Benchmarking Microfinance in Central America: Trends 2004 - 2006

August 2007

In Brief

Microfinance Institutions (MFI's) have made considerable progress in the last three years. Analyzing market trends from 2004 to 2006, the Microfinance industry in Central America (CA) has shown a steady increase in its access to commercial funding sources, increasing leverage and growth in scale and outreach, while maintaining their commitment to serve lower income sectors. Expenses continued to decrease, while operating efficiency and portfolio quality both improved. Meanwhile, an incipient transformation process of several leading NGOs into regulated institutions could increase access to funding, further promoting the industry. Nevertheless, the data also reveals important challenges such as the persisting gap (though decreasing) between the performance of Central American MFIs and that of the rest of the Latin American region in their financial structure, profitability and efficiency.

2006 was an important year in the history of microfinance in Central America. This report has a special focus on the changes in MFI financial structure occurring in Central America. The institutions in CA have reduced their equity funding relative to debt, even though they are still less leveraged and received less commercial funding than that of the rest of Latin America and the Caribbean. Separating MFIs into peer groups, a lack of access to funds can be observed for institutions of certain profiles with respect to others. In this sense, MFIs with a Broad target market (Average Loan Balance per Borrower between 20% and 150% of GNI per capita) and MFIs which attract deposits obtained greater access to commercial funding, higher profitability and greater borrower's outreach, but with less market depth than their peers. At country level, Nicaraguan MFIs achieved the highest commercial funding, even slightly higher than the indicator for the rest of Latin America and the Caribbean. By contrast, MFIs in El Salvador attracted the highest subsidized funding and were less leveraged.

This new edition of the Benchmarking Microfinance in Central America includes not only the Benchmarks for 2006 but also the market trends for the years 2004 to 2006. It also contains a comparison of the microfinance industry in CA with respect to the rest of Latin America and the Caribbean, revealing that the performance gap with other areas in the region is closing from year to year. Additionally, it analyses MFIs by peer groups of target market (measured by the Loan Balance per Borrower), level of financial intermediation and sustainability, including a comparative analysis of microfinance by country. This publication is supported by the most solid information available in the industry to explain the trends and challenges that MFIs in Central American are currently facing. Due to the fact that three different sets of information are used – MicroBanking Bulletin Benchmarks, Trends and the MIX Market – the results of the specific sets may differ, while the general trend remains the same.

Contents

- Data and Comparison Scales 2
- Growing commercial trend in Central America…………… 3
- Sustained growth continues…………....5
- Increase in Profitability and Sustainability……………………..……….....7
- Revenues remain constant while Expenses fall…………………………..…..8
- Efficiency and productivity increase……...………………………….10
- Portfolio Quality improves……..……....11
- Conclusions……………………………..13
- Comparative Benchmarks and Indicator Definitions…………………..……14

Data and Comparison Scales

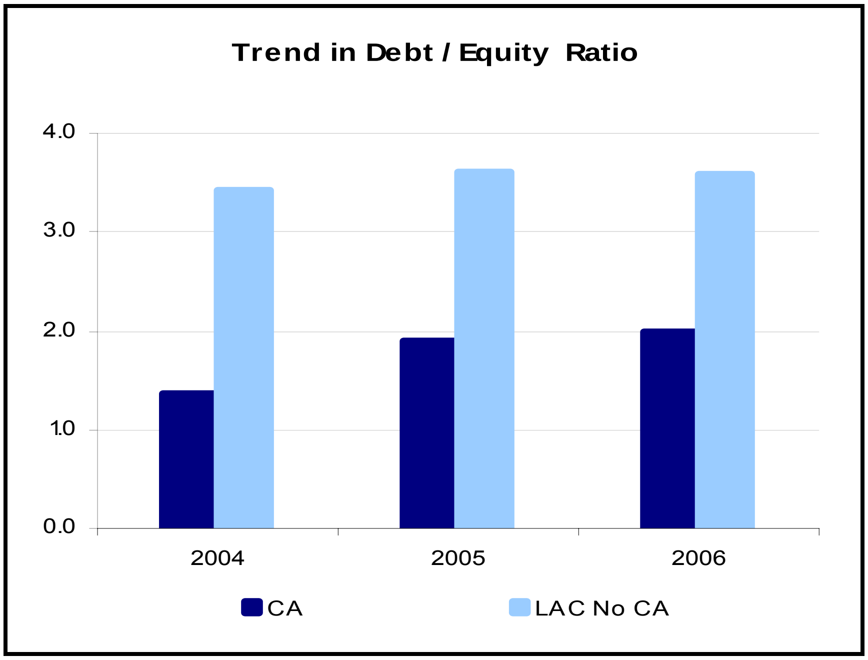
The data used in this report was recorded as of December 31st, 2006 from a total of 68 MFIs in 6 Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). All the information has been provided voluntarily by the MFIs to the Analytical Unit for Central America created at REDCAMIF (August 2005) with the technical support of the Microfinance Information eXchange (MIX). Data has been collected and analyzed to measure the performance of the microfinance industry in CA compared to the rest of Latin America and the Caribbean, which historically has been handled as a single group.

The information has been standardized and adjusted for inflation, cost-of-funds subsidies, in-kind subsidies and minimum loan loss provisioning, according to the standards of the MIX *MicroBanking Bulletin*. Peer groups are made up of MFIs that share at least one characteristic. Since the performance of MFIs can be heterogeneous within a peer group, the information always reflects the group's median to reduce the influence of extreme and atypical values.

This report analyzes the performance of CA's microfinance, as well as the performance of the different peer groups. For purpose of analysis, the MFIs have been separated in peer groups by Target Market, Financial Intermediation, Financial Self-sufficiency and by Countries.

