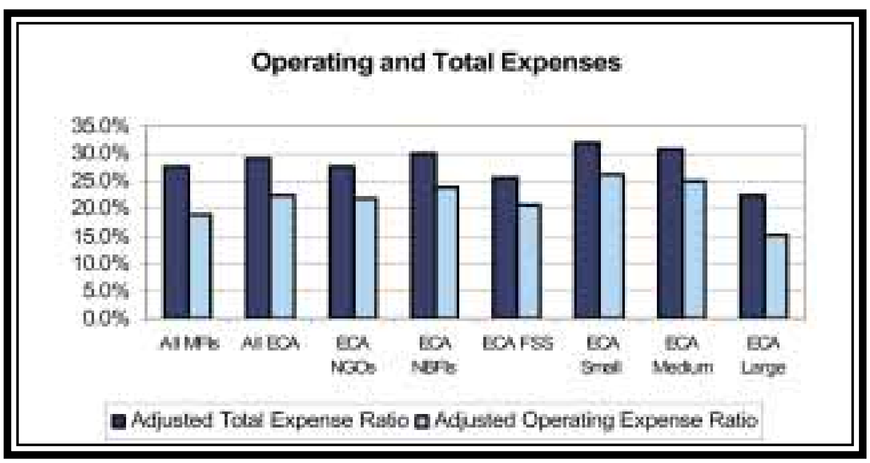
High personal and administrative expenses contribute to ECA MFIs' higher than average adjusted operating expense ratio. The sector's young age is a probable explanation for the higher than average costs as the ECA microfinance continues to learn best practices from other more mature regions. With the exception of Africa, MFIs in ECA have the highest personal and administrative costs in the industry. Higher than average salaries paid to employees in a region with typically more economic opportunities is a potential cause for ECA MFIs' high personal expenses.

Microfinance in ECA

EXPENSE	All MFIs	All ECA	ECA FSS	ECA NGOs	ECA NBFIs	ECA Small	ECA Medium	ECA Large
Adjusted Total Expense Ratio	27.7%	29.1%	25.6%	27.8%	30.2%	32.1%	30.9%	22.4%
Adjusted Financial Expense Ratio	6.2%	4.4%	3.6%	4.1%	3.7%	4.8%	3.9%	4.6%
Adjusted Loan Loss Provision Expense Ratio	1.8%	2.1%	1.5%	1.8%	2.6%	1.2%	1.9%	2.5%
Adjusted Personnel Expense Ratio	10.5%	12.6%	12.2%	13.3%	12.7%	15.8%	12.6%	8.8%
Adjusted Administrative Expense Ratio	8.4%	10.1%	8.3%	8.4%	11.1%	10.3%	12.3%	6.3%
Adjusted Operating Expense Ratio	19.1%	22.6%	20.6%	21.8%	23.8%	26.2%	25.0%	15.2%

FSS = Financially Self-Sufficient; NGOs = Non Governmental Organizations; NBFIs = Non Banking Financial Institutions.

Within the region, not including large institutions, all of the other peer groups have higher operating costs to total assets than the average global MFI. ECA large are the only institutions which manage their operating expenses below 20% of total assets. The group's personal and administrative expenses are lower than its peers within region and the average MFI. Operating longer than other MFIs in ECA – including MFIs that are financially self-sufficient – allows this peer group to better monitor its overall operating costs.

