

AFRICAN MICROFINANCE TRANSPARENCY

**TRANSVERSAL ANALYSIS
OF MFI PERFORMANCE**

IN AFRICA | THIRD EDITION | NOVEMBER 10







**TRANSVERSAL ANALYSIS
OF MFI PERFORMANCE
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WITH THE SUPPORT OF



GRAND-DUCHÉ DE LUXEMBOURG
Ministère des Affaires étrangères

Direction de la coopération au développement

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FOREWORD

TRANSVERSAL ANALYSIS
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Created in 2003, AMT became a legally constituted association registered in South Africa in 2008. The association aims to promote transparency and strengthen performance of Africa MFIs in order to improve the efficiency of their actions and activities in terms of poverty alleviation. It seeks to do this by developing the use of external microfinance ratings and evaluations of African MFIs so as to promote their growth, development and professionalisation.

The purpose of AMT is to reinforce the credibility of the microfinance sector by encouraging a larger number of MFIs to provide transparent and standardised financial information and to engage in regular updates of their ratings.

AMT membership constitutes rated African MFIs, some of which were the first to undergo a microfinance rating in Africa, and the four main specialised rating agencies active on the continent. It further incorporates associate members that are also involved in the promotion of transparency or ratings within the microfinance sector.

When the forum was first established, it was clear that the future of performance evaluations for MFIs and the creation of an open, competitive and professional rating market was dependent on the key players, MFIs and ratings agencies, being not only implicated in the process but also having a better understanding of the process itself. AMT provides a discussion platform which enables members to better understand the use of performance evaluations as a management tool whilst providing a peer to peer learning environment based on exchange of experience.

In addition to its role as a discussion platform, AMT has further established a rating agency code of conduct that all signatories must abide by as well a grievance panel to help solve any conflict that should arise between agencies and MFIs. Additionally, AMT seeks to reinforce information services for both its members and the microfinance industry in general by regularly publishing newsletters, publications and studies.

This is the third edition of the transversal analysis of AMT MFI member's recent rating results. The study further includes data from several non-member MFIs to source a larger pool of data in order to help draw fundamental conclusions on the African microfinance sector and the characteristics of rated MFIs. The analysis was conducted by the rating agencies MicroRate, Microfinanza Rating and Planet Rating and identifies both the developments and challenges that the African microfinance sector is facing.

This study is updated once every two years and is presented at each subsequent AMT General Assembly. AMT's next meeting is due to be held in November 2010 in Douala, Cameroon. A full list of AMT's activities, publications and members can be consulted on our website www.amt-forum.org.

KIMANTHI MUTUA
President

EMMA-JAYNE PAUL
AMT Coordinator

INTRODUCTION

TRANSVERSAL ANALYSIS
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The African Microfinance Transparency Forum (AMT) commissioned this study as an update to the 2008 transversal analysis of AMT MFI member's rating results. AMT provides a platform for discussion, analysis, feedback and information in the field of African microfinance performance evaluation in a bid to promote transparency within the sector. The current membership of AMT includes 44 MFIs, the 4 specialised rating agencies and 3 associate members.

This study is based on an analysis of data taken from the most recent rating reports of both AMT members and non-members in order to broaden the sample. The objective is to track the development and progress of rated African MFIs in order to identify trends in terms of their performance as well as possible challenges and ongoing weaknesses that they may have. The ratings were conducted by three rating agencies: MicroRate, MicroFinanza Rating and Planet Rating. Data from other reliable sources has been integrated to create a 4-year database of MFIs from 2005 to 2008 and annex 1 contains an overview of the entire sample and their classification.

As shown in the table below, the database is composed of a range of very diverse institutions. The sample consists of 47 MFIs which operate in 21 different African countries. Most of the MFIs sampled are from West Africa (44.7%), followed by East Africa (36.2%), whilst the remaining 20% of MFIs come from Southern Africa, Central Africa and the MENA region. The MFIs sampled from the different regions vary in terms of legal form, size of operations and products offered.

In terms of legal form¹, non governmental organizations (NGOs) constitute the largest sample size (42.6%) with the majority located in West Africa (60%). This shows a slight shift compared to the 2008 results where the cooperative legal form dominated in West Africa. 34% of the sample is represented by Non Bank Financial Institutions (NBFI), which are mostly concentrated in East Africa (62.5%), whilst the majority of cooperatives are still concentrated in West Africa despite a slight reduction compared to the 2008 study (passing from 36% to 21%). The

only bank sampled is from West Africa, while all MFIs in the MENA region are NGOs.

With regard to products offered, most of the MFIs (70.2%) offer credit services using both group and individual lending. Among these MFIs, 4% also use village banking methodologies. The institutions that exclusively offer individual and group methodologies respectively represent 12.8% and 17% of the sample. Most of the MFIs (76.6%) also offer savings services to their clients either as voluntary, mandatory or both.

It is important to point out that some of the MFIs sampled in this study had private ratings for their own use and are therefore denominated as MFI A, MFI B, MFI C etc.

The 2008 sample of MFIs for the 2010 version of the transversal analysis is different from previous samples in terms of portfolio size. The majority (+60%) of the MFIs have a portfolio of less than US\$ 3 million. Compared to previous years, this sample includes a larger group of younger and immature MFIs. However, on the other hand, a few mature and larger MFIs exert a disproportionate influence on weighted averages.

REGION	COOPE- RATIVE	NGO	LTD BY SHARES	BANK	TOTAL
EAST AFRICA		3	10	4	17
MENA				2	2
WEST AFRICA	1	7	1	12	21
CENTRAL AFRICA			3		3
SOUTHERN AFRICA			2	2	4
TOTAL	1	10	16	20	47

To illustrate this, the total outstanding portfolios of Al Amana, RCPB and KWFT represent two thirds of the total outstanding portfolio of the entire sample. The following graph shows the weight of each MFI according to their outstanding portfolio as at December 2008. 44.7% of the sampled MFIs had a total outstanding portfolio of less than US\$ 2 million, whilst only 19.1 % register a portfolio higher than US\$ 8 million. Al Amana in Morocco

¹ It must be noted that in order to have standard analysis categories, only four legal forms have been considered. The MFIs which were labelled as "Private" (2 MFIs) and "Commercial" (1 MFI) have been included in the NBFI category, following the MiX Market categorization (www.themix.org).

INTRODUCTION

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MFI'S OUTSTANDING PORTFOLIO



has the largest portfolio worth slightly over US\$ 335 million and serves 483,416 active borrowers, which once again makes it the largest MFI in the sample in terms of portfolio and client size. At the other end of the scale, MCDT in Uganda has the smallest portfolio, worth US\$ 337,759, and Mbinga Community Bank in Tanzania has the smallest number of active borrowers at 864.

To facilitate comparisons within the sample, it was decided in some instances to analyse MFIs according to two separate peer groups. One group contained MFIs with an average outstanding loan size of less than US\$ 250 and the other group had an average outstanding loan size of more than US\$ 250. The amount of US\$ 250 is a good proxy as the sample comprised 25 MFIs >250 and 22 MFIs < 250.

It is important to note that some data and indicators were not available. In such instances, the MFIs were excluded from the analysis and therefore subsequent graphs and analysis will not refer to all 47 MFIs. Moreover, in some cases, some figures and/or indicators showed a huge variance with respect to the total average. In such cases, all extreme values were not taken into consideration in order to lower any bias on the total average.

Due to the small number of MFIs included in the study, as well as the different characteristics and variety of contexts, the sample cannot be considered fully statistically relevant and an in depth statistical investigation was not performed. Nevertheless, a qualitative descriptive analysis was undertaken and subsequent trends were identified.

The study is divided into 3 separate chapters. The first reviews the general portfolio quality of the MFIs and moves on to investigate how they are fairing in terms of profitability. Chapter 2 analyses their funding structure in relation to their legal status and further examines the cost of funds as well as the types of funding they have been able to attract. The final chapter then moves on to look at the MFI's efficiency and productivity levels in order to ascertain just how effectively they are using their resources to deliver their services.

1. PORTFOLIO QUALITY

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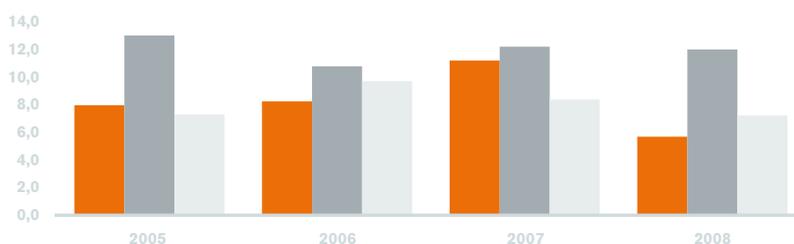


GRAPH 1

PAR 30 + WRITE-OFFS ACCORDING TO THE METHODOLOGY*

- MAINLY GROUP (8 MFIs)
- MAINLY INDIVIDUAL (6 MFIs)
- GROUP+INDIVIDUAL (27 MFIs)

*EXCLUDES EXTREME VALUES. MFIS WITH MISSING INFORMATION WERE EXCLUDED FROM THE SAMPLE.



Although individual loans have become more common and are offered by almost all MFIs in the sample, group lending² remains the most common methodology among rated African MFIs. In contrast, individual lending tends to predominate in the more mature microfinance markets such as Latin America. With group lending, the guarantee relies on the solidarity of group members and ultimately on peer pressure. This tends to work well and therefore Portfolio at Risk (PAR) over 30 days is generally lower³. Nevertheless, there is a clear trend towards individual loans, especially in Eastern Africa and in the MENA region⁴. This is reflected in the higher proportion of MFIs delivering both group and individual loans compared to the 2008 study.

Individual loans are a more recent development and have generally been introduced to allow the MFI to grow with its client base and to respond to its client's needs. Group lenders who diversify into individual loans are a case in point and in some instances they have not been able to adapt to the "new", more analytical, methodology. However, the calculated average for PAR30 and write-offs for the 2008 sample of MFIs shows that MFIs reporting an average loan size lower than US\$ 250 have generally learned from the past and have managed to improve the quality of their portfolios (see graph 3.2).

For individual loans, the risk profile is naturally higher. Although many loans are backed by physical collateral, this is not always easy to realise. Accordingly, PAR30 is significantly higher.

The following graphs give a picture of the MFIs from the sample as at December 2008. Write-offs remained generally stable⁵ for MFIs reporting an average loan size lower than US\$ 250 but increased for other MFIs.