Total MFIs	Countries		Most Transparent MFIs in CA
CA (68 MFIs)	CRI (7 MFIs)	Costa Rica	ACORDE, ADRI, CrediMujer, FIDERPAC, FOMIC, Fundación Mujer, FUNDECOCA.
	SLV (11 MFIs)	El Salvador	ACCOVI, AMC de R.L, Apoyo Integral, ASEI, ENLACE, FADEMYPE, Fundación Campo, Génesis, FUNSALDE, PADECOMSM, ProCredit – SLV.
	GTM (15 MFIs)	Guatemala	AGUDESA, ASDIR, AYNLA, CDRO, CRYSOL, FAFIDESS, FAPE, FINCA – GTM, FONDESOL, Friendship Bridge, Fundación MICROS, FUNDEA, FUNDESPE, Génesis Empresarial, RAIZ.
	HND (12 MFIs)	Honduras	Adelante, ADICH, FAMA OPDF, FINCA – HND, FINSOL, Fundación Covelo, FUNDAHMICRO, FUNED, Hermandad de Honduras, ODEF, PILARH, World Relief – HND.
	NIC (20 MFIs)	Nicaragua	ACODEP, ADIM, AFODENIC, Coop. 20 de Abril, CEPRODEL, FAMA, FDL, FINCA – NIC, FINDESA, FJ N, FODEM, FUDEMI, Fundación León 2000, FUNDENUSE, FUNDEPYME, FUNDESER, PRESTANIC, ProMujer – NIC, ProCredit – NIC, PRODESA.
	PAN (3 MFIs)	Panama	Coop. Juan XXIII, Microserfin, ProCaja.
Peer Groups	**Names and Characteristics**		**Peer Group Members**
Target Market	CA BA: Broad (41 MFIs)	Loan Balance per Borrower between 20% and 150% of GNI per capita	ACODEP, AFODENIC, AMC de R.L., Apoyo Integral, ASDIR, RAIZ, CDRO, CEPRODEL, Coop. 20 de Abril, Coop. Juan XXIII, FAFIDESS, FAMA, FDL, FINCA – HND, FINSOL, FMC, FODEM, FOMIC, FUDEMI, Fundación Campo, Fundación León 2000, FJ N , FUNDAHMICRO, FUNDEA, FUNDENUSE, FUNDEPYME, FUNDESER, FUNED, FUNSALDE, FYMA, Génesis Empresarial, Génesis, Hermandad de Honduras, ODEF, PADECOMSM, PILARH, PRESTANIC, Pro Mujer – NIC, ProCredit – SLV, PRODESA, World Relief – HND
	CA BB: Low-end (22 MFIs)	Loan Balance per Borrower less than 20% of GIP per capita	ADICH, ADIM, AGUDESA, ASEI, AYNLA, CREDIMUJER, CRYSOL, ENLACE, FADEMYPE, FAPE, FIDERPAC, FINCA – GTM, FINCA – NIC, FONDESOL, Friendship Bridge – GTM, Fundación Adelante, Fundación Micros, Fundación Mujer, FUNDECOCA, FUNDESPE, Microserfin, ProCaja
Financial Intermediation	CA High FI (6 MFIs)	Voluntary Savings / Total Assets ≥ 20%	ACCOVI, Coop. Juan XXIII, FINDESA, FINSOL, ProCredit – NIC, ProCredit – SLV.
	CA Non FI (58 MFIs)	Voluntary Savings / Total Assets = 0	ACODEP, Adelante, ACORDE, ADICH, ADIM, ADRI, AFODENIC, AGUDESA, AMC de R.L, Apoyo Integral, ASDIR, ASEI, AYNLA, CDRO, CEPRODEL, CrediMujer, CRYSOL, ENLACE, FADEMYPE, FAFIDESS, FAMA, FAPE, FDL, FIDERPAC, FINCA – GTM, FINCA – HND, FINCA – NIC, FJ N, FODEM, FOMIC, FONDESOL, Friendship Bridge, FUDEMI, Fundación Campo, Fundación Covelo, Fundación León 2000, Fundación MICROS, Fundación Mujer, FUNDAHMICRO, FUNDEA, FUNDECO, FUNDENUSE, FUNDEPYME, FUNDESER, FUNDESPE, FUNED, FUNSALDE, Génesis Empresarial, Génesiss, Hermandad de Honduras, Microserfin, PADECOMSM, PILARH, PRESTANIC, ProMujer – NIC. PRODESA, RAIZ, World Relief – HND.
Financial Self-Sufficiency	CA FSS (42 MFIs)	Financial Self-Sufficiency > 100%	The names of these institutions are held confidential
	CA Non FSS (26 MFIs)	Financial Self-Sufficiency < 100%	The names of these institutions are held confidential

Growing commercial trend in Central America



Source: MIX Benchmarks 2004-2006. All observations are medians and from MFIs reporting for three consecutive years

---

MFIs in CA have managed to attract more attention from creditors and investors during the last few years, demonstrated by a 15% increase in commercial funding for the period 2004 to 2006. This larger availability of commercial funds has allowed MFIs to increase their leverage level by 43%. The group of CA MFIs finished 2006 with over 60% of its portfolio financed at commercial rates (LAC No CA 75%) and even though it did not reach the leverage level of the Rest of Latin America and the Caribbean (LAC No CA) it continued its growth, while in LAC No CA remained stable. Among the new commercial funds investeing in CA in 2006 were responsAbility Global Microfinance Fund (Luxemburg), Global Commercial Microfinance Consortium (Germany) and Impulse Microfinance Investment Fund (Belgium).

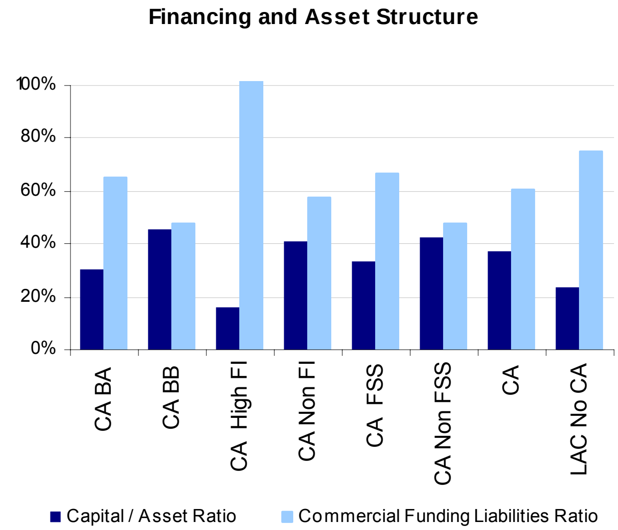
The following are some of the main investments disbursed during 2006:

Institution	Country of origin	Value in US$
Banco Centroamericano de Integración Económica (BCIE)	Central America	269.0 Million
Developing World Markets (DWM)	United States	15.8 Million
OikoCredit	Netherlands	10.5 Million
responsAbility Global Microfinance Fund	Luxemburg	8.5 Million

Source: Microfinance Capital Markets (cgap.org/mcm/), BCIE y DWM.

