Benchmarking Microfinance in Eastern Europe and Central Asia (2003)

A report from the
Microfinance Information eXchange

Microfinance institutions (MFI) in Eastern Europe and Central Asia (ECA) are by far the youngest in the world and the least diverse in terms of institutional type. With the majority of its MFIs less than five years old, ECA exhibits many characteristics of a young sector: the landscape continues to be dominated by Non-governmental Organizations (NGO) and Non Bank Financial Intermediaries (NBFI) that are primarily equity-based and donor-funded, and do not significantly access commercial debt markets or mobilize savings; and few MFIs offer a broad range of financial products that serve their client's diverse financial needs. However, ECA has had the advantage of learning from those who have gone before and has already shown signs of adapting that knowledge to its local context. With this knowledge, it has developed many dynamic and sustainable institutions that will likely assume their place as industry leaders in microfinance.

How well do ECA MFIs fare when compared to their global peers? What trends emerge within ECA? What similarities and differences exist between regions with divergent experiences, cultures and socio-economic levels? This report seeks to answer these questions. By applying industry standard performance metrics to examine the performance of ECA MFIs both in the regional and global context, this report offers unique insights into many facets of the general state of ECA microfinance.

Contents

In Brief

ECA's late emergence on the microfinance stage is evident in many of its performance indicators, but myriad factors shed light on why microfinance has developed differently in ECA than it has in the rest of the world. ECA's high income and education levels provide the basis for the predominance of large working capital loans in the region. This may explain why, when compared to other young regions, ECA reaches fewer clients despite having a similar size asset base. ECA's weak industrial sector and high level of imports contributes to its relatively high cost levels. However, despite their youth and high costs, a majority of ECA MFIs have rapidly managed to overcome many of their growing pains and have achieved financial self-sufficiency and profitability. ECA MFIs have the highest financial revenue ratio and best portfolio quality of any MFIs in the world. This points to ECA MFI managements' ability to focus on clients needs and effectively provide and price services that their clients value and are willing to pay for. In addition, it may be related to the large supply of highly skilled labor in the region. As the sector continues to mature, expect costs to fall, productivity to increase and outreach to expand. Going forward, the key constraint to ECA microfinance will likely be its ability to access market rate funds to expand operations and reach economies of scale. So far, donors have been willing to provide both equity investments and subsidized loans; however, the scale of operations is quickly approaching a level that donors alone may not be able to sustain.

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 MFIs. Its publication of global industry benchmarks creates comparative performance results with which the industry and its retail institutions can contextualize MFI performance within relevant peer groups. Benchmarks enable institutions to understand relative trends and drivers in their own performance in a comparative perspective. Through standard metrics and analysis processes, the MBB analyzes the performance of MFIs – their profitability, efficiency, and productivity, as well as their scale and outreach. Benchmarks support the transparency needed for improved institutional performance and greater access to diversified sources of funding for growth, such as access to capital markets.

This ECA benchmark report 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 2003 results of 49 participating ECA MFIs from 19 countries.[1] The results published here represent averages of all observations. 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 scale, sustainability and target market, allowing for comparisons among like institutions and to analyze the impact of different factors on institutional performance.[2]

Peer Groups	Characteristics	MBB Peer Group member MFIs
All ECA		AREGAK, ASTI, AgroInvest, Alternativa, Asian Credit Fund, BAI, BBK Financial Group, BESA Foundation, BZMF, CHF – ROM, CAPA Foundation, Constanta Foundation, Crystal Fund, DEMOS, EKI, FINCA – ARM, FINCA – AZE, FINCA – GEO, FINCA – KGZ, FINCA – Tomsk, FORA, Fundusz Mikro, HOPE Ukraine, Integra Romania, KMB, Kamurj, KLF, KEP, MCI Barakot, MI-BOSPO, MIKRA, MIKROFIN, Mikro ALDI, NABWT, NOA, NORmicro, OBM, OIS, OMRO, PRIZMA, PSHM, Partner, SBDF, SODEYSTVIE, Sunrise, USTOI, Voronezh SME Fund, WVI- GEF, XAC Bank
Size		
ECA High	ALB between 150% and 250% of GNI per capita	ACF, BESA Foundation, CHF – ROM, KMB, MIKROFIN
ECA Large Broad	Gross Loan Portfolio > $8,000,000 ALB between 20% and 150% of GNI per capita	AgroInvest, EKI, FORA, Fundusz Mikro, OBM, Partner, Sunrise, XAC Bank
ECA Medium Broad	Gross Loan Portfolio = $3,000,000 – 8,000,000 ALB between 20% and 150% of GNI per capita	AREGAK, Constanta Foundation, FINCA – KGZ, KLF, KEP, MI-BOSPO, MIKRA, NOA, OIS, PRIZMA, PSHM
ECA Small Broad	Gross Loan Portfolio < $3,000,000; ALB between 20% and 150% of GNI per capita	BAI, BBK Financial Group, BZMF, CAPA Foundation, Crystal Fund, DEMOS, FINCA – ARM, FINCA – GEO, FINCA – Tomsk, HOPE Ukraine, Integra Romania, Kamurj, Mikro ALDI, NABWT, NORmicro, OMRO, SBDF, SODEYSTVIE, USTOI, Voronezh SME Fund, WVI – GEF
ECA Small Low	ALB<20% of GNI per capita or $150	ASTI, Alternativa, FINCA – AZE, MCI Barakot