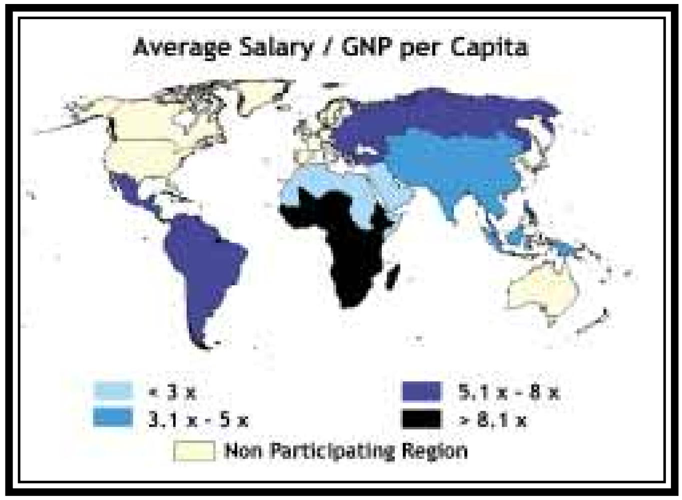


Efficiency and Productivity

Efficient institutions generate minimal costs in delivering services. Productive institutions maximize services with minimal resources. For MFIs, the loan portfolio and staff time account for two such important resources.

ECA microfinance in ECA

ECA MFIs are less efficient than their global peers and the least productive in the industry. Although only five percent less efficient than the average MFI, ECA institutions are some of the least efficient when it comes to managing their operating expenses. After Africa, the average MFI in ECA pays more in operating expenses per dollar outstanding than other institutions. Relative to local income levels, personnel salaries in ECA are the second highest of any MFI region. With competitive salaries being offered by other financial institutions, MFIs in ECA find themselves required to pay their staff a higher salary. In a region with relatively higher levels of education and consisting of countries whose economic growth is creating new job opportunities, ECA MFIs have difficulty in retaining qualified staff.[14] Thus, they are often forced to offer higher salaries.



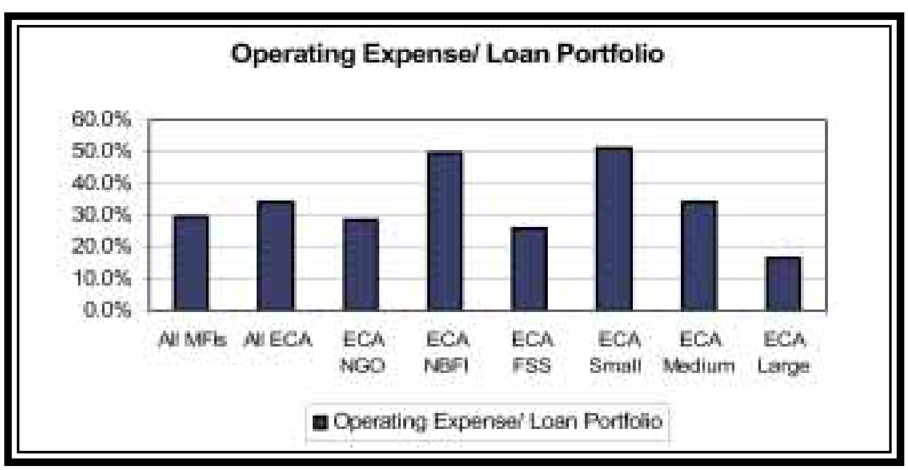
As a result of the less efficient operations of ECA MFIs, the region has the highest cost per borrower of any other regional group. Furthermore, the region's average employee serves fewer borrowers than the average employee working for an MFI in any other region. ECA MFIs are nearly half as productive as MFIs in Africa and 25% less productive than those in Latin America, the next least productive group. The poor productivity in ECA is predominately due to its young age and the fact that it offers more individual large loans. However, productivity is expected to improve as the sector matures.

Microfinance in ECA

EFFICIENCY	All MFIs	All ECA	ECA FSS	ECA NGOs	ECA NBFIs	ECA Small	ECA Medium	ECA Large
Operating Expense/ Loan Portfolio	29.4%	34.0%	26.0%	28.3%	49.5%	51.3%	34.1%	16.3%
Personnel Expense/ Loan Portfolio	16.1%	18.6%	15.4%	17.4%	25.8%	29.5%	17.1%	9.5%
Average Salary/ GNP per Capita	6.7	7.7	9.1	9.4	4.7	6.3	8.4	7.6
Adjusted Cost per Borrower	142	249	211	173	172	112	259	228
PRODUCTIVITY	**All MFIs**	**All ECA**	**ECA FSS**	**ECA NGOs**	**ECA NBFIs**	**ECA Small**	**ECA Medium**	**ECA Large**
Borrowers per Staff Member	121	92	107	116	69	102	99	92

FSS = Financially Self-Sufficient; NGOs = Non Governmental Organizations; NBFIs = Non Banking Financial Institutions.