Financial Structure by Peer Groups

Taking advantage of the benefits of their legal status, MFIs with High Financial Intermediation in CA (High FI) closed 2006 with 55% of their portfolio financed by commercial loans and the rest with deposits from clients, allowing them to leverage their capital by 5.3 times, while MFIs without Financial Intermediation (Non FI) remained in 1.5 times debt/equity. At present, the group CA High FI is made up of a few regulated institutions and cooperatives, but an incipient transformation process of some leading NGOs into regulated institutions should increase access to funding sources help propel the industry.



Some examples of regulating MFIs are:

Country	Name of MFI	Situation
El Salvador	Apoyo Integral	In the transformation process from Incorporated Company to Financial Institution (regulated Incorporated Company)
Guatemala:	Genesis Empresarial	In the transformation process from NGO to Bank
Honduras:	Fundacion Covelo	Transformation from PDO to PFDO (2006) and in the process of transforming into Bank.
	ODEF	Transformation from PDO to PFDO (2005)
	FAMA	Transformation from PDO to PFDO (2005)
	FINCA Honduras	In the transformation process from PDO to Financial Institution (regulated Incorporated Company).
	Hermandad de Honduras	Transformation from PDO to PFDO (2005)
	PILARH	Transformation from PDO to PFDO (2006)
Nicaragua	ACODEP	In the transformation process from NGO to Financial Institution (regulated Incorporated Company)
	FAMA	Transformation from NGO to Financial Institution (regulated Incorporated Company, 2007)

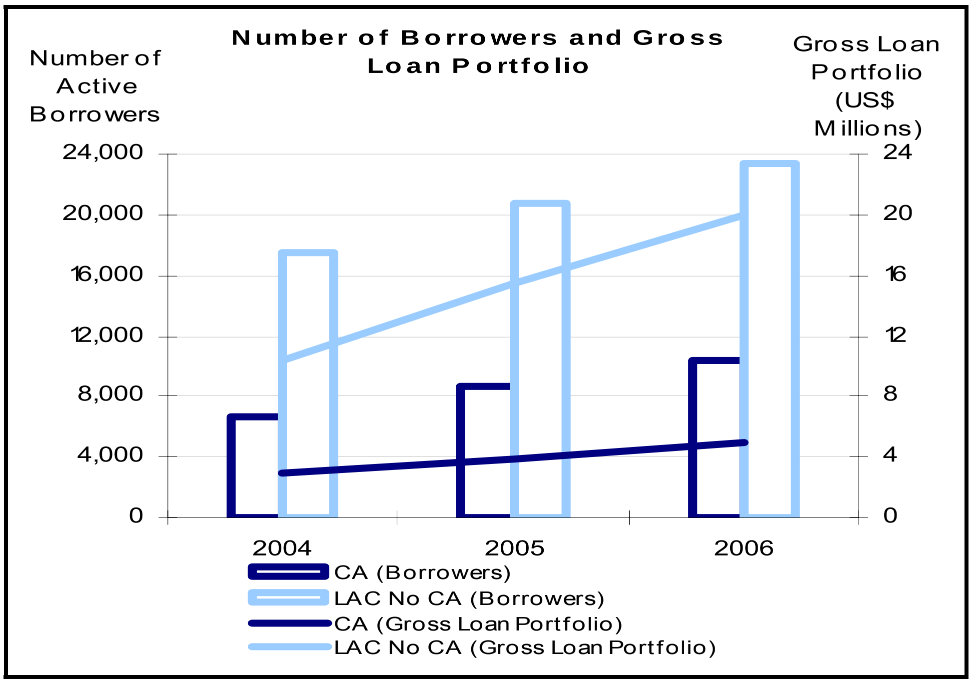
Source: MIX Market, Non adjusted data as of December 2006

Approximately a third of the market in CA is made up of MFIs with high market depth (CA BB), which manage a low Loan Balance per Borrower representing only 12.6% of the per capita national income in Central America (measured by the GNI). These MFIs are characterized by a strong social mission through the use of group methodologies. However, in 2006 this group had little access to commercial funding due in part to the fact that several of these institutions did not reach financial self-sufficiency, financing themselves with their own Equity. While MFIs with a Broad-end target market (Loan Balance per Borrower between 20% and 150% of GIP per capita) achieved more leverage as a result of a greater access to funding sources helped out by their financial performance. While non Self-sustainable MFIs (CA Non FSS) financed less than half of their Loan Portfolio with commercial obligations, this does not necessarily mean that the commercial profile of funding is an indicator of sustainability.

When comparing the countries individually, Nicaraguan MFIs proved to be the most attractive to creditors and investors, reaching 75.5% of the funding with commercial obligations, due to the results of large NGOs operating at the national level and of some regulated institutions, and the high demand of microfinance services in the country. It is worth noting how some Nicaraguan MFIs, besides being the largest, stood out in their ability to attract commercial funds, such as: FUNDESER, PRESTANIC, FODEM, CEPRODEL y FUDEMI.

By contrast, MFIs in El Salvador depended heavily on subsidized funding, with only 35.6% of commercial obligations, and were not very leveraged (0.64 debt/equity). This is a result of the market that is made up largely of small NGOs which in a large proportion are funded with their Equity (60.9%) and were restricted by the aggressive competition of a few MFIs controlling a large part of the market.