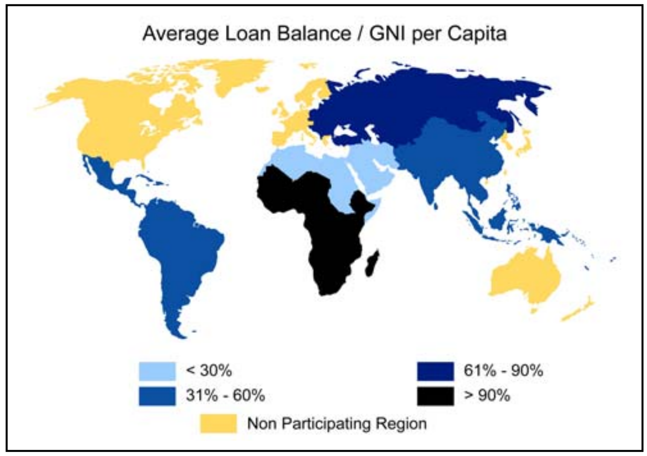
[1] The 19 countries and their respective MFIs are the following: Albania (BESA, PSHM), Armenia (AREGAK, FINCA-ARM, Kamurj), Azerbaijan (FINCA-AZE, NORmicro), Bosnia and Herzegovina (EKI, MI-BOSPO, Mikra BiH, Mikro ALDI, Mikrofin, Partner, PRIZMA, Sunrise), Bulgaria (USTOI), Croatia (DEMOS, NOA), Georgia (BAI, BBK, Constanta, Crystal Fund, FINCA-GEO, GEF, SBDF), Kazakhstan (ACF, KLF), Kosovo (BZMF, KEP), Kyrgyzstan (FINCA-KGZ), Mongolia (XAC Bank), Poland (FM), Romania (Capa Fdn., CHF-ROM, Integra, OMRO), Russia (Alternative, FINCA-Tomsk, FORA, KMB, SODEYSTVIE, Vornezh Fund), Serbia and Montenegro (AgroInvest, OBM, OIS), Tajikistan (ASTI, NABWT), Ukraine (HOPE Ukraine), Uzbekistan (Barakot).

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

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



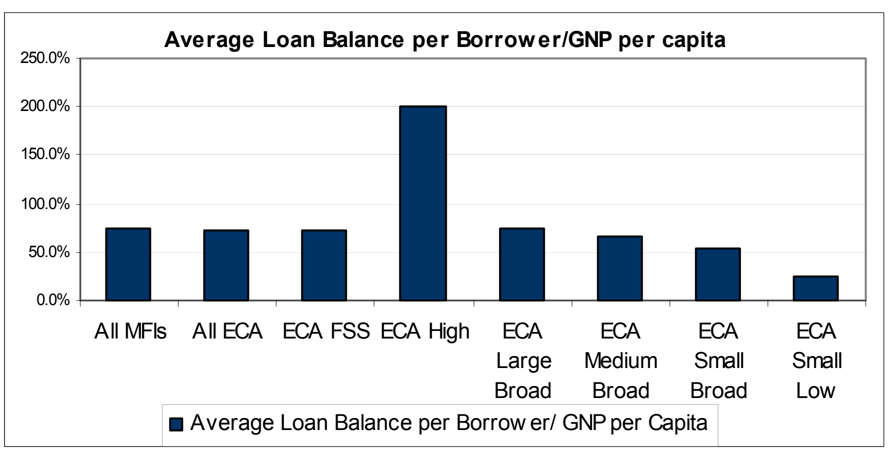
ECA MFIs reach fewer and higher income borrowers and offer a limited scope of financial services. Microfinance in most of the developing world emerged as a way of providing loans to largely uneducated and semi-skilled workforces; however, the collapse of the former Soviet Union and its satellite states left ECA with a large supply of highly educated and skilled workers without employment. As a result, many ECA MFIs have chosen to focus on serving those clients who have a high absorptive capacity for large working capital loans. This is reflected in the sector's high average loan balance, which is several hundred dollars above the average for the next closest region, and partially explains why ECA MFIs with gross loan portfolios that are similar to their African and Arab counterparts serve far fewer borrowers. Focusing on high income groups has limited ECA's depth of outreach, the lowest of all regions; however, outreach to women borrowers is the second highest. Few MFIs in the region have effectively begun to mobilize savings and those that do, tend to mobilize deposits that are many times larger than the average size of deposits for other regions. The combination of minimal savings mobilization and offering large loans significantly limits the availability of funds needed for ECA MFIs to achieve greater scale and outreach.

Microfinance in ECA

OUTREACH INDICATORS	All MFIs	All ECA	ECA FSS	ECA High	ECA Large Broad	ECA Medium Broad	ECA Small Broad	ECA Small Low
No. of Active Borrowers	47,688	5,840	7,882	8,675	10,654	8,717	2,296	3,358
Women Borrowers	60.2%	65.6%	67.8%	39.0%	53.2%	79.6%	66.2%	75.8%
Gross Loan Portfolio	19,214,376	8,510,944	12,276,427	48,455,735	11,932,233	4,928,980	1,103,684	475,890
ALB per Borrower	689	1,263	1,071	4,120	1,280	1,341	745	167
ALB per Borrower/ GNI pc	74.7%	73.0%	71.3%	201.2%	75.0%	65.7%	54.5%	25.6%

FSS = Financially Self-Sufficient

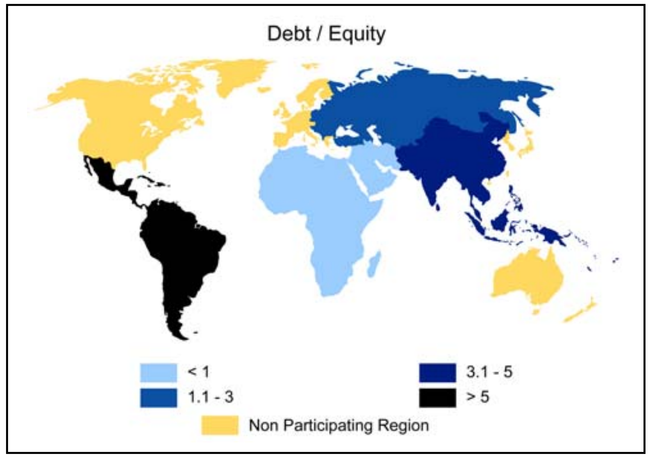
Although ECA MFIs are on average twice as small as their global peers, less than half of them have gross loan portfolio that exceeds $2 million, which is similar to the world distribution (median of $2.5 million). Interestingly, within ECA there exists a correlation between the scale of operations and depth of outreach. Larger MFIs tend to serve higher income borrowers while smaller MFIs typically concentrate on providing services to poor entrepreneurs. MFIs in the region have only recently begun to diversify their product offerings and only in a few key markets, such as Bosnia and Herzegovina, where a critical mass of institutions is forming and competition for clients is heating up. Small ECA MFIs are predominantly NGOs and credit unions that serve low-end clients and/or the lower layers of the broad segment. Medium and large MFIs, which are primarily banks and NBFIs, target a much broader clientele with average loan balances between 20 and 150 percent of GNI per capita. The trend of larger institutions demonstrating higher average loan balances could suggest that over time ECA MFIs have begun to drift up market, or possibly they are expanding their clientele to include a more diverse segments of the population.