ECA MFIs vary somewhat in efficiency in regard to their lending activities. Both younger institutions and NBFIs spend more (15 cents) in operating expenses for every dollar outstanding in their loan portfolio. Lending operations in these two institutional types, due to young operations and small scale, have not yet reached the scale necessary for gains in efficiencies. The most efficient lenders in the region, ECA Large, manage to keep costs a few points lower than the regional average and even the average MFI.



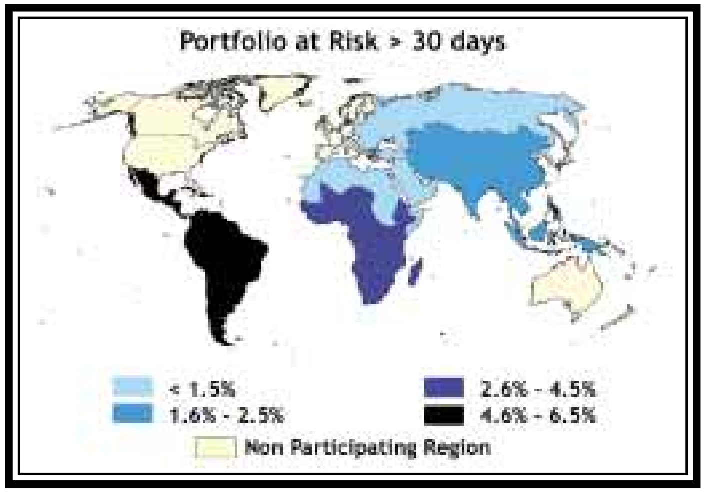
[14] Forster, Sarah., Greene, Seth., and Pytkowska, Justyna. *The State of Microfinance in Central and Eastern Europe and the New Independent States.* The Microfinance Center. Warsaw, Poland., 2003.

Portfolio Quality

The loan portfolio constitutes an MFI's most important asset. Its quality will determine future revenues, as well as the institution's ability to increase its outreach and continue to serve existing clients.

ECA microfinance in the world

ECA MFIs maintain the highest quality portfolios. Portfolio quality impacts an MFI's revenues, as well as its expenses. Along with MENA, ECA MFIs maintain exceedingly high portfolio quality. While both regions have the lowest PAR > 30 compared to their international peers, ECA MFIs maintain the industry's lowest PAR > 90. The lower PAR in ECA illustrates two important points: a strong credit culture and tightly controlled lending programs, both of which are key components in a successful MFI. However, it may also signify that the region's MFIs are more reluctant to lend to riskier clients, a population which often has less access to financial services.



In addition, institutions in ECA provision for bad debts through a loan loss provision expense that is more than three times that of MFIs in Latin America, Africa, and Asia. The more conservative provision is partly due to the fact that MFIs in ECA offer the largest loans in the industry and operate in a few countries which previously had high country risk premiums.