Sustained growth continues



Source: MIX Benchmarks 2004-2006. All observations are medians and from MFIs reporting for three consecutive years

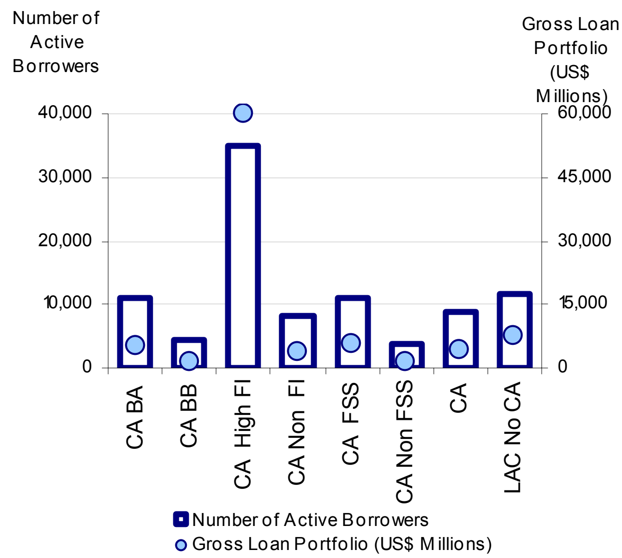
The microfinance industry in CA continued to grow in 2006. Between the years 2004 and 2006, CA MFIs increased their outreach at an annual rate of 26%, while LAC No CA grew at 16%. However, in terms of Scale, growth was faster in LAC No CA, at an annual rate of 39% compared to 29% in CA. This growth in scale in CA is partly explained by the increase in individual loans oriented to the housing sector. The Loan Balance per Borrower grew very slightly in CA (1% annual) while in LAC No CA it grew considerably (12% annual). The higher average amount is not only a sign of higher income borrowers but also of a higher borrower debt, often times due to the increasing use of credit products other than microenterprise (consumer, mortgage, etc.).

Scale and Outreach by Peer Group

The peer group CA High FI stands out notoriously in terms of scale and outreach with respect to the rest of CA MFIs, as a result of their higher leverage and the exclusive use of individual methodology. Their larger scale is a consequence of their high Average Loan Balance per Borrower, close to US$ 2,000 which is equivalent to 129% of the GNI per capita in Central America; the same indicator represented 31% of the GNI per capita for CA Non FI MFIs.

Among CA MFIs, the market depth of Low-end institutions (CA BB) stands out, indicating very low Loan Balances directed to low income sectors with a certain credit profile, which explains the smaller scale of those institutions.

Number of Borrowers and Adjusted Gross Loan Portfolio



Among the CA MFIs with higher market depth and loans less than US$ 200 are the following:

MFIs by Market Depth			
Name of MFI	**Country**	**Average Loan Balance per Borrower / GNI per capita**	**Average Loan Balance per Borrower (US$)**
PROCAJA	Panama	3.6%	167
FAPE	Guatemala	5.7%	136
ASEI	El Salvador	5.9%	145
FINCA - GTM	Guatemala	6.4%	153
Adelante	Honduras	7.7%	92
ADIM	Nicaragua	14.2%	129
FINCA - NIC	Nicaragua	18.5%	168

Source: MIX Market, non adjusted data as of December 2006

At the country level, Honduran MFIs had a moderate Average Loan Balance per Borrower (US$ 394) compared to the country's per capita income. However, in spite of the fact that more than half of their borrowers came from group methodology, the largest part of the loan portfolio is concentrated on borrowers using individual methodology. By contrast, Guatemalan MFIs directed the largest part of their loan portfolio to borrowers under group methodology resulting in deep outreach.

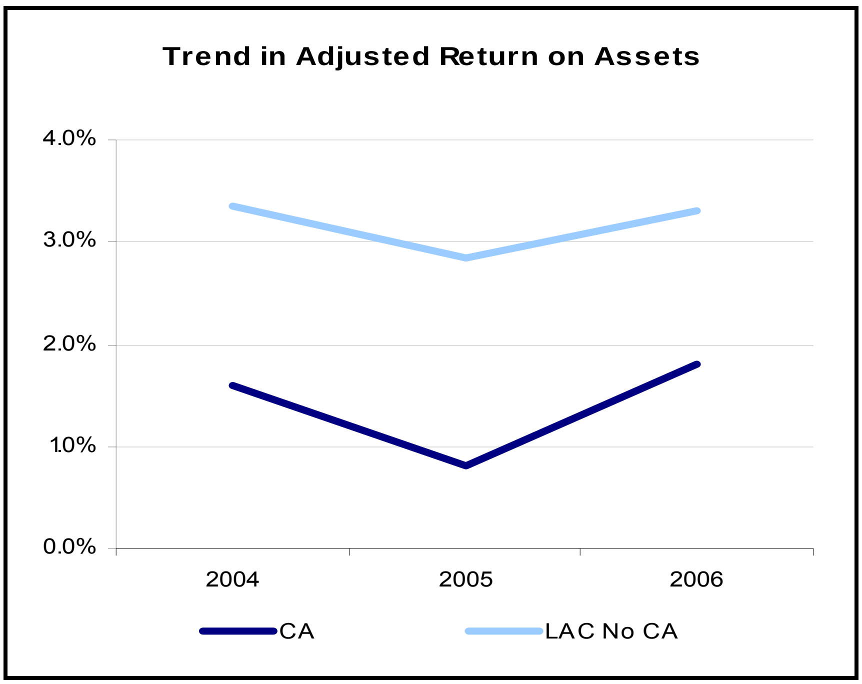
Nicaraguan MFIs have relatively high Average Loan Balance per Borrower (US$ 670) considering its low GNP with respect to the rest of the CA countries, which together with the larger outreach of its MFIs has resulted in large size MFIs. These institutions had a loan portfolio even slightly larger than the median loan portfolio of the rest of Latin America and the Caribbean (US$ 7.7 Mill vs. 7.5 Mill). Nicaraguan MFIs offered products for all market segments, not just the lower income sector. On the other hand, Costa Rican MFIs continued being smaller in scale (< US$ 1.5 Mill) and outreach (< 1,000 borrowers).