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

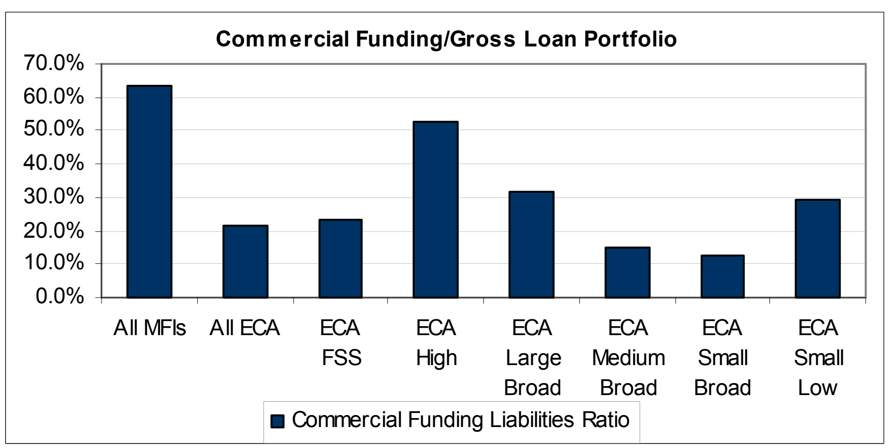


ECA MFIs rely heavily on donations, subsidized loans and retained earnings to fund their growth. ECA is the youngest microfinance sector in the world and is dominated by NGOs and NBFIs that either cannot or choose not to mobilize savings. However, this is typical during the start-up years for microfinance sectors. With only a few regulated institutions, ECA has had only limited success in establishing credit relationships with local financial institutions. In fact, compared to the rest of the world, only MENA, which is the second youngest sector, has a lower overall commercial funding liabilities ratio. ECA's relatively low debt to equity ratio further underscores the sector's limited access to outside funds. One defining factor of a maturing microfinance sector is an increasing number of regulated institutions that have access to commercial sources of funds, both savings and loans. With the limited resources ECA MFIs do access, they are nonetheless extremely effective at converting them into loans. MFI's in the region devote four out of every five dollars they have in assets to the loan portfolio, which is well above the average for all MFIs in other regions.

Microfinance in ECA

FINANCE STRUCTURE	All MFIs	All ECA	ECA FSS	ECA High	ECA Large Broad	ECA Medium Broad	ECA Small Broad	ECA Small Low
Capital Asset Ratio	44.1%	64.0%	63.2%	34.0%	48.6%	77.3%	68.2%	73.7%
Commercial Funding Liabilities Ratio	63.2%	21.8%	23.4%	52.9%	31.9%	14.9%	12.7%	29.2%
Debt/Equity	2.2	1.3	1.5	4.1	1.8	.4	1.0	1.3
Deposits to Loans	43.0%	7.4%	8.4%	11.3%	15.1%	0.0%	3.3%	29.2%
Deposits to Total Assets	19.6%	5.2%	6.1%	8.6%	9.7%	0.0%	2.5%	20.6%
Gross Loan Portfolio/Total Assets	70.5%	79.6%	83.1%	84.8%	83.1%	81.2%	78.9%	65.9%

FSS = Financially Self-Sufficient



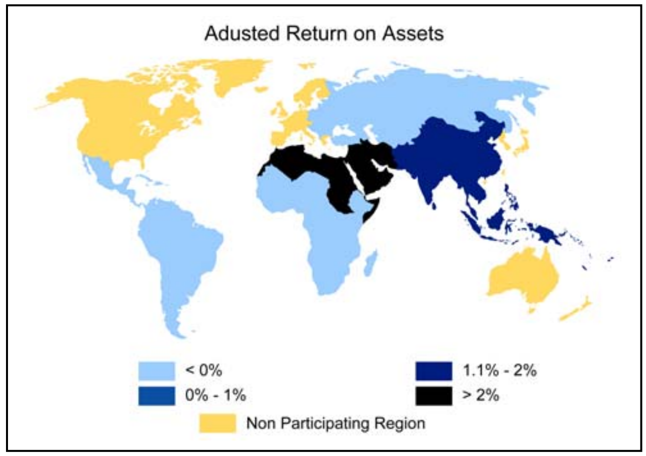
Only a handful of the ECA High MFIs rely on debt to finance a majority of their assets, whereas the more poverty-oriented or Small Low MFIs tend to finance their operations chiefly from equity. Within ECA, access to commercial funds depends heavily on institutional charter and the size of the MFI. Banks have thus far proven the most successful at establishing relationships with local financial institutions and raising debt capital. Credit unions can access commercial loans, but still rely primarily on mobilizing savings from their members. NGOs and NBFIs continue to have the most difficulties accessing commercial sources as they are often seen as lacking collateral, accountability and a professional businesslike approach.

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 have achieved financial self-sufficiency and average profitability. The ECA microfinance sector is the second most financially self-sufficient sector in the world. As the following pages will show, ECA MFIs have thus far been adept at generating industry leading revenues that have enabled them to cover their higher than average costs. Although on average ECA MFIs are not profitable, over half of them recorded adjusted returns on assets (AROA) of over 1 percent. This suggests that there are a few highly unprofitable institutions that are unduly influencing the overall average for the region. In fact, this appears to be the case in many regions throughout the world. According to the median figures[3], over half of all MFIs in every region, except for Africa, are posting positive profits. Due to ECA's limited leverage, its adjusted return on equity (AROE) is only slightly higher than its AROA. More mature regions that take greater advantage of debt financing are able to post significantly higher AROEs despite having AROA that are only slightly higher than that of ECA.