Whilst Risk Coverage Ratios, the proportion of portfolio at risk that is covered by loss reserves, have historically been quite low⁶, we now note a more prudent tendency, notably for MFIs reporting an average loan size of less than US\$ 250. As portfolio quality improved, the risk coverage ratio increased over the last 3 years under review and amounted to 83% in December 2008. MFIs reporting an average loan size greater than US\$ 250 have also increased coverage (to a comparatively low 59%) but their PaR30 has increased in recent years.

Overall, the average risk coverage remains slightly under what would be considered as best practice for microfinance. This being said, it must be noted that almost half of the sample comprises Western and Central African MFIs⁷, whose loan loss reserve levels are limited by law (See page 10).

For microfinance institutions, loan loss reserves usually range between 80% - 120% of the Portfolio at Risk. These are much higher levels than maintained by most commercial banks. To some extent, these high reserves reflect an attitude of 'when in doubt, be conservative'. Microfinance remains a relatively new phenomenon and the risk profile of microfinance portfolios is still not well understood. But high loan loss reserves also take

²Includes Village Banking loans

³However, one should keep in mind that PaR at the group level underestimates actual arrears to the extent that the group covers for members who fall into arrears

⁴Source for MENA Region: MicroRate Database

⁵However, in 2008 there was a lower tendency to write-off loans

⁶See "AMT Transversal Analysis, 2008"

⁷<http://www.amt-forum.org/en/publications/publicationsamt.html>

⁷Those that are members of the Economic Community of West African States (ECOWAS) and the The Economic and Monetary Community of Central Africa (ECCAS)

PORTFOLIO QUALITY.1

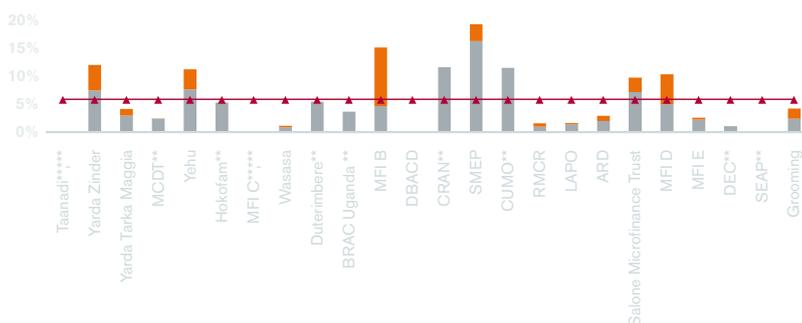
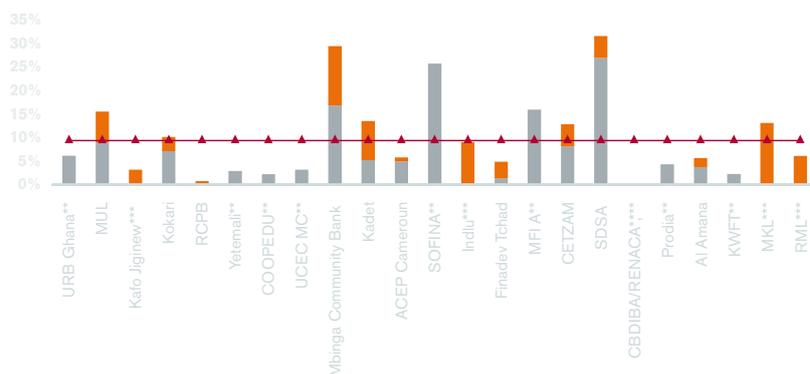
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GRAPH 2.1
PAR30 + WRITE-OFF RATIO
MFI > \$250

○ WRITE-OFF RATIO
○ PAR 30
+ AVERAGE

* Write Off ratio not available
** No write-offs
*** Par30 not available



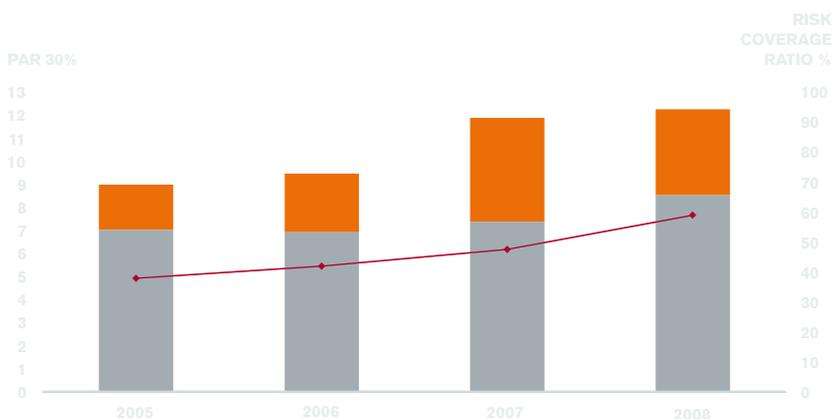
GRAPH 2.2
PAR30 + WRITE-OFF RATIO
MFI < \$250

○ WRITE-OFF RATIO
○ PAR 30
+ AVERAGE

* Write Off ratio not available
** No write-offs
*** Par30 not available

GRAPH 3.1
RISK COVERAGE RATIO,
PAR (30 DAYS) +
WRITE OFFS
MFIs > \$250

○ WRITE-OFFS
○ PAR 30 DAYS
+ RISK COVERAGE RATIO



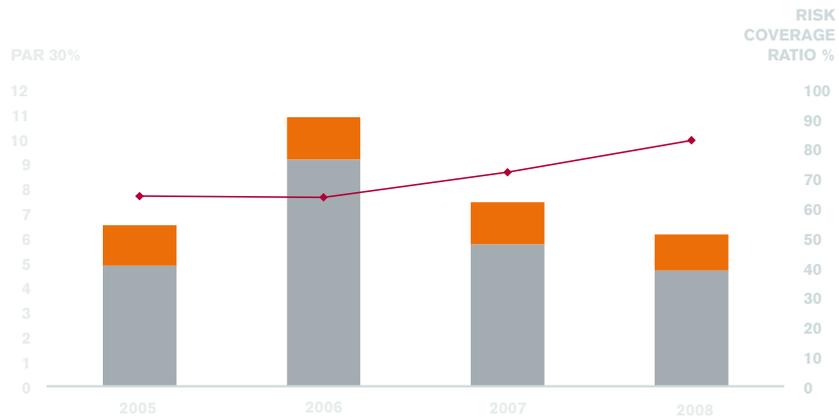
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GRAPH 3.2
RISK COVERAGE RATIO,
PAR (30 DAYS) +
WRITE OFFS
MFIs < \$250

- WRITE-OFFS
- PAR 30 DAYS
- ◆ RISK COVERAGE RATIO



into account that micro-loan portfolios are often not backed by collateral, or if they are, that collateral is usually difficult to realise.

Provision policies tend to differ according to the legal framework. West African PARMEC law and Central African COBAC law, for example, stipulate a very clear, if inadequate provisioning policy whilst other countries do not. As a result, MFIs in those regions feel unable to increase their loan loss reserve to more adequate levels. It is

interesting to note that some West African MFIs are aware that legally mandated loan loss reserves are inadequate and have found ways to circumvent the legal limits. Most commonly, this takes the form of so-called "loan insurance funds", which are loan loss reserves in all but name. According to the sample, the West and Central African⁸ average (adjusted for extreme values⁹) for the risk coverage ratio is 51% in Dec 2008, whereas it is at 92.4% for the rest of Africa.

⁸ Those that are members of the Economic Community of West African States (ECOWAS) and the The Economic and Monetary Community of Central Africa (ECCAS)

⁹ RCPB was excluded from the sample and no data was available for the following MFIs: CBDIBA/RENACA, MFI B, DBACD, MKL, DEC, SEAP

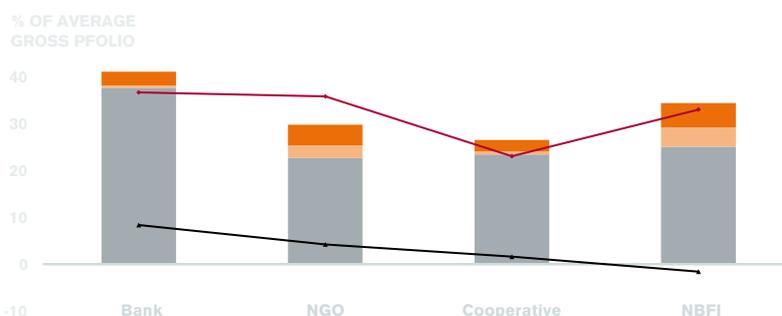
PROFITABILITY 2

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GRAPH 4
NET MARGIN ANALYSIS
ACCORDING TO INSTIT.
TYPE (2008)

○ INTEREST + FEE EXPENSE RATIO
○ PROVISIONING EXPENSE RATIO
○ OPERATING EXPENSE RATIO
— PORTFOLIO YIELD
— NET MARGIN



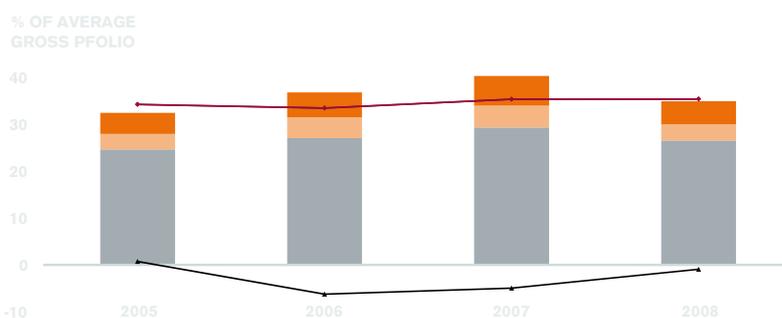
A significant number of microfinance institutions in the sample still receive grants and subsidised loans. This distorts results and makes analysis more difficult. The difficulty is increased further because funding structures and associated costs vary greatly from one type of MFI to another. Cooperatives for example, rely much more on savings than other types of MFIs, which lowers their cost of funding. "Comparing apples with apples" is therefore not easy in microfinance but nevertheless, there are some interesting trends that can be identified and which are discussed below.

greater than US\$ 250 which are generally more mature institutions.