The CA MFIs with highest borrower outreach in 2006 were the following:

MFIs by Borrowers Outreach			
Name of MFI	Country	Number of Active Borrowers	Gross Loan Portfolio (US$)
ProCredit - SLV	El Salvador	76,788	136,401,000
ProCredit - NIC	Nicaragua	72,420	96,534,000
Génesis Empresarial	Guatemala	66,144	41,243,172
ACODEP	Nicaragua	65,934	27,362,999
FDL	Nicaragua	61,555	43,834,541
FINDESA	Nicaragua	49,474	88,546,847
FAMA	Nicaragua	41,747	24,062,636
FINCA - NIC	Nicaragua	24,093	4,047,736
Apoyo Integral	El Salvador	22,868	26,921,842
FJN	Nicaragua	22,259	20,188,353

Source: MIX Market, non adjusted data as of December 2006

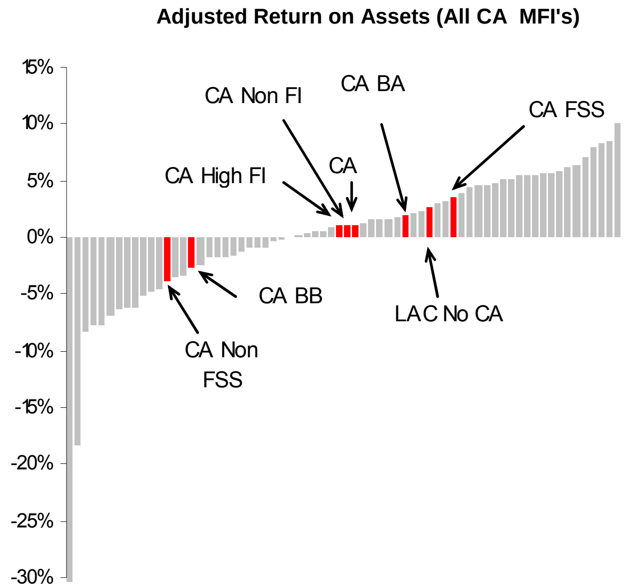
Increase in profitability and sustainability



Source: MIX Benchmarks 2004-2006. All observations are medians and from MFIs reporting for three consecutive years

Profitability, measured by Return on Assets of CA MFIs increased in 2006 after the decrease of the previous year to surpass the levels reached in 2004. This thrust was favored by the larger growth of the loan portfolio in 2006, the improved operational efficiency and the drop in delinquency, reflecting a better ability to retain revenues. In spite of this increase in 2006, CA proved to be less profitable compared to LAC No CA.

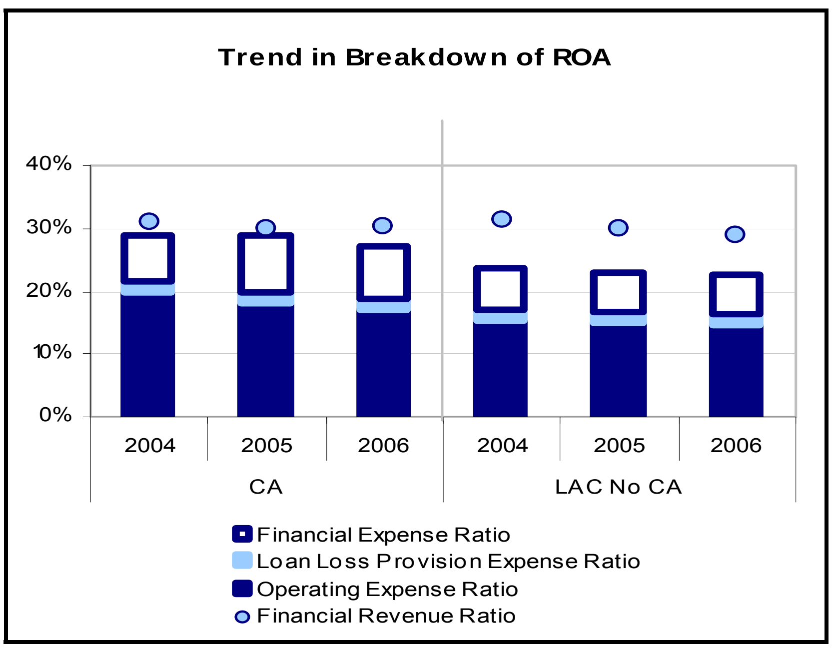
Profitability by Peer Group



Among the CA MFIs, an MFI's target market had a greater influence on profitability than deposit intermediation, with the most profitable being Broad MFIs. In general terms, the profitability of CA MFIs was reduced by Low-end MFIs and the small MFIs which were Non Self-sufficient.

At the end of 2006, Honduran MFIs stepped ahead of Nicaragua to become the most profitable in CA (ROA 3.3% vs. 2.3%) exceeding even LAC No CA (ROA 2.7%). However, Nicaraguan MFIs still closed the year with a relatively high profitability. For the end of 2007 a reduction in profitability is possible in Honduras due to the effect of a greater competition generated by the opening of Banco ProCredit and Banco Azteca (focused mainly on consumer credit), and what will be Banco Popular Covelo and Financiera FINCA Honduras. On the other hand, Guatemalan MFIs were the least profitable (ROA -1.8%), due to the mainly small, locally focussed NGO's making up the market.

Revenues remain constant while expenses fall

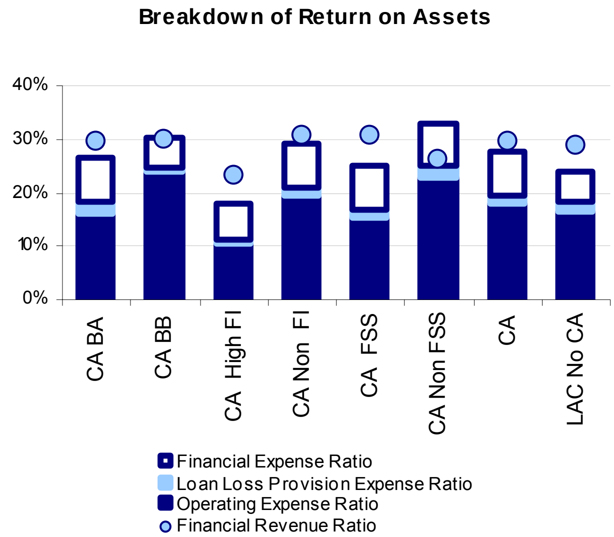


Source: MIX Benchmarks 2004-2006. All observations are medians and from MFIs reporting for three consecutive years

In 2006 MFI revenues in CA remained the same, but the institutions improved their practices to reduce operational expense over the past two years, resulting in an increase in profitability. However, CA continued having operational expenses and especially financial expenses higher than LAC No CA resulting in their lower profitability. The greater financial expense of CA MFIs is due in part to the fact that the great majority were forbidden by law to receive deposits and had to resort to more expensive funding sources.