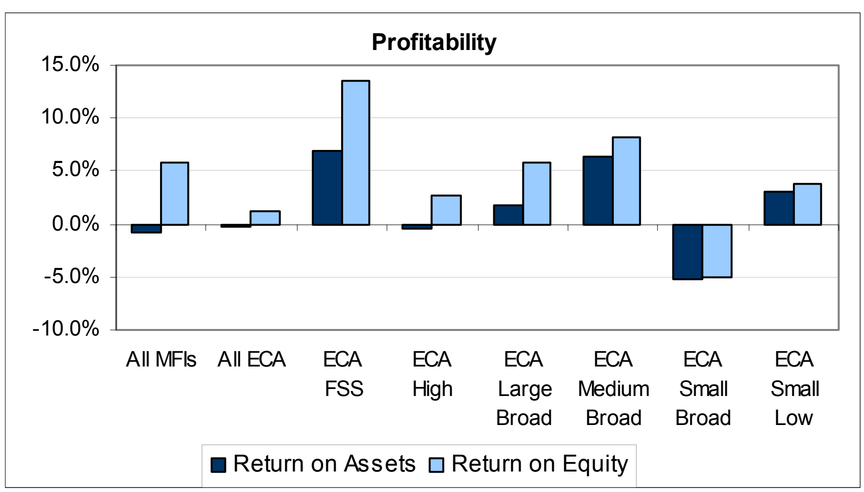


Microfinance in ECA

PROFITABILITY AND SUSTAINABILITY	All MFIs	All ECA	ECA FSS	ECA High	ECA Large Broad	ECA Medium Broad	ECA Small Broad	ECA Small Low
Adjusted Return on Assets (AROA)	-0.8%	-0.3%	7.0%	-0.4%	1.8%	6.3%	-5.2%	3.1%
Adjusted Return on Equity (AROE)	5.9%	1.2%	13.5%	2.6%	5.9%	8.2%	-5.1%	3.8%
Operational Self-Sufficiency (OSS)	122.8%	130.7%	152.2%	121.6%	128.5%	143.1%	112.7%	207.0%
Financial Self-Sufficiency (FSS)	107.7%	109.3%	130.7%	108.7%	112.3%	126.2%	98.6%	114.1%

FSS = Financially Self-Sufficient

In sharp contrast to other regions, within ECA there does not appear to be a clear relationship between an MFI's size or maturity and its profitability. In fact, medium-sized institutions were on average the most profitable, out-performing their larger counterparts. Small MFIs were on average the least profitable, but performance within this group was the most diverse with AROAs ranging from -60 percent to + 40 percent. Interestingly, the small MFIs serving the lowest-income clients posted some of the highest AROAs, confirming that MFIs can both reach poorer clients in a sustainable manner. All the while, many large and/or high-end MFIs still struggle to generate sufficient revenue to cover their expenses. Two factors that appear to heavily influence the profitability of MFIs in the region are institutional type and operating environment. Top ECA MFIs typically are in countries with laws and regulations that are conducive to microfinance, such as in many of the Balkan states. On the whole, NBFIs fared the best, while NGOs struggled. Again, this may show that specialized microfinance laws and institutional types may aid in the progress of MFIs in a particular country or region.

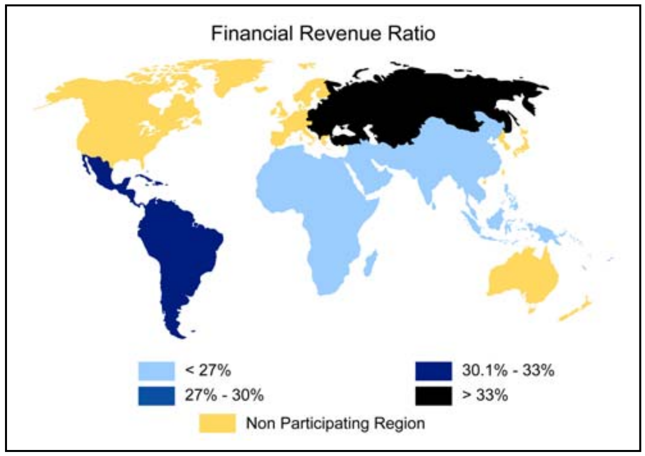


[3] MBB 11 Average and Median tables are available online at www.mixmbb.org

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



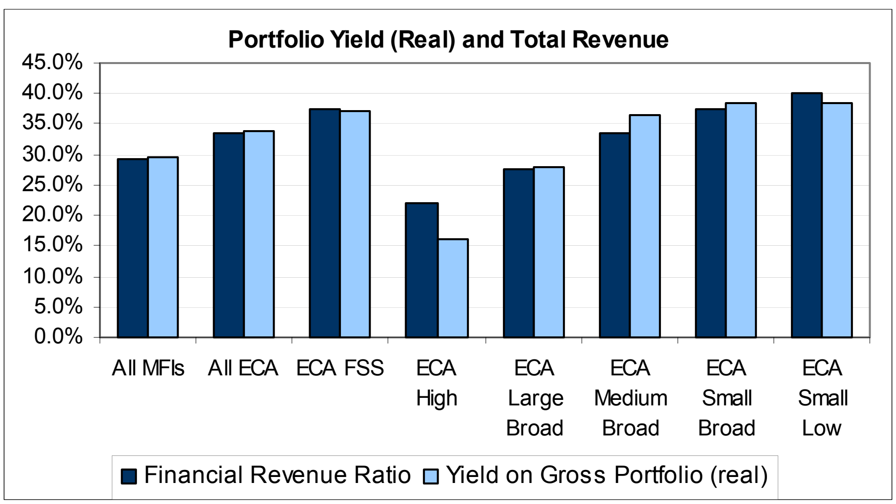
ECA MFIs generate the highest financial revenue as a percentage of total assets of all regions. The loan portfolio is the top earning asset for most MFIs. The percentage of an institution's resources that is devoted to the loan portfolio, along with its yield, will in large part determine its financial revenue. Propelling ECA's high financial revenue ratio is its industry leading portfolio yield combined with its strong asset utilization. The high levels of both nominal and real portfolio yields speak to the newness of the sector. Competition in ECA has only recently begun to put downward pressure on interest rates in several countries within the region. Compared to more mature sectors such as Asia and LAC, ECA's real yields are several points higher. If trends from other regions hold true, over time greater competition and increased client awareness will cause interest rates to fall. One major strength of ECA MFIs is their ability to devote a high percentage of their resources, roughly 80 percent, to their loan portfolios. This tops all regions including LAC, which has the second highest at 76 percent. Because ECA MFIs on the whole do not mobilize savings, this frees up the bulk of their resources to be productively allocated to the loan portfolio instead of being held in short term deposits or reserves for liquidity purposes.