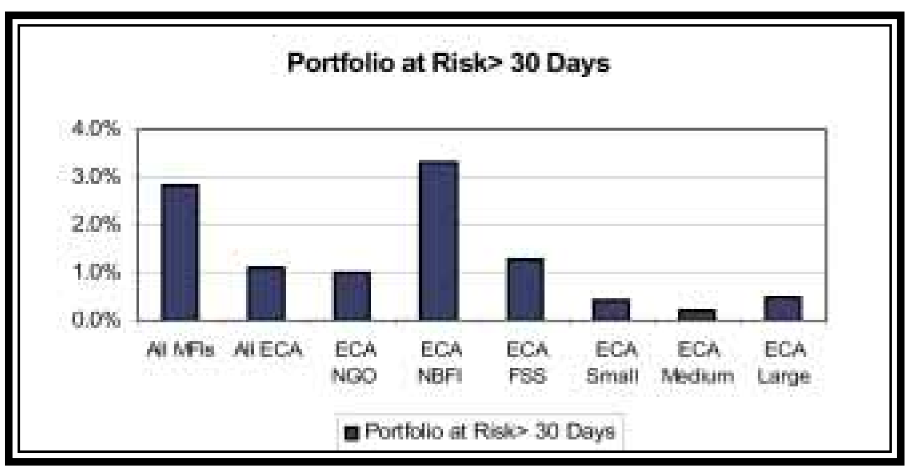
Microfinance in ECA

PORTFOLIO QUALITY	All MFIs	All ECA	ECA FSS	ECA NGOs	ECA NBFIs	ECA Small	ECA Medium	ECA Large
Portfolio at Risk> 30 Days	2.8%	1.1%	1.3%	1.0%	3.3%	0.4%	0.2%	0.5%
Portfolio at Risk> 90 Days	1.5%	0.4%	0.3%	0.5%	2.1%	0.3%	1.5%	0.4%
Risk Coverage[15]	1.3	3.6	3.4	4.3	1.2	1.1	2.4	7.4

FSS = Financially Self-Sufficient; NGOs = Non Governmental Organizations; NBFIs = Non Banking Financial Institutions.

Within the region, not including NBFIs, each group maintains a PAR > 30 less than 1.4%, half that of the average MFI. NBFIs, with a PAR > 30 of 3.3% have credit risk levels nearly three times as high as the next closest regional peer group, ECA FSS.

With the exception of NBFIs and smaller institutions, the various peer groups within ECA provision against risk more than two times the average MFI. ECA large provisions against bad debts more than two times the amount of most of its regional peers. Similar to the conservative provisioning procedures practiced by all ECA MFIs, ECA large provisions the most due to its significantly larger average loan sizes.



[15] The NGO, FSS, and Large peer groups contain an outlier MFI that significantly distorts the peer group average. The outlier was taken out for comparative reasons.

Regional Comparative Benchmark Tables

INSTITUTIONAL CHARACTERISTICS	Definition	All MFIs	MENA	Africa	Asia	ECA	Latin America
Number of MFIs	Sample size of group	124	9	21	22	22	50
Age	Years functioning as an MFI	8	6	8	9	4	12
Total Assets	Total Assets, adjusted for inflation and standardized loan portfolio provisioning and write-offs	7,931,000	6,447,341	7,734,962	7,224,607	5,341,523	11,700,878
Offices	Number, including head office	19	12	72	38	13	12
Personnel	Total number of employees	120	117	141	252	74	100

FINANCIAL STRUCTURE	Definition	All MFIs	MENA	Africa	Asia	ECA	Latin America
Capital/ Asset Ratio	Total Equity, adjusted/ Total Assets, adjusted	42.7%	71.4%	44.4%	37.6%	60.1%	35.3%
Commercial Funding Liabilities Ratio	All liabilities with "market" price/ Average Gross Loan Portfolio	44.1%	23.9%	42.6%	65.8%	9%	71.8%
Debt/ Equity Ratio	Total Liabilities, adjusted/ Total Equity, adjusted	1.9	0.4	2.0	1.6	1.1	2.7
Deposits to Loans	Voluntary Savings/ Gross Loan Portfolio, adjusted	15.3%	0.0%	0.2%	15.1%	0.0%	28.7%
Deposits to Total Assets	Voluntary Savings/ Total Assets, adjusted	12.3%	0.0%	11.0%	11.6%	0.0%	20.8%
Gross Loan Portfolio/ Total Assets	Gross Loan Portfolio, adjusted/ Total Assets, adjusted	70.9%	59.4%	65.1%	68.4%	78.1%	69.3%