Revenue and Expense by Peer Group

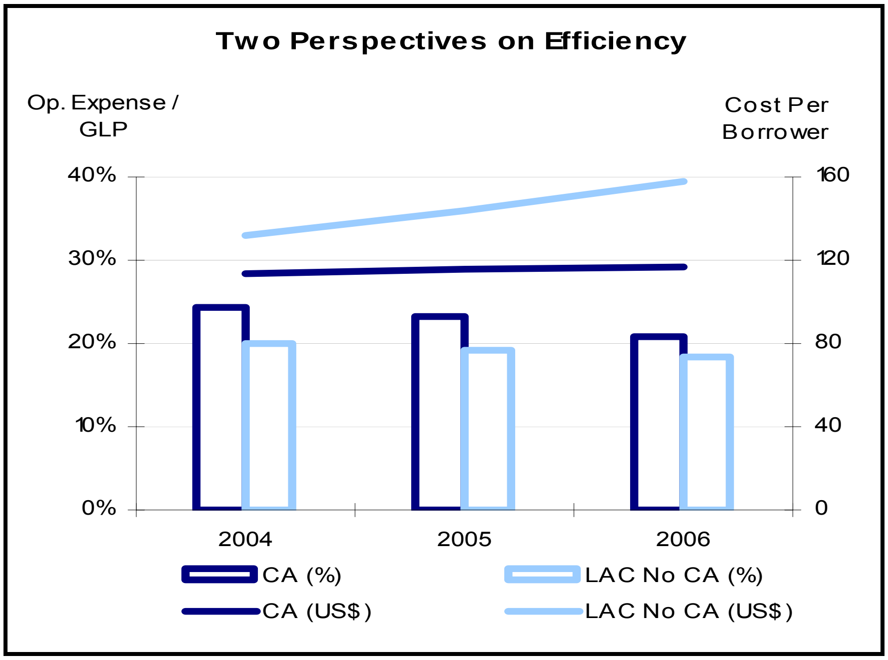
The Operational Expense Ratio is the indicator that best defined the performance of CA MFIs. BA MFIs generated revenues very similar to those of BB, but their operational expenses were significantly lower as a result of higher economies of scale, cancelling the advantage of lower cost of funds of BB MFIs. When looking at High FI and Non FI, the higher revenue of Non FI was reduced by their higher total expense, making the difference the lower operational and financial expenses of MFIs that attract deposits. The higher operational expense of Non FI is related to the high cost of handling smaller loans and operations on a smaller scale.



The FSS MFIs reached a higher Financial Revenue Ratio due to their greater asset productivity and slightly greater Nominal Yield on Gross Loan Portfolio with respect to Non FSS. However, the key factor in sustainability was defined by operational expense.

Interest rates, measured by the Nominal Yield on Gross Loan Portfolio, charged in CA countries were very similar, except in Honduras which had the highest rates. Honduras had the highest expense in CA (32.5% with respect to total assets), especially from personnel costs explained by its high turnover as well as an average salary equivalent to 6.2 times the country's GNI per capita. Even though their expenses were the highest, their revenues were even higher (34.1% with respect to total assets), resulting in the highest profitability in CA. By contrast, expenses in El Salvador were among the lowest (25.1%), but their revenues were also the lowest (22.3%). On the other hand, Costa Rica and Nicaragua faced the highest financial expenses (12.8% and 10.6% with respect to total assets), partially influenced by inflation in their economies.

Efficiency and productivity increase



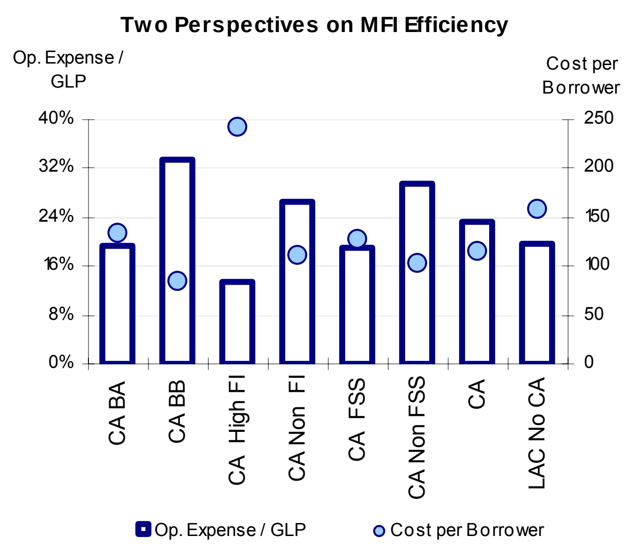
Source: MIX Benchmarks 2004-2006. All observations are medians and from MFIs reporting for three consecutive years

In the past few years CA MFIs have taken sure steps to close the gap in operational efficiency with respect to LAC No CA. This reflects that CA MFIs were more efficient due to an improvement of their technologies and credit practices.

The cost per borrower in CA experienced a slight increase due in part to growth of the average loan balance per borrower as MFIs from the rest of the region issued larger average loans. This does not necessarily mean that they have only gotten nearer to higher income users, but it is also an indicator of the borrowers' higher indebtedness due to the greater supply of credit products.