Microfinance in ECA

REVENUE	All MFIs	All ECA	ECA FSS	ECA High	ECA Large Broad	ECA Medium Broad	ECA Small Broad	ECA Small Low
Adjusted Financial Revenue Ratio	29.1%	33.5%	37.5%	22.0%	27.5%	33.4%	37.3%	40.2%
Adjusted Profit Margin	-15.7%	-3.7%	21.3%	-2.8%	7.0%	16.3%	-18.0%	-5.5%
Yield on Gross Portfolio	38.7%	42.4%	45.3%	23.9%	33.2%	40.6%	48.2%	59.1%
Yield on Gross Portfolio (real)	29.5%	33.9%	37.1%	16.0%	28.0%	36.4%	38.3%	38.5%

FSS = Financially Self-Sufficient

With few exceptions, less regulated MFIs dedicate a greater percentage of their assets to their loan portfolios. NGOs and NBFIs are among the highest devoting 85 percent of their assets to the loan portfolio while banks are below 75 percent. At the same time ECA Institution's serving higher-income borrowers posted the lowest yields of any peer group. One possible explanation for this is that there is more competition among MFIs offering large loans, and consequently less opportunity for them to charge more. What is also telling about these figures is that MFIs making smaller loans at higher rates are generating much higher revenues than their counterparts offering more traditional products.

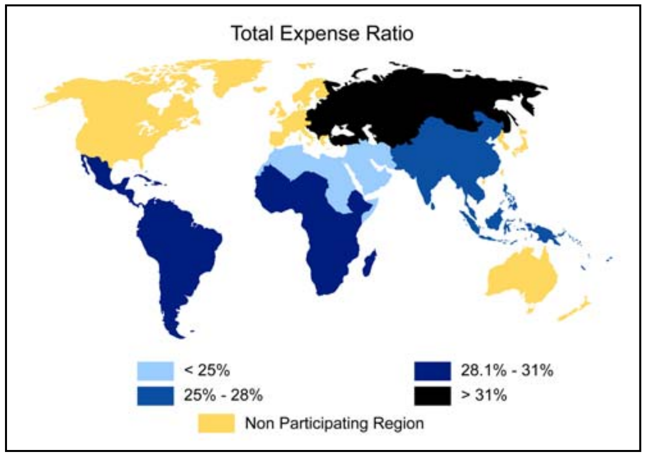


The fact that NGOs and NBFIs generate greater yields on their portfolios supports the argument that there is still little competition at the bottom of the pyramid. In addition, the high yields on small loans confirm the presumption that alternative local informal financial mechanisms are less desirable.

Expense

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

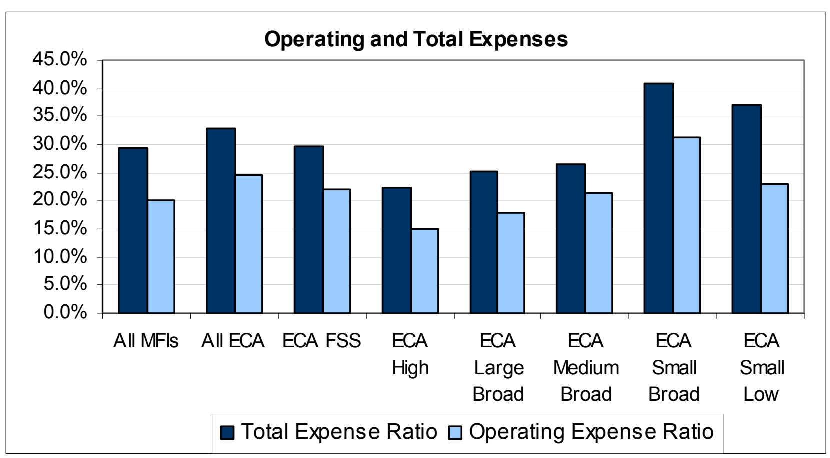


ECA MFIs have the highest total expenses of any region. Institutions in the region manage to keep financial and provisioning expenses at or below the industry average; however, the relatively high income levels throughout ECA contribute to its MFIs having the highest total operating expense ratio of all regions. Roughly one-third of ECA MFIs' assets are spent each year in total expenses. For the better part of the last half century, much of ECA operated under a command economy that has led to a weak industrial sector. This in turn, has given rise to mass importation of many goods resulting in inflated general price levels. The effects of this can be seen in ECA's high administrative expenses that are among the highest in the industry. The good news is that as ECA MFIs incorporate best practices and lessons learned from other regions, they can expect to become more efficient in their use of resources and will likely see a reduction in their administrative costs. Lower administrative costs coupled with continued success in keeping their provisioning costs to a minimum will over time bring down ECA's expenses to be more in line with industry averages.

Microfinance in ECA

EXPENSE	All MFIs	All ECA	ECA FSS	ECA High	ECA Large Broad	ECA Medium Broad	ECA Small Broad	ECA Small Low
Adjusted Total Expense Ratio	29.4%	32.9%	29.6%	22.3%	25.2%	26.6%	41.0%	36.9%
Adjusted Financial Expense Ratio	7.1%	6.9%	6.6%	6.4%	5.9%	3.7%	8.0%	12.5%
Adjusted Loan Loss Provision Expense Ratio	2.3%	1.5%	1.1%	1.0%	1.5%	1.5%	1.6%	1.3%
Adjusted Personnel Expense Ratio	11.0%	13.3%	12.7%	7.0%	10.8%	12.3%	16.4%	12.0%
Adjusted Administrative Expense Ratio	9.1%	11.3%	9.2%	7.9%	7.1%	9.1%	15.0%	11.1%
Adjusted Operating Expense Ratio	20.0%	24.6%	21.9%	14.9%	17.9%	21.4%	31.4%	23.1%

FSS = Financially Self-Sufficient

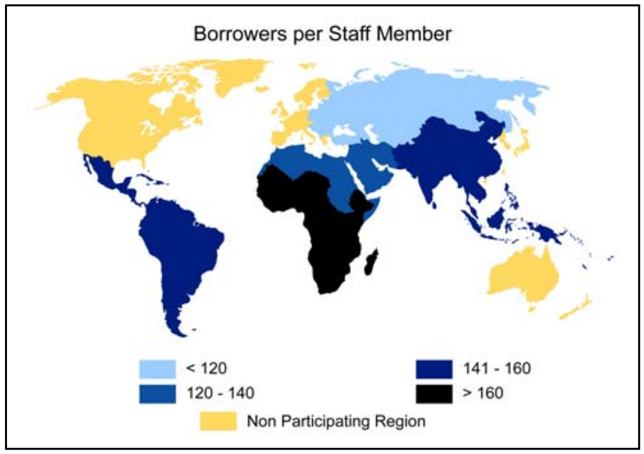


Economies of scale are evident in the cost levels of ECA MFIs. The trend for all costs is that they tend to decrease as MFIs grow in size and scale. This is most noticeable in the fall of administrative costs, suggesting that there are substantial start-up costs and that institutions in the region gain efficiencies of scale. Personnel costs however, show only a slight decline with increased scale, which may be a function of MFIs needing more highly skilled staff as the complexity of operations increases. Interestingly, offering smaller loan sizes did not seem to have a large impact on costs levels. ECA MFIs serving a broad clientele had roughly the same or higher personnel and administrative expenses relative to those serving lower income clients. The main difference in expenses between these groups was access to capital and the associated financial expenses.