In order to refine the analysis, it is helpful to start by looking at the cost structure of the MFIs, as it largely defines the net margin. As illustrated in graph 4.1, larger MFIs disbursing an average loan size greater than US\$ 250 tend to report surprisingly stable operating expenses (around 27% of gross portfolio), which reflects their higher level of maturity. MFIs disbursing an average loan size below US\$ 250 seem to be on the right track as their cost structure, lead by operating expenses,

GRAPH 4.1
NET MARGIN ANALYSIS
MFIs > \$250

○ INTEREST + FEE EXPENSE RATIO
○ PROVISIONING EXPENSE RATIO
○ OPERATING EXPENSE RATIO
— PORTFOLIO YIELD
— NET MARGIN



Profitability varies according to the institutional type of the sample MFIs. As expected, NGOs and cooperatives report higher margins than NBFs, generally because their cost of funding is lower. This is because they tend to have a stronger reliance on grants and subsidies and use savings as a cheap source of funding thus leaving more room for margins, as shown in graph 4. NGOs in the sample reported higher efficiency levels than other types of MFIs. This trend however, only applies to MFIs reporting an average loan size

has steadily improved. Indeed, operating expenses decreased rapidly from an average of 42.8% in 2005 to 29.6% 3 years later. Gains in efficiency generally allow MFIs to leave room for increased interest and fee expenses, which are likely to grow as MFIs borrow a greater proportion of their funds from commercial sources of funding.

As profitability is often a function of how much MFIs charge their clients, the portfolio yield has been included in the graph. In both graphs, yields

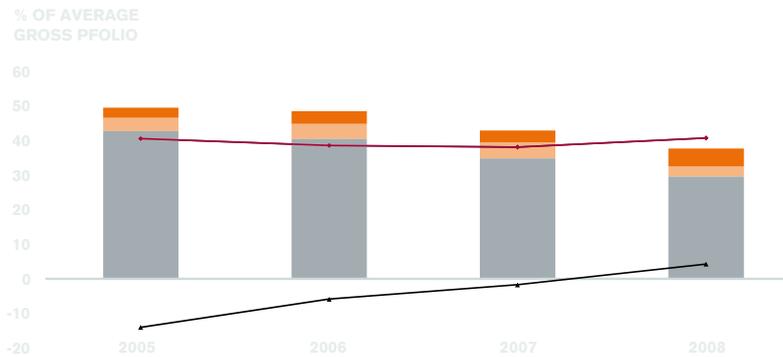
2. PROFITABILITY

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GRAPH 4.2
NET MARGIN ANALYSIS
MFIs < \$250

- INTEREST + FEE EXPENSE RATIO
- PROVISIONING EXPENSE RATIO
- OPERATING EXPENSE RATIO
- +— PORTFOLIO YIELD
- *— NET MARGIN



tend to stabilise; a sign that markets have matured and competition is on the increase. As a result, MFIs remain under pressure to reduce interest rates that they charge their clients.

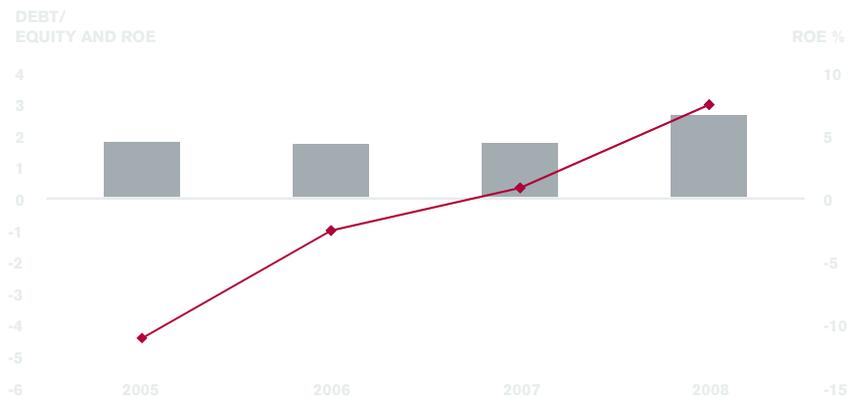
To protect their margins, MFIs will have to increase productivity levels to become more efficient. Operating expenses need to be reduced so that MFIs can absorb both provision expenses and funding costs.

Another interesting trend, as illustrated in graph 5.1, is that returns on equity for MFIs disbursing an average loan size below US\$ 250 have been

increasing along with indebtedness since 2006 (Graph 5.1). Again, greater reliance on loan funding is typical for maturing MFIs, as graph 5.2 clearly shows. The sample in this graph typically consists of more mature MFIs. But the graph also points to the risks associated with higher leverage: larger, more mature and more heavily indebted MFIs saw their profitability drop steeply in 2006 and 2007. They recovered some of the lost ground in 2008, when RoE rose to a still modest 8%.

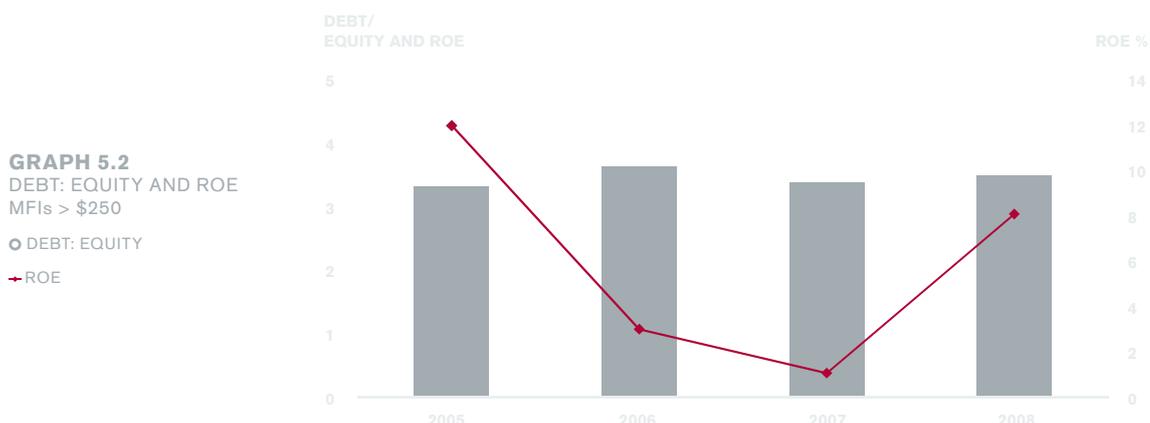
GRAPH 5.1
DEBT: EQUITY AND ROE
MFIs < \$250

- DEBT: EQUITY
- +— ROE



PROFITABILITY .2

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CONCLUSION ON PORTFOLIO QUALITY AND PROFITABILITY

- In general, portfolio quality has improved slightly, especially for MFIs with an average loan size below US\$ 250.
- In a context of growth and increasing competition, the trend is towards individual lending. However, the methodology has not been fully mastered by a number of MFIs and for them, individual loans remain more risky than group loans.
- Loan loss reserves have generally improved but they are still significantly below “best-practice” levels for MFIs disbursing an average loan greater than US\$ 250.
- As MFIs have acquired experience and improved efficiencies, operating expense ratios have improved. However, future developments such as MIS updates or new product development are likely to negatively impact on this ratio which will put pressure on margins.
- Furthermore, as MFIs move more towards commercial sources of funding, their funding cost increases. While this trend is likely to continue, it puts further pressure on their cost structure and leaves little room for an increase in provisioning expense.
- As competition is likely to rise, pressure on interest rates charged by MFIs increases as well. Unless MFIs can offset falling lending rates by lower operating expenses, profitability will suffer.

3. THE MFIS' FUNDING STRUCTURE

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This chapter analyses the funding structure of the rated MFIs in relation to their legal status and regulatory environment. The chapter will then continue with a more in-depth analysis of the cost of funds and the structure of both debt and savings that the MFIs are able to attract.

INFLUENCE OF THE LEGAL STATUS

The choice of the legal status continues to have a significant influence on the MFIs' funding structure. The sample contains four legal forms: banks, savings and credit cooperatives, non-bank financial institutions (NBFIs) and non-governmental organizations (NGO). In the context of this report an NBFI is defined as a company limited by shares which may or may not be regulated by its central bank.

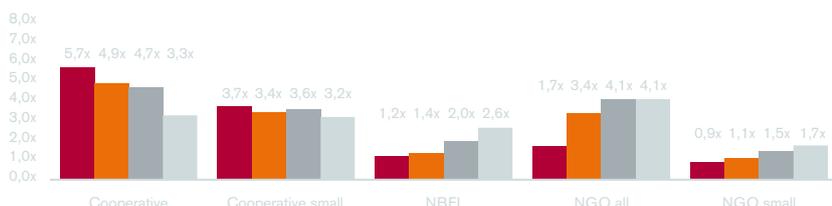
The sample does not contain a fully regulated bank and only contains one rural bank from Ghana: Union Rural Bank Ltd. As this bank by itself cannot be considered representative of (rural-) banks in Africa in general, it has been omitted from the analysis reducing the number of legal forms in the analysis to three. Interested readers are referred to the specific rating report of Union Rural Bank.¹⁰

Before going into more detail on the funding structure, it is first important to examine the leverage ratio per legal status as shown in graph 6.¹¹ The main trend that can be distinguished for the overall peer groups is that cooperatives show a declining trend in leverage whereas the NBFIs and NGOs show an increasing trend in their leverage. The declining trend in the leverage is mostly due to the decline in leverage by the two largest cooperatives in the sample: Kafo Jiginew, Mali and

RCPB, Burkina Faso.¹² If these two cooperatives are excluded from the sample, a stable to slightly decreasing trend for the cooperatives becomes apparent. However, it should be noted that on an individual basis the cooperatives show the most diverse range of leverage ratios from as low as 1.3x to as high as 20x.

Also for the sample of NGOs, the inclusion of two large NGOs (Al Amana, Morocco and KWFT, Kenya) creates a bias in the results. The peer group without including these two NGOs shows a significantly lower and slightly increasing trend from 0.9x to 1.7x. For the four years under review, Al Amana increased its leverage from 2.3x to 4.2x in 2008 and KWFT from 2.2x to 4.0x. As could be expected, the NBFIs show a higher leverage overall. However, the increase as compared to NGOs has also been faster increasing from 1.2x to 2.6x in 2008.