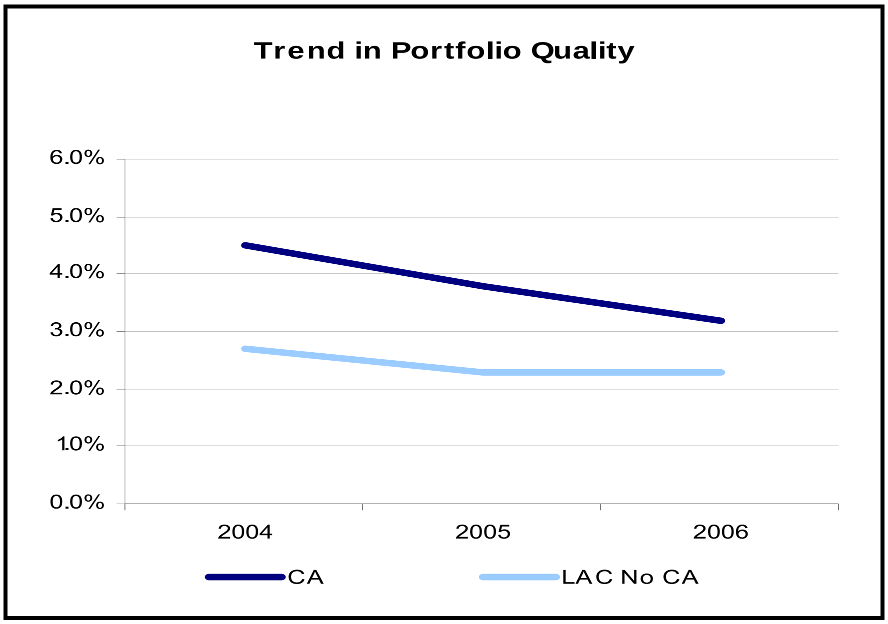
Efficiency and Productivity by Peer Group

Among the peer groups, the Cost per Borrower was lower in BB MFIs due to the distribution of their Operational Expense through the use of group methodology. The lower productivity of loan officers in BA MFIs with respect to BB MFIs was compensated by their higher operational efficiency. However, MFIs in the High FI peer group were the ones that showed the lowest proportion of Operational Expense with respect to their loan portfolio, explained by the economies of scale they achieved due to the larger size of their operations, larger average loans per borrower and the use of individual methodology.



When observing the countries' individual performance, MFIs in Costa Rica where the most efficient (10.4% of Operational Expense with respect to Gross Loan Portfolio) in CA in 2006, in spite of their smaller scale and the lower productivity of their credit personnel (145 borrowers per loan officer). This was the result of a strategy to reduce their operational expense to counteract the higher financial expenses in CA. By contrast, MFIs in Honduras exhibited the higher Operational Expense with respect to their Loan Portfolio (27.7%), considering their lower Average Loan Balance per Borrower. In terms of productivity, Guatemalan MFIs (288 borrowers per loan officer) exhibited higher levels even than LAC No CA, as a result of their high level of specialization in group lending methodologies.

Portfolio Quality improves



Source: MIX Benchmarks 2004-2006. All observations are medians and from MFIs reporting for three consecutive years

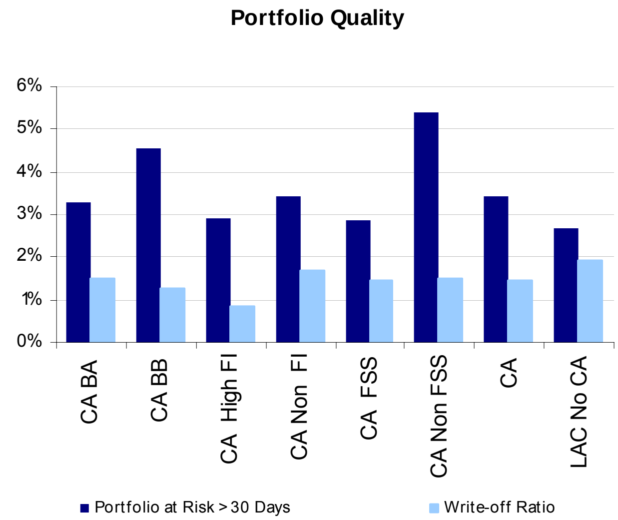
Even with the strong growth of the portfolio and borrowers' outreach, from 2004 to 2006 CA MFIs reduced delinquency considerably, closing a large part of the gap with LAC No CA, while the MFIs of LAC No CA saw almost no reduction. However, MFIs in LAC No CA had a slightly larger proportion of loan write-offs than CA, influencing their Portfolio at Risk greater than 30 days. Among the main factors which reduced the risk in CA were the expansion towards unexplored markets, the greater participation of financial institutions in Risk Centers (Credit Bureau) and improvement of the credit analysis methodology.

Portfolio Quality by Peer Group

CA MFIs closed 2006 with a Portfolio at Risk greater than 30 days of 3.4% and a Write-off Ratio of 1.5%. It must be pointed out that portfolio quality proved to be a key factor in CA to determine if MFIs are FSS or not, mainly due to the increase of the risk profile of MFIs in the face of funding sources and the effect of debt collection and recovery activities on operating costs. When comparing MFIs by target market, the Portfolio at Risk greater than 30 and 90 days of Low-end

MFIs was higher with respect to Broad-end MFIs, indicating higher arrears, which influenced portfolio quality and consequently, the lower results of Low-end MFIs.

Honduran MFIs exhibited the highest Portfolio at Risk greater than 30 days (5.0%) in CA, followed by Costa Rica (4.0%), while the rest of the countries closed 2006 with a similar, low risk. Nor was there great difference in write-offs between the countries. The higher arrears in Honduras was influenced by personnel turnover in some MFIs, which in turn was also reflected in personnel expense. With respect to Risk Coverage, only Nicaraguan MFIs exceeded 100%.



Among the CA MFIs with lowest Portfolio at Risk > 30 days were the following:

MFIs with lowest Portfolio at Risk greater than 30 days			
Name of MFI	**Country**	**Portfolio at Risk > 30 days**	**Gross Loan Portfolio (US$)**
CRYSOL	Guatemala	0.14%	4,501,549
ProMujer - NIC	Nicaragua	0.18%	3,275,757
FOMIC	Costa Rica	0.79%	983,311
Cooperativa 20 de Abril	Nicaragua	0.84%	5,601,935
ENLACE	El Salvador	0.91%	4,043,060
FUNDEA	Guatemala	1.15%	8,348,688
FDL	Nicaragua	1.36%	43,834,541
FINCA - GTM	Guatemala	1.88%	3,022,911
ProCredit - NIC	Nicaragua	1.89%	96,534,000
FINDESA	Nicaragua	2.00%	88,546,847

Source: MIX Market, non adjusted data as of December 2006

Conclusion

The results of Central American MFIs for 2006 are encouraging, and during the last few years they have made considerable progress, approaching more and more the performance levels of the rest of Latin America and the Caribbean. The industry presents an ever more attractive profile for creditors and investors as a result of the improving performance of MFIs and as a result was able to attract more funds. However, important differences persist between the MFIs regarding their characteristics and among the Central American countries, representing opportunities to continue improving their performance.