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 the world



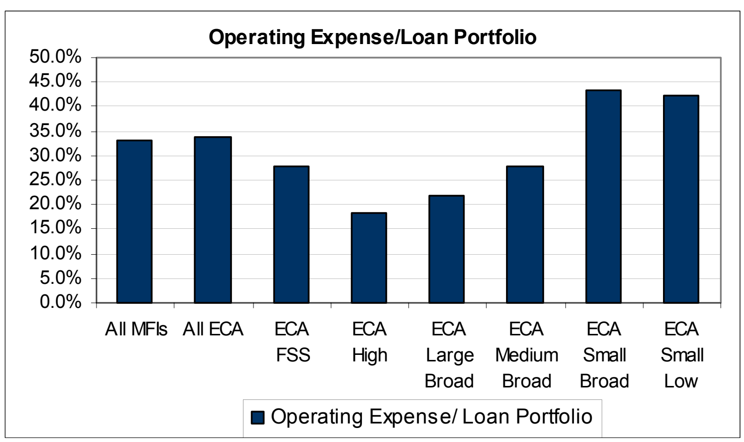
ECA MFIs maintain average efficiency levels despite being the least productive. Due primarily to their superb asset utilization, ECA MFIs are able to report several efficiency indicators that are on par with their global peers even though they have much higher total expenses figures. However, ECA's cost per borrower is close to twice that of the industry average and is a testament to its high average loan balances. As the industry matures it is expected that efficiency levels will improve due to increased experience managing costs. Due in part to high income levels, ECA MFIs have the second highest staff salaries even though they are the least productive of any region. Given that ECA MFIs offer a limited range of financial services and generally do not mobilize savings, real personnel productivity may be even lower than it appears. Poor productivity may be partially attributable to ECA's youth; however, African and MENA MFIs who are only slightly older show much higher numbers of borrowers served per loan officer/staff member. More likely, poor productivity figures are due to a higher concentration of individual loans and relatively fewer village bank or solidarity group loans across the region. As MFIs in the region begin offering a broader array of financial services, including more group loans, increases in productivity should begin to emerge; however, it will likely be some time before they reach the levels of many of their peers.

Microfinance in ECA

EFFICIENCY	All MFIs	All ECA	ECA FSS	ECA High	ECA Large Broad	ECA Medium Broad	ECA Small Broad	ECA Small Low
Operating Expense/ Loan Portfolio	33.2%	33.7%	27.7%	18.2%	22.0%	27.9%	43.4%	42.1%
Personnel Expense/ Loan Portfolio	17.9%	17.9%	16.1%	8.4%	13.1%	16.0%	22.4%	20.3%
Average Salary/ GNI per Capita	748.4%	670.9%	789.9%	606.2%	848.2%	859.3%	579.2%	360.0%
Adjusted Cost per Borrower	158	299	196	741	282	246	273	60

PRODUCTIVITY	All MFIs	All ECA	ECA FSS	ECA High	ECA Large Broad	ECA Medium Broad	ECA Small Broad	ECA Small Low
Borrowers per Staff Member	136	84	102	49	102	111	69	101

FSS = Financially Self-Sufficient

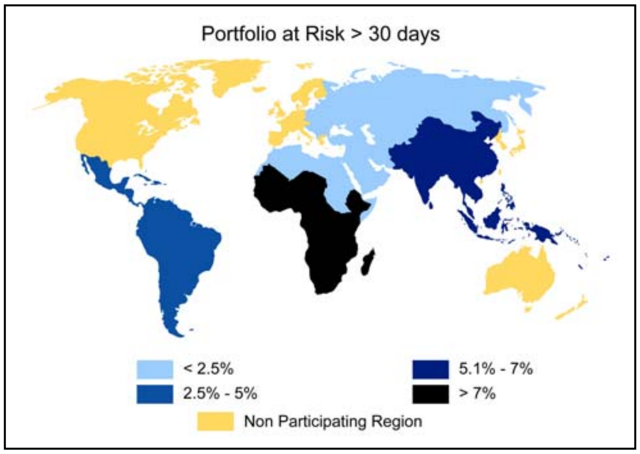


Although the average ECA MFI is by some measures as efficient as the world average, large differences are seen between the peer groups. Within these peer groups, lending methodology appears to be the most important determinant of efficiency. MFIs with loan portfolios primarily made up of individual loans tend to have higher average loan balances and thus are more efficient when evaluated in terms of cost per dollar lent. At the same time, institutions offering solidarity group loans typically have much smaller average loan balances and report significantly lower costs per borrower. Thus the two sides of efficiency are manifested in ECA and confirm the widely held belief that smaller loans are more expensive per dollar lent, but less expensive per borrower served. Within ECA there appears to be a strong positive correlation between staff productivity and profitability. Irrespective of scale or lending methodology, MFIs with higher productivity are more profitable than those with below average productivity.