By examining the funding structures of the (different) legal types in more detail, graph 7, it is noticeable that the legal structure highly influences the funding structure. When analysed together, the cooperatives paint a typical picture where the majority of funding comes from deposits with only a small part originating from debt. However, by excluding RCPB and Kafo Jiginew and only looking at the smaller cooperatives in the sample, the picture changes radically. It shows that smaller cooperatives obtain a significantly smaller share of their funding from savings (36%) as compared to the total peer group (60%). Analysing these cooperatives in detail, it can be noted that all cooperatives in Niger as well as the one in Uganda depend more on borrowings for their funding as compared to savings. However, the two cooperatives in Rwanda and Guinea do not rely



GRAPH 6
LEVERAGE RATIO PER
LEGAL STATUS

● 2005
● 2006
● 2007
● 2008

¹⁰ Planet Rating (2009-11) GIRAFE Rating Union Rural Bank Ltd. Ghana; <http://www.planetrating.com/EN/rapport.php>

¹¹ For the sake of comparative analysis graph 6 shows the weighted average of the leverage ratio which is equal to the leverage of the average funding structure, as shown in graph 7 for each institutional type. It should be noted that this results in slightly different average leverage ratios than if the individual institution's average leverage ratio was calculated

¹² RCPB showed the main reduction in leverage from 6.4x in 2005 to 4.7x in 2008, the main reason for which was that equity increased faster through retained earnings as compared to its total assets

THE MFIS' FUNDING STRUCTURE .3

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on debt at all. The debt funding for cooperatives in Niger is provided almost entirely from the 'European Development Fund' which is offered to the cooperatives at 0% interest.

For NBFIs the detailed look at the funding structure reveals that their increase in leverage is mostly funded by debt – increasing from 22% to 37% between 2005 and 2008 – with the proportion of savings and other assets remaining relatively stable.

For NGOs, the weighted average of the funding structure shows that the majority of funding is coming from debt and only a small portion from savings. However, looking in more detail at only the smaller MFIs, again removing Al Amana and KWFT from the analysis, the funding structure

INFLUENCE OF THE REGULATORY ENVIRONMENT

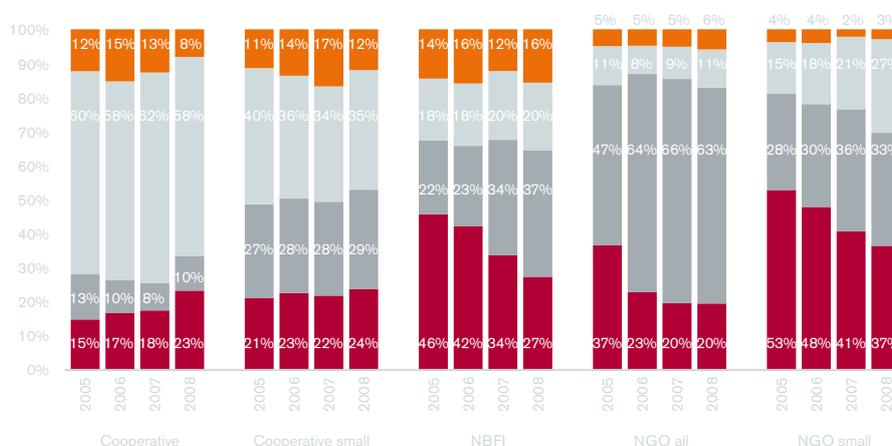
In addition to the chosen legal status, the local legislation in the country/region in question also has a major influence on the funding structure of the institutions. The average funding structure per region, see graph 8, provides an overview of the general type of legislation in place in the different regions.

NORTH AFRICA:

In Northern Africa microfinance services are offered solely by NGOs that are not allowed to mobilise deposits. As such, both MFIs in this region (Al Amana and DBACD) show an average

GRAPH 7
FUNDING STRUCTURE
PER LEGAL STATUS

OTHER
SAVINGS
DEBT
EQUITY



is more balanced with more equal percentages between equity, debt and savings. Although on average the percentage of debt is slightly higher than that of savings in the funding structure (33% vs. 27%) only 4 of the 15 NGOs in this peer group do have debt which exceeds the amount of savings. However, it should be noted that only 2 of the NGOs are officially allowed to mobilise savings. This issue is discussed at greater length in the section on savings but firstly it is important to analyse the influence that local legislation has on the MFI's funding structure.

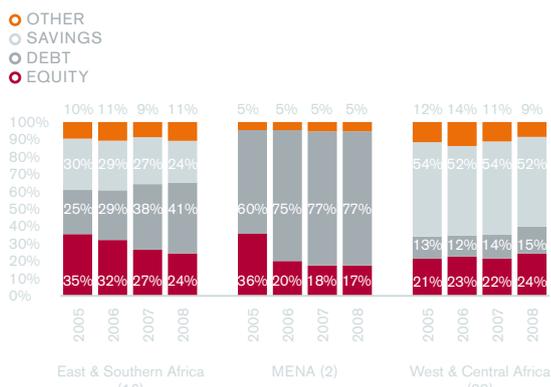
funding structure of only equity and debt. On the other hand, due to the regulatory environment in West and Central Africa, the cooperative model is the most common. This is reflected in the average funding structure being characterised by relatively high amounts of deposits (52%). East and Southern Africa have a more diversified regulatory environment which subsequently results in a more diversified average funding structure.

3. THE MFIS' FUNDING STRUCTURE

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GRAPH 8
AVERAGE FUNDING STRUCTURE PER REGION



EAST AFRICA:

East Africa has shown the most dynamic regulatory change on the continent in terms of developing dedicated regulation for microfinance deposit taking institutions. Regulations have been put in place in Ethiopia (1996), Uganda (2003), Kenya (2006) and Zambia (2006) to name but a few. Graph 9 shows the average funding structure per country as at 2008.

○ **Ethiopia:** Even though regulation allows the Ethiopian MFIs to mobilise voluntary deposits, the MFIs have only done so to a limited extent as can be deduced from their funding structure. The main driver for low deposit mobilisation has been the existence of subsidised debt funding for several years¹³. As this fund is coming to a close, MFIs have increasingly started focusing on deposit mobilisation as funding from international sources is virtually impossible and funding from local commercial banks difficult due to high collateral requirements.

○ **Kenya and Uganda:** In these two countries, regulation for deposit mobilisation has recently become effective (2004 in Uganda, 2008 in Kenya). However, the MFIs in this sample for Uganda and Kenya are not allowed to mobilise deposits¹⁴ with the exception of the cooperative MCDT in Uganda. As such the predominant

funding source of funding is debt. On the other hand it should be noted that the deposits shown are, with the exception of MCDT, almost all mandatory savings.

○ **Tanzania:** The only MFI in the sample for Tanzania (Mucoba) is regulated by the Bank of Tanzania and is allowed to mobilise deposits which explains the high percentage of savings in its funding structure.

○ **Rwanda:** The three MFIs in Rwanda show a mixed picture due to the fact that the sample includes one cooperative and two NBFIs. Overall, the amount of debt in the funding structure is limited for both NBFIs which is indicative of the fact that the Rwandan microfinance sector started developing later than its East African neighbours, although it is starting to catch up.

SOUTHERN AFRICA:

With the exception of South Africa, the MFIs in Southern Africa show a much higher percentage of equity in their funding as is the case for Malawi (CUMO) and Zambia (CETZAM) which is due to a historical reliance that these two MFIs have on donations for funding.

WEST AFRICA:

○ **WAEMU zone:**¹⁵ In the WAEMU zone in West Africa the microfinance activities are regulated by what is known as the "PARMEC" law which is an adaptation of the existing banking regulation. The main characteristic of this law, in terms of funding, is that MFIs operating as a cooperative within the WAEMU region may collect savings from their members. Savings are thus used as the major source of funding for credit activities in this region. In the revised law of 2008 it has also become possible for other institutional types¹⁶ to offer financial services and mobilise deposits under the same law. However, it is too soon to tell whether this will provide a shift in the funding structure of MFIs in West Africa.

¹³ Loans were provided by the Rural Financial Intermediation Program (RUFIP) for a 12 year term at 6% interest per annum with a seven year grace period

¹⁴ KWFT has since received a deposit taking license from Central Bank of Kenya, but the data in this study precedes the licensing

¹⁵ The West African Monetary and Economic Union (WAEMU) was established in 1994 as a replacement of the West African Monetary Union and consists of 8 countries (Benin, Burkina Faso, Ivory Coast, Guinea Bissau, Mali, Niger, Senegal and Togo)

¹⁶ In the previous laws non-cooperatives could only receive a license for a 5-year term, this restriction has now been released

THE MFIS' FUNDING STRUCTURE.3

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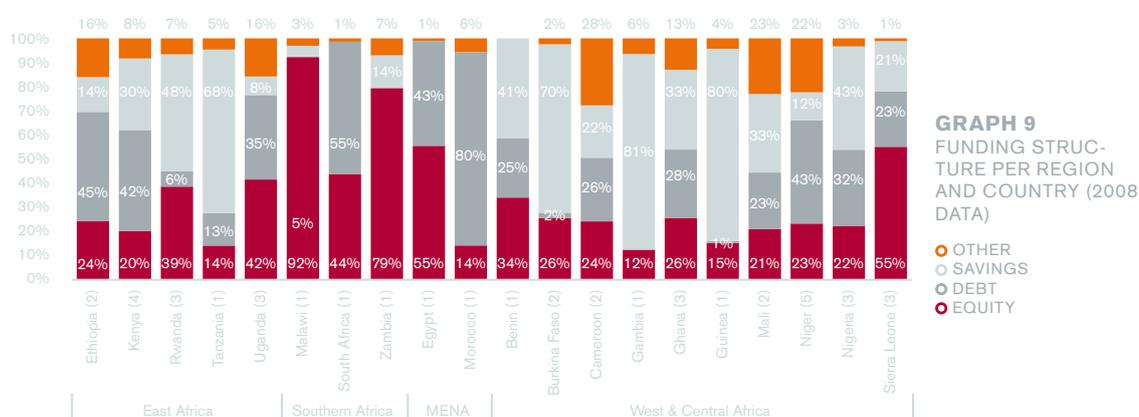
○ **Ghana:** This country shows a mixed funding structure as the sample is composed of a combination of a rural bank and two NGOs. Ghana has several regulatory options for MFIs to work under that allow deposit mobilisations which include rural banks, savings and loans companies and commercial banks. In this sample the Rural Bank only attracted debt in 2008 and mostly uses deposits as a source for funding. Alternatively, the two NGOs use a mixture of debt and mandatory savings as a source of funding.

○ **Nigeria:** A new law for microfinance banks (MFB) was introduced in 2005 which allows deposit mobilisation on a wide scale for MFIs. To date, over 900 MFBs have been licensed. The three MFIs included in this study were not regulated as an MFB at the time of their rating.¹⁷ However, their funding structure does show that besides using debt (32%) an even larger part is funded by deposits (43%).