SCALE AND OUTREACH	Definition	All MFIs	MENA	Africa	Asia	ECA	Latin America
Number of Active Borrowers	Number of borrowers with loans outstanding	15,553	13,463	21,974	32,915	6,040	13,755
Percent of Women Borrowers	Number of active women borrowers/ Number of Active Borrowers	62.9%	68.1%	70.8%	71.2%	59.5%	61.3%
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs	5,347,516	3,339,454	5,273,209	4,912,373	4,454,067	8,559,291
Average Loan Balance per Borrower	Gross Loan Portfolio/ Number of Active Borrowers	532	286	228	195	926	816
Average Loan Balance per Borrower/ GNP per Capita	Average Loan Balance per Borrower/ GNP per Capita	54.3%	15.8%	69.1%	35.9%	79.7%	57.4%
Number of Voluntary Savers	Number of savers with passbook and time deposit accounts	3,345	-	27,082	18,374	-	2,422
Voluntary Savings	Total value of passbook and time deposit accounts	1,197,175	-	1,308,311	815,659	-	3,184,896
Average Savings Balance per Saver	Voluntary Savings/ Number of Voluntary Savers	269	n/a	105	39	n/a	741

PROFITABILITY AND SUSTAINABILITY	Definition	All MFIs	MENA	Africa	Asia	ECA	Latin America
Adjusted Return on Assets	Net Operating Income, adjusted and net of taxes/ Average Total Assets	0.1%	0.6%	-1.9%	2.1%	1.1%	-0.1%
Adjusted Return on Equity	Net Operating Income, adjusted and net of taxes/ Average Total Equity	2.3%	0.4%	-3.1%	10.3%	3.7%	1.1%
Operational Self-Sufficienc	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)	115%	113%	110%	134%	123%	110%
Financial Self-Sufficiency	Financial Revenue, adjusted/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted	104%	101%	100%	115%	107%	102%

REVENUE	Definition	All MFIs	MENA	Africa	Asia	ECA	Latin America
Adjusted Financial Revenue Ratio	Financial Revenue, adjusted/ Average Total Assets	27.1%	21.6%	31.2%	24.0%	30.3%	31.7%
Adjusted Profit Margin	Net Operating Income, adjusted/ Financial Revenue, adjusted	0.3%	4.3%	-6.3%	7.6%	2.0%	-0.8%
Yield on Gross Portfolio (nominal)	Financial Revenue from Loan Portfolio/ Average Gross Loan Portfolio	39.8%	39.8%	49.7%	35.6%	41.3%	43.6%
Yield on Gross Portfolio (real)	(Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)	33.6%	36.3%	42.7%	30.4%	36.1%	35.1%

EXPENSE	Definition[16]	All MFIs	MENA	Africa	Asia	ECA	Latin America
Adjusted Total Expense Ratio	(Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted/ Average Total Assets	27.7%	22.0%	36.3%	24.8%	29.1%	34.4%
Adjusted Financial Expense Ratio	Financial Expense, adjusted/ Average Total Assets	6.2%	3.3%	4.7%	6.7%	4.4%	8.8%
Adjusted Loan Loss Provision Expense Ratio	Net Loan Loss Provision Expense, adjusted/ Average Total Assets	1.8%	1.0%	1.1%	1.3%	2.1%	2.7%
Adjusted Personnel Expense Ratio	Personnel Expense, adjusted/ Average Total Assets	10.5%	10.7%	15.3%	8.4%	12.6%	10.0%
Adjusted Administrative Expense Ratio	Administrative Expense, adjusted/ Average Total Assets	8.4%	5.3%	14.5%	5.3%	10.1%	8.4%
Adjusted Operating Expense Ratio	Operating Expense, adjusted/ Average Total Assets	19.1%	17.7%	29.8%	12.5%	22.6%	18.4%
Adjustment Expense Ratio	Net inflation and subsidized cost-of-funds adjustment expense/ Average Total Assets	1.8%	1.8%	1.7%	1.4%	2.9%	2.0%