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



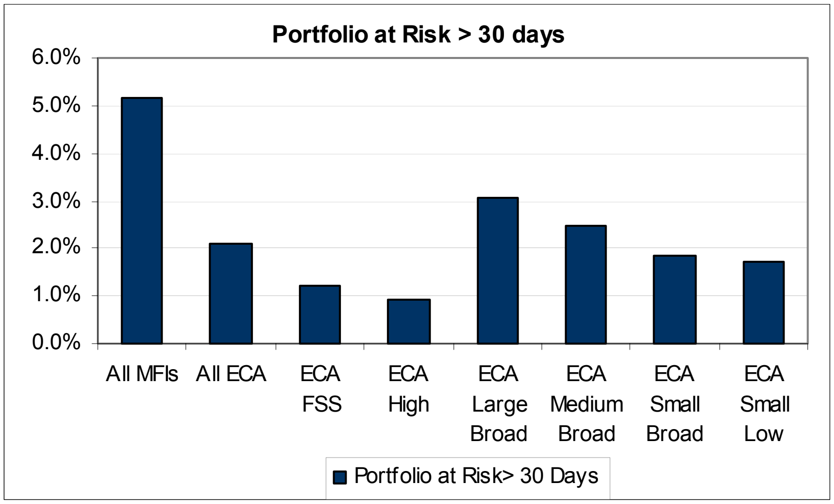
ECA MFIs consistently post the highest quality portfolios. Effectively managing their largest asset has been a hallmark of ECA MFIs since their inception and has allowed them to achieve profitability much faster than many of their global peers. Portfolio quality is a good indication of an MFI's ability to focus on its clients needs and effectively provide and price services that its clients value and are willing to pay for. At the same time extremely low levels of portfolio at risk can be a sign of MFIs employing an overly conservative lending policy, which can inhibit growth and limit outreach to potential new clients. As the industry leaders in portfolio quality, but with the smallest outreach, ECA MFIs may be too conservative and possibly foregoing the opportunity to capture segments of the population that are currently not being served. Developing a diverse range of credit products to reach new and potentially riskier clients may be a way for ECA MFIs to expand their outreach and achieve economies of scale that could help bring down overall costs.

Microfinance in ECA

PORTFOLIO QUALITY	All MFIs	All ECA	ECA FSS	ECA High	ECA Large Broad	ECA Medium Broad	ECA Small Broad	ECA Small Low
Portfolio at Risk> 30 Days	5.2%	2.1%	1.2%	0.9%	3.1%	2.5%	1.9%	1.7%
Portfolio at Risk> 90 Days	2.8%	1.1%	0.5%	0.4%	1.7%	1.3%	0.8%	1.2%
Loan Loss Rate	2.5%	1.3%	1.0%	0.5%	2.7%	1.6%	1.1%	-0.2%
Risk Coverage	278.7%	372.2%	394.9%	1236.9%	219.3%	224.2%	285.5%	400.7%

FSS = Financially Self-Sufficient

ECA MFIs have much stricter repayment policies than other regions. Their average portfolio at risk is twice as low as in All MFI group. Larger MFIs have more flexible approach allowing for some delinquency. Their loan loss rate is even higher than the world average. Small MFIs, on the other hand, have much lower delinquency levels and are quite skillful in recovering delinquent and written-off loans. The ECA Small Low-end group showed the ability to recover most if not all loans, in many cases even those written off in previous periods. An additional factor influencing the analysis of levels of overdue loans is loan maturity. While small MFIs serve the lower-end market segment the loan term is usually shorter, so a 30-day delay in repayment is much more serious than it would be in the case of a long-term loan.



ECA MFIs are more risk averse and have higher provision levels. Particularly small MFIs seem to overprovision. This may be related to their limited product diversification and concentration on one type of client which significantly increases institutional risk.

Regional Comparative Benchmark Tables

INSTITUTIONAL CHARACTERISTICS	Definition	All MFIs	Africa	Asia	ECA	LAC	MENA
Number of MFIs	Sample size of group	231	57	57	49	52	16
Age	Years functioning as an MFI	9	7	12	5	13	7
Total Assets	Total Assets, adjusted for inflation and standardized loan portfolio provisioning and write-offs	32,410,823	9,113,640	81,198,092	10,719,008	31,863,457	9,812,513
Offices	Number, including head office	48	23	138	12	18	29
Personnel	Total number of employees	376	149	1,039	83	236	170

FINANCIAL STRUCTURE	Definition	All MFIs	Africa	Asia	ECA	LAC	MENA
Capital/ Asset Ratio	Total Equity, adjusted/ Total Assets, adjusted	44.1%	41.8%	31.5%	64.0%	32.2%	74.7%
Commercial Funding Liabilities Ratio	All liabilities with "market" price/ Gross Loan Portfolio	63.2%	103.7%	72.4%	21.8%	61.8%	17.6%
Debt/ Equity Ratio	Total Liabilities, adjusted/ Total Equity, adjusted	2.2	-3.2	5.0	1.3	6.4	.5
Deposits to Loans	Voluntary Savings/ Gross Loan Portfolio, adjusted	43.0%	91.9%	51.4%	7.4%	26.9%	0.0%
Deposits to Total Assets	Voluntary Savings/ Total Assets, adjusted	19.6%	27.1%	29.2%	5.2%	20.6%	0.0%
Gross Loan Portfolio/ Total Assets	Gross Loan Portfolio, adjusted/ Total Assets, adjusted	70.5%	59.2%	69.8%	79.6%	76.0%	67.4%

SCALE AND OUTREACH	Definition	All MFIs	Africa	Asia	ECA	LAC	MENA
Number of Active Borrowers	Number of borrowers with loans outstanding	47,688	26,285	130,169	5,840	31,424	25,561
Percent of Women Borrowers	Number of active women borrowers/ Number of Active Borrowers	60.2%	62.5%	64.2%	65.6%	38.1%	78.2%
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs	19,214,376	5,800,360	40,132,314	8,510,944	25,176,261	5,884,795
Average Loan Balance per Borrower	Gross Loan Portfolio/ Number of Active Borrowers	689	370	402	1,263	903	348
Average Loan Balance per Borrower/ GNI per Capita	Average Loan Balance per Borrower/ GNI per Capita	74.7%	124.6%	53.9%	73.0%	59.9%	19.9%
Number of Voluntary Savers	Number of savers with passbook and time deposit accounts	27,621	31,100	61,134	763	17,381	0
Voluntary Savings	Total value of passbook and time deposit accounts	19,270,139	3,680,225	58,680,859	2,626,406	14,771,660	0
Average Savings Balance per Saver	Voluntary Savings/ Number of Voluntary Savers	841	1,411	169	2,842	618	0