COST OF FUNDS

As a proxy for the cost of funds, it is important to analyse the Funding Expense Ratio¹⁸ for the different legal types, see graph 10. This shows that the cooperatives have the lowest funding expenses in relation to their loan portfolio (2.0%) as compared to NBFIs and NGOs (4.3% and 4.1% respectively). The main trend that can be noted is that for all institutional types the funding expense ratio shows an increasing trend. However, as graph 11 shows, that trend is not attributed to an increase in the actual cost of funds for cooperatives and NBFIs, and only in part for NGOs. For NBFIs and NGOs, the main explanation for the increase in the funding expense ratio can be sought in the increased leverage for those types of MFIs.¹⁹

The difference between the average²⁰ interest expense on debt and savings paid by the different



GRAPH 9
FUNDING STRUCTURE PER REGION AND COUNTRY (2008 DATA)

○ OTHER
○ SAVINGS
○ DEBT
○ EQUITY

○ **Sierra Leone:** The funding structure of the MFIs in Sierra Leone is typical of a microfinance sector that is still in its earlier stages of development. The MFIs still have a high percentage of equity in their funding structure which originates almost in full from donated equity. For the remainder, a mix of debt and mandatory savings are used as a source of funding.

institutional types also highlights the lower amount of interest paid on deposits as compared to debt. Furthermore, it is interesting to note that it is only the NGO MFIs who experienced an actual increase in funding costs over the years with average interest paid increasing from 4.8% to 5.5%. The main explanation for this is the fact that subsidised debt is being replaced by more commercial sources.

¹⁷ LAPO has since received a license as Microfinance Bank, but the data in this study precedes the licensing

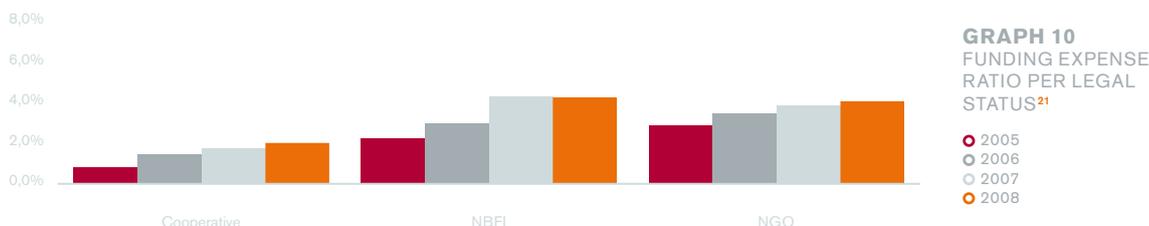
¹⁸ Funding expense ratio is the interest and fee expense on debt and savings / average loan portfolio

¹⁹ Given the variations in the trend and value of the leverage ratio for cooperatives it is not possible to provide a definite conclusion for cooperatives on this matter

²⁰ Interest expense = interest and fee expenses on debt and savings / average debt + savings

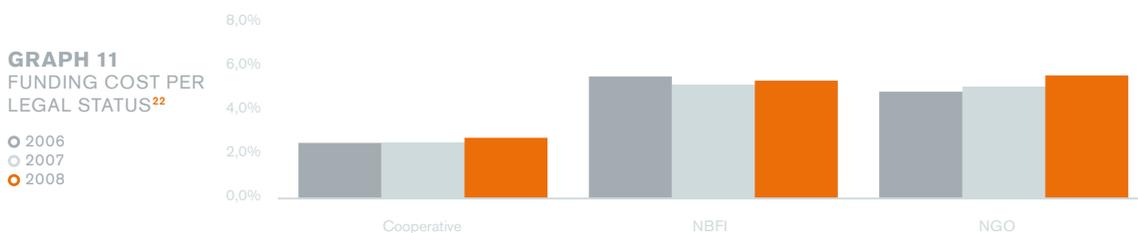
3. THE MFIS' FUNDING STRUCTURE

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GRAPH 10
FUNDING EXPENSE
RATIO PER LEGAL
STATUS²¹

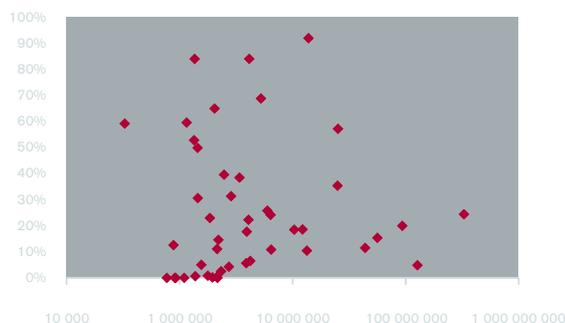
● 2005
● 2006
● 2007
● 2008



GRAPH 11
FUNDING COST PER
LEGAL STATUS²²

● 2006
● 2007
● 2008

GRAPH 12
FUNDING EXPENSE RATIO AND TOTAL ASSETS²³



When looking at the size of the MFI in relation to the funding expense ratio there is no significant correlation. The MFIs with less than US\$ 75 million in assets show a highly variable funding expense ratio ranging between 0% and 18.4%. The five MFIs with assets above US\$ 75 million show a funding expense ratio below 5.0%. However, given the limited number of MFIs in this group no definite conclusion can be drawn on the link between asset size and cost of funding.

DEBT

Looking at the structure of debt there are different trends that can be distinguished:

○ **Access to debt:** Almost all institutions in this sample have access to debt. There are only 3 MFIs that have not had access to debt in the past four years (SDSA, CUMO and CETZAM) and just 3 more MFIs that had no access in 2008 (Mucoba, Prodia and URB). Even though commercial debt is available to almost all MFIs, subsidised debt remains widely used and in some countries is the predominant source of debt funding (e.g. Ethiopia and Niger).

○ **Interest rates:** Given that most MFIs accessing debt have both commercial and subsidised debt, interest rates vary widely from 0% to more than 20%. Overall interest rates tend to be higher in East Africa than in West Africa and MENA.

○ **International funds:** International debt is highly concentrated in East Africa and MENA whereas only a few MFIs in West Africa have accessed debt from international funds. West African MFIs access mainly local commercial debt and depend less on debt due to their ability to mobilise savings.

²¹ Given the variations in the trend and value of the leverage ratio for cooperatives it is not possible to provide a definite conclusion for cooperatives on this matter
²² Interest expense = interest and fee expenses on debt and savings / average debt + savings
²³ The data in this graph excludes CUMO

THE MFIS' FUNDING STRUCTURE 3

TRANSVERSAL ANALYSIS
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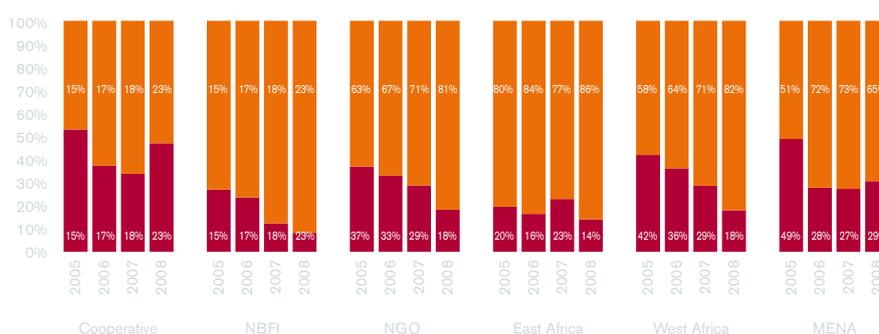
- Foreign exchange risk:** Most African MFIs that access international debt in foreign currency have established simple mechanisms to protect themselves against foreign exchange risk.²⁴ The most frequent mechanism used remains back-to-back loans: depositing hard currency at a fixed exchange rate in a local commercial bank and obtaining a loan in local currency. Alternatively, local currency funding has become increasingly available from international investors either in the form of hedging (with the support of initiatives such as The Currency Exchange Fund²⁵) or guarantees to local commercial banks. However, there are still MFIs that remain significantly exposed to foreign exchange risk.
- Interest rate risk:** overall interest rate risk is limited as most MFIs borrow on fixed terms or based on Euribor or Libor which fluctuate within relatively limited margins.
- Maturity of debt:** All but two MFIs with access to debt obtained loans with long term conditions

(more than one year maturity). Graph 13 shows the breakdown of the proportion of long term and short term debt for the different institutional types and regions.

- By analysing the data per institutional type it is clear that both NBFIs and NGOs have a much longer maturity in their debt funding as compared to cooperatives. The main reason for this is that cooperatives in West Africa attract more debt from local commercial banks which tend to have a shorter maturity time (around 2 years) than debt from international funds.
- Regarding the maturity of debt per region it can be noted that East Africa has a more stable trend in its maturity and already has a relatively long term composition of its debt, whereas in West Africa the MFIs have only obtained this longer term composition in their debt over the past few years.

GRAPH 13
DEBT MATURITY PER
LEGAL STATUS AND
REGION

○ LONG TERM
○ SHORT TERM



²⁴ With the exception of countries using the FCFA as to date hedging of this currency against the EUR is not available on commercial terms and only offered by donor backed hedging schemes

²⁵ TCX is a special purpose fund providing market risk management products to its investors and their clients active in emerging markets

3. THE MFIS' FUNDING STRUCTURE

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SAVINGS

Out of the 41 MFIs in the sample there are 20 MFIs that are licensed to mobilise and intermediate deposits. Almost all of these 20 MFIs also ask clients to deposit cash collateral with the MFI to safeguard loans, although for the majority this is less than 40% of the total savings, please see the table below.

MFI name	% voluntary savings
SOFINA	100,0%
MFI B	100,0%
COOPEDU	95,8%
RCPB	92,2%
Yetemali	79,9%
CBDIBA/RENACA	61,1%
Wasasa	61,0%
Yarda Tarka Maggia	60,6%
Duterimbere	58,2%
Mucoba	55,1%
Yarda Zinder	48,8%
RMCR	43,2%
MFI A	27,2%
MCDT	1,7%
Kokari	0,0%
ACEP Cameroun	0,0%
Kafo Jiginew	n/a
Taanadi	n/a
URB Ghana	n/a

A continuing concern for deposit-taking MFIs are the weaknesses noted in liquidity management, mostly in countries where regulatory oversight for deposit-taking MFIs is weak (e.g. under the PARMEC law). Even if not beneficial to the client, from the perspective of the MFI mandatory savings do provide a more stable deposit base as they cannot be withdrawn before the end of the loan. Furthermore, the risk of mass withdrawals of savings is limited due to:

- The fact that MFIs continue to show a strong stability in their demand deposits
- The often low concentration of risk in the deposit base: the average savings balance per depositor fluctuates between US\$ 80-105 for regulated MFIs.