EFFICIENCY	Definition	All MFIs	MENA	Africa	Asia	ECA	Latin America
Operating Expense/ Loan Portfolio	Operating Expense, adjusted/ Average Gross Loan Portfolio	29.4%	38.4%	50.3%	21.7%	34.0%	27.3%
Personnel Expense/ Loan Portfolio	Personnel Expense, adjusted/ Average Gross Loan Portfolio	16.1%	24.7%	25.5%	14.0%	18.6%	14.7%
Average Salary/ GNP per Capita	Average Personnel Expense, adjusted/ GNP per capita	6.7	3.0	15.1	4.6	7.7	6.1
Adjusted Cost per Borrower	Operating Expense, adjusted/ Average Number of Active Borrowers	142	115	75	35	249	195

PRODUCTIVITY	Definition	All MFIs	MENA	Africa	Asia	ECA	Latin America
Borrowers per Staff Member	Number of Active Borrowers/ Number of personnel	121	133	180	149	92	128
Borrowers per Loan Officer	Number of Active Borrowers/ Number of loan officers	284	213	400	307	186	353
Voluntary Savers per Staff Member	Number of Voluntary Savers/ Number of personnel	34	-	132	127	-	28
Personnel Allocation Ratio	Number of Loan Officers/ Number of personnel	48.3%	58.2%	46.8%	51.7%	51.2%	41.0%

PORTFOLIO QUALITY	Definition	All MFIs	MENA	Africa	Asia	ECA	Latin America
Portfolio at Risk>30 Days	Outstanding balance, loans overdue > 30 Days/ Gross Loan Portfolio, adjusted	2.8%	1.4%	2.6%	2.5%	1.1%	4.9%
Portfolio at Risk>90 Days	Outstanding balance, loans overdue > 90 Days/ Gross Loan Portfolio, adjusted	1.5%	0.5%	1.3%	1.3%	0.4%	2.0%
Risk Coverage	Loan loss reserve, adjusted/ PAR > 30 Days	1.3	2.8	1.0	0.9	3.6	1.2

Middle-East and North Africa (MENA); Eastern Europe and Central Asia (ECA)

[16] For further information regarding the Adjustments and Statistical Issues used in this report, log on to www.mixmbb.org

Conclusion

ECA microfinance has quickly evolved from a start-up sector to a profitable and sustainable industry. The speed at which the region achieved financial self-sufficiency is of particular importance. As many MFIs strive to reach financial self-sufficiency to cover costs and attract investment, many lessons can be learned from the characteristics of ECA microfinance. Even with their smaller scale and higher than average operating costs, MFIs in the region rapidly developed a model that leads to positive returns. The sector's profitability stems from the region's strong credit culture, skilled staff, and tightly controlled loan portfolios. Furthermore, ECA MFIs dedicate more resources to their loan portfolio, their most lucrative asset, than their global peers.

Despite its impressive financial performance, the dynamic sector still faces a handful of challenges. It is less efficient and productive than most other regions and has the poorest outreach in the industry. Although the microfinance sector in many of the region's countries is becoming more sophisticated in terms of product diversification, the region as whole, still lacks innovation and offers limited savings. Growing competition within the microfinance sector as well as from commercial banks will lead to further innovation, but more importantly, deepen outreach as MFIs are forced to seek new clients. As it continues to develop, the young sector has the benefit of being able to learn from the best practices in other regions.

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The Microfinance Information eXchange (MIX) is a non profit organization that works to support the growth and development of a healthy microfinance sector. The MIX's mission is to help build the microfinance market infrastructure by offering data sourcing, benchmarking and performance monitoring tools, as well as specialized information services. 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.

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