PROFITABILITY AND SUSTAINABILITY	Definition	All MFIs	Africa	Asia	ECA	LAC	MENA
Adjusted Return on Assets	Net Operating Income, adjusted and net of taxes/ Average Total Assets	-0.8%	-4.6%	1.2%	-0.3%	-0.2%	2.1%
Adjusted Return on Equity	Net Operating Income, adjusted and net of taxes/ Average Total Equity	5.9%	-4.6%	12.4%	1.2%	15.6%	2.8%
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)	122.8%	117.1%	128.0%	130.7%	117.3%	118.3%
Financial Self-Sufficiency	Financial Revenue, adjusted/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted	107.7%	94.4%	118.8%	109.3%	108.8%	106.5%

REVENUE	Definition	All MFIs	Africa	Asia	ECA	LAC	MENA
Adjusted Financial Revenue Ratio	Financial Revenue, adjusted/ Average Total Assets	29.1%	26.4%	26.5%	33.5%	31.4%	26.9%
Adjusted Profit Margin	Net Operating Income, adjusted/ Financial Revenue, adjusted	-15.7%	-34.1%	-7.7	-3.7%	-16.7%	-11.9%
Yield on Gross Portfolio (nominal)	Financial Revenue from Loan Portfolio/ Average Gross Loan Portfolio	38.7%	40.1%	35.2%	42.4%	37.5%	39.1%
Yield on Gross Portfolio (real)	(Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)	29.5%	23.3%	31.3%	33.9%	28.1%	35.3%

EXPENSE	Definition[4]	All MFIs	Africa	Asia	ECA	LAC	MENA
Adjusted Total Expense Ratio	(Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted/ Average Total Assets	29.4%	30.7%	25.0%	32.9%	31.0%	24.8%
Adjusted Financial Expense Ratio	Financial Expense, adjusted/ Average Total Assets	7.1%	7.6%	6.3%	6.9%	8.9%	2.9%
Adjusted Loan Loss Provision Expense Ratio	Net Loan Loss Provision Expense, adjusted/ Average Total Assets	2.3%	2.3%	2.9%	1.5%	3.3%	-0.2%
Adjusted Operating Expense Ratio	Operating Expense, adjusted/ Average Total Assets	20.0%	20.7%	15.9%	24.6%	18.9%	22.1%
Adjusted Personnel Expense Ratio	Personnel Expense, adjusted/ Average Total Assets	11.0%	10.4%	9.1%	13.3%	10.5%	13.8%
Adjusted Administrative Expense Ratio	Administrative Expense, adjusted/ Average Total Assets	9.1%	10.2%	6.8%	11.3%	8.4%	8.3%
Adjustment Expense Ratio	Net inflation and subsidized cost-of-funds adjustment expense/ Average Total Assets	3.8%	5.8%	2.0%	4.5%	3.5%	2.2%

EFFICIENCY	Definition	All MFIs	Africa	Asia	ECA	LAC	MENA
Operating Expense/ Loan Portfolio	Operating Expense, adjusted/ Average Gross Loan Portfolio	33.2%	43.8%	26.0%	33.7%	26.8%	39.9%
Personnel Expense/ Loan Portfolio	Personnel Expense, adjusted/ Average Gross Loan Portfolio	17.9%	21.3%	15.0%	17.9%	14.7%	26.2%
Average Salary/ GNI per Capita	Average Personnel Expense, adjusted/ GNI per capita	748.4%	1341.9%	422.2%	670.9%	629.3%	420.9%
Adjusted Cost per Borrower	Operating Expense, adjusted/ Average Number of Active Borrowers	158	129	50	299	181	121

PRODUCTIVITY	Definition	All MFIs	Africa	Asia	ECA	LAC	MENA
Borrowers per Staff Member	Number of Active Borrowers/ Number of personnel	136	164	144	84	146	138
Borrowers per Loan Officer	Number of Active Borrowers/ Number of loan officers	269	334	274	151	323	210
Voluntary Savers per Staff Member	Number of Voluntary Savers/ Number of personnel	110	166	171	7	120	0
Personnel Allocation Ratio	Number of Loan Officers/ Number of personnel	53.7%	53.9%	55.1%	56.0%	45.7%	67.8%

PORTFOLIO QUALITY	Definition	All MFIs	Africa	Asia	ECA	LAC	MENA
Portfolio at Risk> 30 Days	Outstanding balance, loans overdue> 30 Days/ Gross Loan Portfolio, adjusted	5.2%	7.5%	7.0%	2.1%	4.3%	2.2%
Portfolio at Risk> 90 Days	Outstanding balance, loans overdue> 90 Days/ Gross Loan Portfolio, adjusted	2.8%	3.9%	3.8%	1.1%	2.5%	1.5%
Write-off Ratio	Value of loans written-off/ Adjusted Average Gross Loan Portfolio	3.0%	3.0%	3.1%	1.6%	4.2%	2.6%
Loan Loss Rate	Adjusted Write-offs, net of recoveries/ Adjusted Average Gross Loan Portfolio	2.5%	2.9%	2.9%	1.3%	4.0%	-0.5%
Risk Coverage	Loan loss reserve, adjusted/ PAR > 30 Days	278.7%	192.7%	261.6%	372.2%	281.6%	368.3%

Eastern Europe and Central Asia (ECA); Latin America and the Caribbean (LAC); Middle-East and North Africa (MENA)

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

Conclusion

In a short period, ECA microfinance has proven not only to be viable, but even profitable. In many ways, ECA MFIs do not act the part of the youngest institutions in the world, especially in light of their strong portfolio quality and excellent revenue streams. Leading the sector are several dynamic institutions that are defying conventional wisdom and becoming increasingly successful serving lower income clients. However, because of the limited scale of these institutions, there continues to be a large percentage of the population with little or no access to financial services. These potential clients represent a virtually untapped market, which could enable MFIs to quickly achieve scale simply by reaching further down market. In a select few countries, competition is beginning to heat up and in response, many MFIs are beginning to diversify their products and expand their range of services. This bodes well for the future growth of the sector.

For all of its rapid success in achieving sustainability, ECA microfinance still has several key challenges ahead. High cost levels, limited access to capital and low worker productivity continue to hinder progress in the region. Nevertheless, these are all symptoms of a young sector. If trends in other regions hold true in ECA, one of the primary means of unlocking growth in the region will be the MFIs' ability to access commercial sources of funds to achieve greater scale and improved efficiency. Currently few MFIs in the region are capable of mobilizing savings and only a handful access commercial debt. Look for this to change moving forward. While ECA MFIs have fought hard to achieve the success they currently enjoy, some of the largest hurdles they will have to clear have yet to come.

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Microfinance Information eXchange
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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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