Overall, it can be noted that in an increasing number of countries legislation has been introduced, or is in the process of being introduced to regulate deposit mobilisation for MFIs. However, as can be noted from graphs 7 and 8, there is no significant trend indicating an increase in savings in the funding structure of MFIs in Africa. On the one hand, this is because regulation takes a significant amount of time and effort to implement by regulators and additionally by MFIs to ensure they meet the requirements of the new regulation when applying for a license. On the other hand, deposits take significant effort to mobilise for recently regulated MFIs. As ratings of MFIs in Uganda that have become regulated as microfinance deposit-taking institutions (MDIs)²⁶ have shown, it is not easy for MFIs to attract large sums of deposits from the public and it requires significant effort in marketing to convince the public that the institution is a safer place to keep money than under a mattress. As such, in the longer term it is expected that MFIs in Africa will increase savings as part of their funding structure, but that this will be a gradual change rather than an immediate one.

A continuing area of concern in Africa remains illegal deposit mobilisation by MFIs that are not licensed by their respective central banks to do so. This practice takes on various shapes from MFIs that fully mobilise voluntary deposits and use this for intermediation to those that request cash collateral from their clients and keep this in cash. Out of the 21 MFIs that are not licensed to mobilise savings in this sample, there are only six that do not mobilise any deposits. From the remaining 15 there are 3 that state that they do mobilise voluntary deposits with percentages of 27%, 30% and 62% (2008 data). For the remaining 12, the majority have the practice of asking clients for cash collateral and allowing the clients to save above and beyond this amount with the argument of saving-up for the increased cash collateral in

²⁶ GIRAFE Rating of Uganda Microfinance Ltd. (now Equity Bank Uganda) January 2008; GIRAFE Rating of Pride Microfinance Ltd. July 2010

THE MFIS' FUNDING STRUCTURE 3

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a potential follow-up loan. Furthermore, for the 'convenience' of the client, such amounts are often maintained with the MFI while the client is 'resting' in between two loans. By the strict letter of the law such deposit mobilisation is illegal and puts these 15 MFIs at risk of intervention by their central bank. In practice however, central banks only intervene sporadically, if at all, which firstly allows this illegal practice to continue and secondly gives the appearance that this practice is 'allowed'.

CONCLUSIONS

The funding structures vary significantly according to institutional type as well as local regulation in the different African countries. Cooperatives show the highest average leverage ratio over the four year period and generally use more savings rather than debt as a source of funding. However, smaller cooperatives when compared to their larger peers do seek additional recourse to debt rather than deriving almost all of their funding from deposits. In several cases, this debt is made available at subsidised rates which crowds out deposit mobilisation by these cooperatives.

For NBFIs and NGOs this 'crowding-out effect' cannot be observed. Interestingly enough, it is the NGOs that show an increase in deposits as a percentage of their funding structure between 2005 and 2008 even if the vast majority of these NGOs are not allowed to mobilise savings. As highlighted above, cash collateral remains a common phenomenon in Africa even if this is not beneficial for the client and for most MFIs it is illegal by law.

The effects that the new regulations being put in place in many East African countries to allow deposit mobilisation, as well as the change in the PARMEC law to allow non-cooperatives to mobilise savings will have on the funding structure cannot yet be seen in the present data. However, they are expected to have a long term effect on the funding structure of MFIs with an increasing use of deposits to fund their financial services

4. EFFICIENCY AND PRODUCTIVITY

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Efficiency and productivity indicators are used to measure the performance of an MFI based on how it is using its resources, mainly assets and personnel, to deliver its services.

An MFI is considered efficient when it lowers the cost of delivering services. For this study, the efficiency of the MFIs is analysed using two indicators:

- Operating expense ratio: operating expenses/average gross portfolio
- Cost per borrower: operating expenses/average number of borrowers

Productivity looks at how efficiently the MFI delivers its services. There are various indicators used to measure this but the main focus of this report will be on two indicators:

- Loan officer productivity (borrowers): number of borrowers/number of loan officers. Loan officer productivity is a measure which is used to look at overall field staff productivity
- Staff productivity (borrowers): number of borrowers/total number of personnel

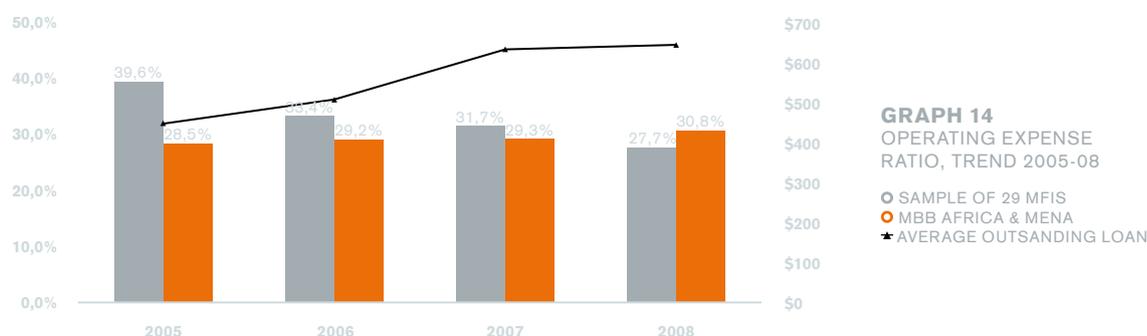
MFIs were analysed in relation to their operational size, region and legal form. In some instances, the indicators were compared to average outstanding loan and products offered.

Given that one of the main drivers of efficiency and productivity is the size of the loans disbursed, the analysis of the sample is also based on a partition of the sample into the two previously mentioned groups: MFIs with an average outstanding loan smaller than US\$ 250, (which will be referred to as MFIs <250) and MFIs with an average loan size larger than US\$ 250 (MFIs >250). The amount of US\$ 250 is also a good proxy of the median distribution of the average outstanding loans for each of the four years as there are 25 MFIs >250 and 22 MFIs <250.

As previously mentioned, some MFIs were omitted from the analysis if the relevant information was not provided or if the related figure or indicator would have significantly biased the analysis, showing a huge variance compared with the average.

EFFICIENCY

The operating expense ratio during the 4 year period of analysis shows a declining trend indicating that the 29 MFIs considered have increased their operating efficiency, along with their average outstanding loan balance which has passed from US\$ 449 to US\$ 646. Although the MicroBanking Bulletin (MBB)²⁷ sample of African MFIs registers a high level of efficiency at the start of the analysis period, the trend is constant over the 4 year timeframe.



GRAPH 14
OPERATING EXPENSE
RATIO, TREND 2005-08

○ SAMPLE OF 29 MFIS
○ MBB AFRICA & MENA
★ AVERAGE OUTSANDING LOAN

²⁷ MicroBanking Bulletin; it is important to note the value of MBB Africa used is a weighted average between MBB Africa and MBB MENA. <http://www.themix.org/microbanking-bulletin/mbb-issue-no-17-autumn-2008>

EFFICIENCY AND PRODUCTIVITY .4

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In 2008, the highest operating expense ratio was registered by Cumo (90%), while MFI B- East Africa had the lowest at 5%. MFI B uses both group and individual lending methodologies and has an average loan of US\$ 169 compared to Cumo which uses only the group methodology and has an average loan of US\$ 44.

By comparing the operating expense ratio to the size of the institution²⁸, the realisation of economies of scale is confirmed with the larger MFIs having

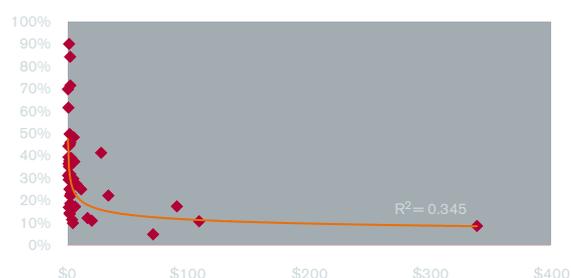
The graph below shows the correlation between the operating expense ratio and size of the outstanding portfolio. The negative relation suggests that the higher the loan the more efficient an institution is, with the exception of a few MFIs whose operating expense ratio increased despite having large portfolios. For example, Lapo-Nigeria has a portfolio equal to US\$ 27,794,108 but operating expense of 41% close to that of Salone-Sierra Leone whose portfolio amounts to US\$ 757,053 and yet has an expense ratio of 39%.

Operating expense ratio (sample size=29 MFIs)	Small	Medium	Large	All
2005	46.4%	28.3%	15.0%	39.6%
2006	41.2%	22.3%	13.0%	33.4%
2007	40.2%	24.6%	18.1%	31.7%
2008	36.8%	23.5%	16.2%	27.7%

a lower operating expense ratio while the smaller ones register a higher value. It must be noted that the increasing trend of the medium MFIs and the bell-shaped dynamic of the large MFIs is mainly related to the fact that in 2007 some of the MFIs that were classed as medium or small the previous year went up a category. However, they were less efficient compared to the other MFIs which were already in the subsample and therefore increased the average of the whole category.

Within the whole sample, the ten most efficient MFIs consist of approximately 50% large, 20% medium and 30% small sized institutions. Only two institutions offer just individual lending and one uses just group, the rest operate using individual and group lending methodologies. It was also noted that MFIs which offer savings had a higher operating expense ratio compared to those that did not (34.7% compared to 22.9% respectively).

GRAPH 15
CORRELATION BETWEEN OPERATING EXPENSE RATIO AND PORTFOLIO SIZE (SAMPLE OF 47 MFIS)



²⁸ Small: Portfolio < US\$ 2 million; Medium: US\$ 2 million < Portfolio < US\$ 8 million; Large: Portfolio > US\$ 8 million. Definition taken from www.themix.org

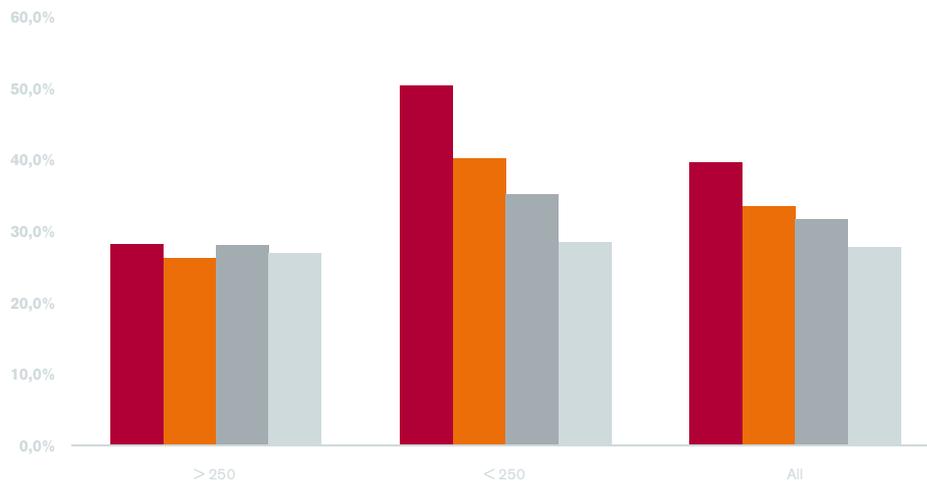
4. EFFICIENCY AND PRODUCTIVITY

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GRAPH 16
OPERATING EXPENSE
RATIO, BY AVERAGE
LOAN SIZE

● 2005
● 2006
● 2007
● 2008

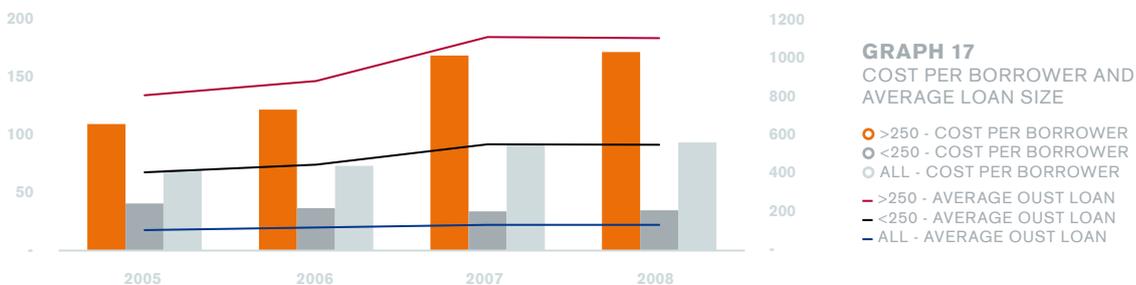


It is also noted that operating expense ratio is inversely related to the average loan size; the higher the average loan size, the lower the operating expenses which indicates that the cost of issuing smaller loans is higher than bigger loan amounts. Despite the fact that the two subsamples highlight a different trend over the period analysed with MFIs <250 registering a significant decline in the operating expense ratio, whilst the MFI >250 sub-group follows a constant trend, the sample taken as a whole indicates an overall decrease in the operating expense ratio.

Interestingly enough, if a narrower timeframe is analysed from 2006 – 2008, thus increasing the sample to 40 MFIs, the >250 subsample also

registers a decline in the operating expense ratio. This result seems to be related to the performance registered by Finadev Tchad, which has been excluded from the 2005 - 2008 sample as figures from 2005 were not available. In fact, the MFI shows a very high value of operating expense ratio in 2006 of 130%, which then strongly decreases in the following year (down to 47%), thus having a noticeable impact on the average value of the ratio for 2006.

However, in order to judge more fairly the real level of efficiency achieved by an MFI, it is worth considering both efficiency indicators, namely the operating expense ratio and the cost per borrower.



GRAPH 17
COST PER BORROWER AND
AVERAGE LOAN SIZE

● >250 - COST PER BORROWER
● <250 - COST PER BORROWER
● ALL - COST PER BORROWER
— >250 - AVERAGE OUST LOAN
— <250 - AVERAGE OUST LOAN
— ALL - AVERAGE OUST LOAN

EFFICIENCY AND PRODUCTIVITY 4

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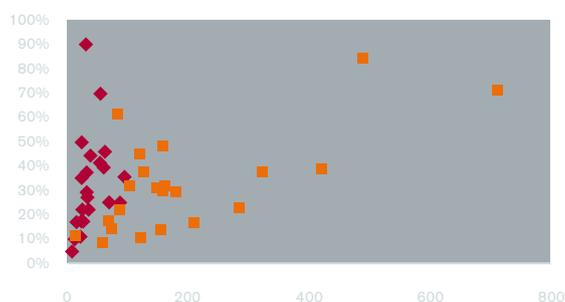
As expected, there are large differences in terms of cost per borrower between MFIs <250 and MFIs >250. The first peer group has an average value over the 4 years equal to US\$ 35 whereas the second group has a value four times larger at US\$ 154. In terms of trend, the ratio presents an increasing trend both for the whole sample and for the MFIs >250 subsample, whilst it presents a constant trend for the MFIs <250. One of the factors which influences the cost per borrower is the average loan provided by the microfinance institutions. Therefore, it is worth comparing the evolution of the average active loan and the cost per borrower of our sample. As shown in graph 17, the dynamic of the two ratios follow a similar trend both for the full sample and for the peer groups, which confirms the positive relation between the average loan and the cost per borrower.

Looking at cost per borrower per institution, the sample presents a high variance ranging from US\$ 712 for MFI C in West Africa to US\$ 7 for MFI B in East Africa.

Graph 18 shows the relationship between the two efficiency indicators, distinguishing the MFIs according to their average loan size. The joint analysis of the two ratios shows a certain negative relationship between operating expense ratio and cost per borrower.

GRAPH 18
COST PER BORROWER AND OPERATING EXPENSE RATIO, 2008 (SAMPLE OF 44 MFIS)

○ <250 - AVERAGE LOAN
● >250 - AVERAGE LOAN



In general, as the red dots indicate, MFIs with a higher average outstanding loans (MFIs >250) tend to have a higher cost per borrower and less cost on the active portfolio. There are of course a few exceptions such as CETZAM Zambia and MFI C West Africa, who registered high values of both indicators and AI Amana Morocco and Kokari Niger, who both had very good efficiency levels, in terms of both indicators.

In the case of the MFIs <250 (blue dots), whilst all of these MFIs are characterised by a low cost per borrower of less than US\$ 100, some also manage to be very efficient in terms of operating expenses (MFI B-East Africa, Wasasa, Taanadi, DBACD, SEAP and MFI E – West Africa have a ratio of less than 20% in 2008).

The comparison among the different institutional types shows that NBFIs and cooperatives have registered the lowest levels of operating expense ratio over the years. In particular, for cooperatives, this can be attributed to the way they operate: they normally have lower costs as they often use voluntary staff. Moreover their average loan size has shown to be higher than the other groups, thus confirming once again the positive relation between efficiency and average loan size. NGOs, although registering higher levels of operating expense ratio at the beginning of the period analysed, have shown a significant increase in efficiency over the years. The figures for banks include only one institution and are therefore not very significant.

An analysis of the regional performance shows that

4. EFFICIENCY AND PRODUCTIVITY

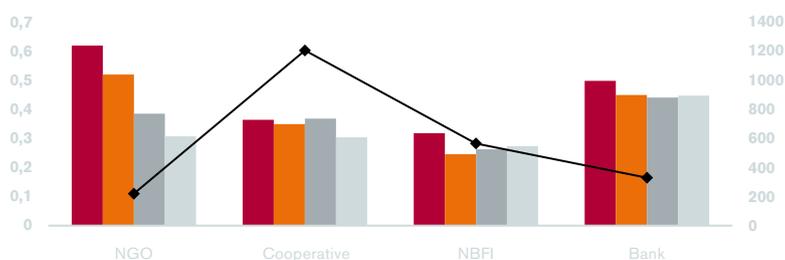
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GRAPH 19
COST PER BORROWER
AND AVERAGE LOAN SIZE

● 2005
● 2006
● 2007
● 2008

◆ <250 - AVERAGE LOAN



MENA and Southern African MFIs are respectively the most and the least efficient in terms of both indicators. However, both subsamples are very limited and are thus not significant. West Africa registers higher values in terms of operating

expense ratio compared with East Africa, although there is a noticeable decrease over the period analysed. However, on the flip side, East African MFIs present higher levels of cost per borrower.

Operating expense ratio (sample size=28 MFIs)	West Africa (n=18)	East Africa (n=14)	Central Africa (n=3)	MENA (n=2)	Southern Africa (n=3)
2005	50%	33%	36%	15%	154%
2006	41%	29%	36%	12%	133%
2007	35%	29%	55%	10%	77%
2008	29%	26%	62%	10%	65%

Cost per borrower (sample size=28 MFIs)	West Africa (n=18)	East Africa (n=14)	Central Africa (n=3)	MENA (n=2)	Southern Africa (n=3)
2005	59	69	171	33	144
2006	54	91	178	34	131
2007	64	120	274	40	147
2008	67	126	82	39	225

EFFICIENCY AND PRODUCTIVITY 4

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PRODUCTIVITY

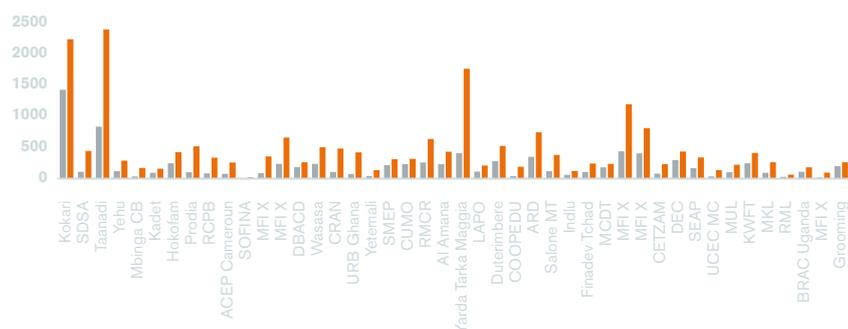
Overall, the productivity indicators show an increasing trend over the period of analysis, as shown on the tables below. Moreover, the MFIs sampled performed significantly better compared to the average MBB Africa with average staff productivity at 240 while loan officer productivity was at 558 compared to the 2008 MBB figures of 110 and 275 respectively.

Regionally speaking, West Africa had the highest level of productivity for both indicators. This can be attributed to the higher numbers of cooperatives

and NGOs in West Africa, which mainly use both group and individual lending methodologies, compared to other regions. In particular, as shown in the graph below, the high productivity values are mainly influenced by the performance of 3 MFIs in Niger, namely Taanadi, Kokari and Yorda Tarka Maggia. Central Africa remained relatively stable with the lowest levels of efficiency while East Africa has shown a declining trend from 384 to 349. Productivity shows an increasing trend in West and Southern Africa as well as in the MENA region. Compared to the regional MBB, the sample MEN A countries present a higher level of productivity.

Staff Productivity (sample size=32 MFIs)	West Africa	East Africa	Central Africa	MENA	Southern Africa	All
2005	188	170	50	191	102	166
2006	230	169	55	197	125	211
2007	252	149	59	190	106	222
2008	284	147	57	210	124	240

Loan Officer Productivity (sample size=32 MFIs)	West Africa	East Africa	Central Africa	MENA	Southern Africa	All
2005	512	384	148	247	185	406
2006	663	464	165	297	226	512
2007	722	344	138	306	196	504
2008	818	349	139	349	225	558



GRAPH 20
PRODUCTIVITY, 2008
(SAMPLE OF 44 MFIS)

● STAFF PRODUCTIVITY
● LOAN OFFICER PRODUCTIVITY

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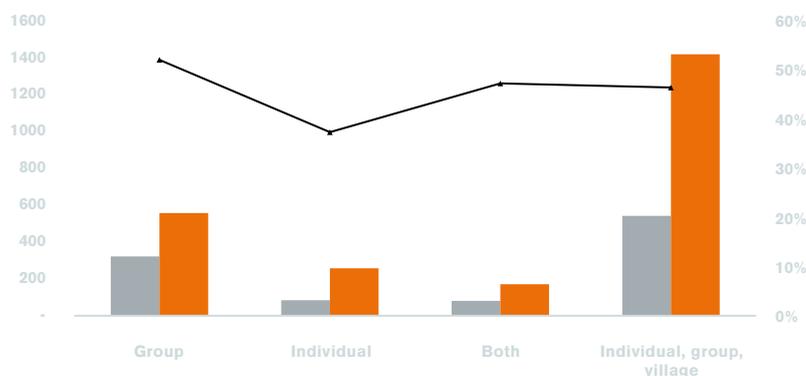


If productivity is compared against institutional structure, there are noticeable differences based on average loan size, lending methodology and legal form. Taking into consideration 2008 related figures²⁹, staff productivity ranges from 1,430 to 9 while loan officer productivity varies from 2,404 to 19. Taanadi, which is medium in size, has the highest loan officer productivity and second

the sample). Group lending methodology appears to be more productive in terms of borrowers than the individual methodology, which can be partly due to economies of transactions as loan officers are able to serve more clients when in group form. Differences between the staff and loan officer productivity are reflected by the staff allocation ratio.

GRAPH 21
PRODUCTIVITY, PER CREDIT METHODOLOGY, 2008
(SAMPLE OF 44 MFIS)

○ STAFF PRODUCTIVITY
○ LOAN OFFICER PRODUCTIVITY
★ STAFF ALLOCATION RATIO



highest staff productivity. This is partly explained by its use of all three lending methodologies; individual, group and village, as well as its cooperative legal status. Sofina, which has the lowest staff and loan officer productivity ratio, is an NBFi that only offers individual lending and has an average outstanding loan amount of US\$ 648 compared to Taanadi's US\$ 159.

In terms of credit methodology, loan officer productivity appears to be higher for MFIs that use individual, group and village lending methodology, however, this data only relates to two MFIs (including Taanadi, whose productivity as previously mentioned is the highest of

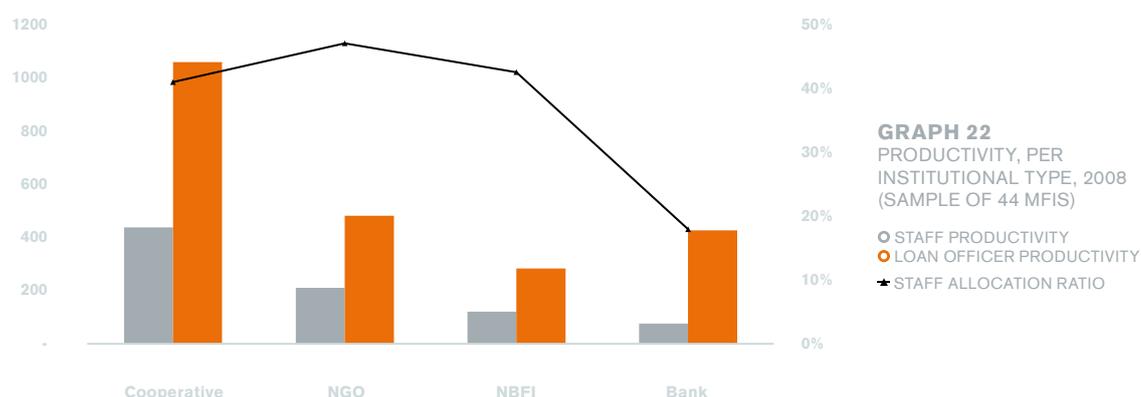
Among the institutions sampled, cooperatives record the highest productivity number followed by NGOs. The figures for banks are based on one institution and are thus not very significant.

In terms of average loan size, MFIs whose average outstanding loan is lower than US\$ 250 are more productive in terms of number of borrowers per staff and per loan officer than those with a higher average loan size.

²⁹ It must be noted that when the productivity analysis refers only to the year 2008, the sample size increases to 44 MFIs due to the greater availability of data

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GRAPH 22
PRODUCTIVITY, PER
INSTITUTIONAL TYPE, 2008
(SAMPLE OF 44 MFIS)

○ STAFF PRODUCTIVITY
○ LOAN OFFICER PRODUCTIVITY
★ STAFF ALLOCATION RATIO

Loan Officer Productivity (sample size=32 MFIs)	Average loan >250	Average loan <250	All
2005	185	149	166
2006	212	210	211
2007	187	252	222
2008	202	273	240

Staff Productivity (sample size=32 MFIs)	Average loan >250	Average loan <250	All
2005	481	339	406
2006	576	455	512
2007	490	516	504
2008	500	610	558

CONCLUSION

In conclusion, the MFIs sampled exhibit a positive trend both in terms of efficiency and productivity and even outperform MBB Africa's sample in terms of productivity. This is more so pronounced in small sized institutions which have more room to explore the benefits of economies of scale. It was also noted that the indicators were affected by the type of the organisation with cooperatives being the most efficient and productive (in terms of numbers).

5. CONCLUSION

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CONCLUSION

This third edition of the transversal analysis of the performance of African MFIs is based on a larger sample of MFIs, 47 instead of 36, that are active in a larger range of countries, 21 instead of 17. However, it must be mentioned that for this edition the MENA region was severely underrepresented as only 2 of the sampled MFIs came from this area as opposed to 7 in the 2008 study.

In general, the trends that were identified in the 2008 study for the period 2003 – 2005 have been confirmed over the subsequent 4 year period, 2005 – 2008. These include an improvement of the PAR over 30 days, an improvement in loan loss reserves and a lowering of operational expenses, particularly for MFIs with an outstanding average

loan size of less than US\$ 250. There has also been an increase in the outstanding average loan size which is mainly due to a wider use of individual lending methodologies, as well as an increased use of commercial sources of funding and greater savings mobilisation.

It will be interesting to see whether the increased maturity and professionalism experienced by most of the sampled MFIs will continue over the years 2009 and 2010. Despite an optimistic outlook, the repercussions of the financial crisis will more than likely affect the intermediary financial sector in some form or other and only time will tell what those effects will be.

ANNEX.6

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**SAMPLE OF MFIs**

MFI NAME	COUNTRY	INSTITUTION TYPE	OUTSTANDING PORTFOLIO USD 2008	ACTIVE BORROWERS
ACEP Cameroun	Cameroon	NBFI	16 530 297	7 215
Al Amana	Morocco	NGO	338 963 824	483 416
ARD	Sierra Leone	NGO	1 196 316	12 666
BRAC Uganda	Uganda	NGO	7 732 693	62 609
CBDIBA/RENACA	Benin	NGO	4 750 249	11 229
CETZAM	Zambia	NBFI	2 127 247	4 905
COOPEDU	Rwanda	Cooperative	2 708 387	1 709
CRAN	Ghana	NGO	1 562 125	6 303
CUMO	Malawi	NGO	1 274 671	28 997
DBACD	Egypt	NGO	20 117 985	93 533
DEC	Nigeria	NGO	5 565 329	69 237
Duterimbere	Rwanda	NBFI	2 099 940	12 680
Finadev Tchad	Chad	NBFI	2 257 917	4 132
Grooming	Nigeria	NGO	3 358 234	31 367
Hokofam	Uganda	NBFI	2 385 247	15 772
Indlu	South Africa	NBFI	2 965 464	2 074
Kadet	Kenya	NBFI	5 089 166	15 619
Kafo Jiginew	Mali	Cooperative	33 777 621	78 303
Kokari	Niger	Cooperative	3 743 844	31 463
KWFT	Kenya	NGO	90 539 261	226 664
LAPO	Nigeria	NGO	27 794 108	187 361
Mbinga Community Bank	Tanzania	NBFI	934 559	864
MCDT	Uganda	Cooperative	337 759	3 797
MFI A	East Africa	NGO	1 535 897	6 409
MFI B	East Africa	NBFI	70 841 460	419 888
MFI C	West Africa	NBFI	2 283 475	2 187
MFI D	West Africa	NGO	1 726 031	27 583
MFI E	West Africa	NGO	1 066 022	12 197
MKL	Kenya	Private	1 553 708	3 690
MUL	Uganda	Commercial	1 382 131	1 121
Prodia	Burkina Faso	NGO	1 872 930	1 565

6. ANNEX

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SAMPLE OF MFIs continued...

MFI NAME	COUNTRY	INSTITUTION TYPE	OUTSTANDING PORTFOLIO USD 2008	ACTIVE BORROWERS
RCPB	Burkina Faso	Cooperative	108 955 730	70 534
RMCR	Mali	NGO	2 433 733	18 463
RML	Rwanda	Private	1 566 405	1 529
Salone Microfinance Trust	Sierra Leone	NGO	757 053	4 951
SDSA	Niger	NGO	471 363	1 335
SEAP	Nigeria	NGO	6 211 694	45 721
SMEP	Kenya	NGO	11 283 294	36 649
SOFINA	Cameroon	NBFI	696 117	1 074
Taanadi	Niger	Cooperative	3 038 698	19 233
UCEC MC	Chad	Cooperative	1 579 330	4 847
URB Ghana	Ghana	Bank	1 770 758	5 900
Wasasa	Ethiopia	NBFI	4 431 981	3 831
Yarda Tarka Maggia	Niger	Cooperative	2 228 248	n/a
Yarda Zinder	Niger	Cooperative	789 554	n/a
Yehu	Kenya	NBFI	699 995	5 782
Yetemali	Guinea	Cooperative	1 540 501	3 655



AMT MFI MEMBERS

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AMT MFI MEMBERS continued...

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ANNEX.6

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**RATING AGENCY MEMBERS**

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Planet Rating	Emmanuelle JAVOY	ejavoy@planetrating.com	France

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