Looking ahead, to retain their competitiveness in an increasingly globalized industry, CA MFIs will have to face the incursion in the region of new, large operators, the competitive pressure from MFIs in the process of regulation to attract more commercial funding and the prevention of borrowers' over-indebtedness. These new competitive and market pressures should be an incentive to continue improving the performance of CA MFIs, and at the same time contribute to upgrade their investment profile, while benefiting more clients with a better customer service. To follow the industry's development, REDCAMIF and MIX will continue expanding their market coverage to will provide the most solid market analysis available in Central America.

August, 2007

Indicator Definitions and Comparative Benchmarks

INSTITUTIONAL CHARACTERISTICS	
Number of MFIs	Sample size of group
Age	Years functioning as an MFI
Total Assets	Total assets, adjusted for inflation and standardized loan portfolio provisioning and write-offs
Offices	Number, including head office
Personnel	Total number of employees
FINANCIAL STRUCTURE	
Capital / Asset Ratio	Total Equity, adjusted/ Total Assets, adjusted
Commercial Funding Liabilities Ratio	All liabilities with “market” price/ Average Gross Loan Portfolio
Debt/ Equity Ratio	Total liabilities, adjusted/ Total Equity, adjusted
Deposits to Loans	Total voluntary Savings/ Gross Loan Portfolio, adjusted
Deposits to Total Assets	Total voluntary Savings/ Total Assets, adjusted
Gross Loan Portfolio/ Total Assets	Gross Loan Portfolio, adjusted/ Total Assets, adjusted
SCALE INDICATORS	
Number of Active Borrowers	Number of Borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/ Number of Active Borrowers adjusted
Number of outstanding loans	Number of outstanding loans, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Gross Loan Portfolio adjusted/ Number of active Borrowers adjusted
Average Loan Balance per Borrower/ GNP per Capita	Average Loan Balance per Borrower, adjusted/ GNP per Capita
Number of Voluntary Savings	Number of Voluntary Savings and fixed term deposits
Average Savings Balance per Saver	Voluntary Savings/ Number of Voluntary Savers
MACROECONOMIC INDICATORS	
GNP per capita	US$
GIP Growth Rate	Annual Average
Deposit Rate	%
Inflation Rate	%
Financial Penetration	M3/ GIP
PROFITABILITY AND SUSTAINABILITY	
Return on Assets	Net Operating Income, adjusted and net of taxes/ Average Total Assets adjusted
Return on Equity	Net Operating Income, adjusted and net of taxes/ Average Total Equity adjusted
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)
Financial Self-Sufficiency	Financial Revenue, adjusted/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted
REVENUE	
Financial Revenue Ratio	Financial Revenue, adjusted/ Average Total Assets adjusted
Profit Margin	Net Operating Income, adjusted/ Financial Revenue, adjusted
Yield on Gross Portfolio (nominal)	Financial Revenue from Loan Portfolio/ Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Yield on Gross Portfolio (nominal) – Inflation Rate)/ (1+ Inflation rate)
EXPENSE	
Total Expense Ratio	(Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted/ Average Total Assets
Financial Expense ratio	Financial Expense, adjusted/ Average Total Assets
Loan Loss Provision Expense ratio	Net Loan Loss Provision Expense, adjusted/ Average Total Assets
Operating Ratio	Operating Expense, adjusted/ Average Total Assets
Personnel Expense Ratio	Personnel Expense, adjusted/ Average Total Assets
Administrative Expense Ratio	Administrative Expense, adjusted/ Average Total Assets
Adjustments Expense Ratio	Net Operating Income - Net Operating Income not adjusted / Average Total Assets adjusted
EFFICIENCY	
Operating Expense/ Loan Portfolio	Operating Expense, adjusted/ Average Gross Loan Portfolio adjusted
Cost per Borrower	Operating Expense, adjusted/ Average Number of Active Borrowers adjusted
Personnel Expense/ Loan Portfolio	Personnel Expense, adjusted/ Average Gross Loan Portfolio adjusted
Average Salary/ GNP per Capita	Average Personnel Expense, adjusted/ GNP per Capita
PRODUCTIVITY	
Borrowers per Staff Members	Number of Active Borrowers, adjusted / Number of Personnel
Borrowers per Loan Officer	Number of Active Borrowers / Number of Loan Officers
Personnel Distribution Ratio	Number of Loan Officiers/ Number of Personnell
PORTFOLIO QUALITY	
Portfolio at Risk> 30 Days	Outstanding balance, loans overdue> 30 days / Gross Loan Portfolio, adjusted
Portfolio at Risk > 90 Days	Outstanding balance, loans overdue> 90 days / Gross Loan Portfolio, adjusted
Write-offs Ratio	Value write-offs adjusted / Average Gross Loan Portfolio adjusted
Risk Coverage	Loan loss reserve, adjusted/ PAR > 30 days
Liquid Assets No Prod./ Total Assets	Cash and Bank adjusted / Total Assets adjusted

Comparative Benchmarks Central America – 2006

INSTITUTIONAL CHARACTERÍSTICS	CA BA	CA BB	CA High FI	CA Non FI	CA FSS	CA Non FSS	CA	LAC No CA
Number of MFIs	41	22	6	58	42	26	68	160
Age	13	12	12	13	13	13	13	12
Total Assets (in thousands US$)	7,479,836	1,595,019	76,741,396	4,501,770	8,045,205	1,771,263	5,227,554	9,231,384
Offices	10	4	18	6	9	4	7	10
Personnel	95	31	359	60	94	31	72	99
FINANCIAL STRUCTURE								
Capital / Asset Ratio	30.5%	45.6%	16.2%	41.1%	33.5%	42.6%	37.5%	23.8%
Commercial Funding Liabilities Ratio	65.0%	48.1%	102.8%	57.9%	66.3%	48.1%	60.4%	74.7%
Debt/ Equity Ratio	2.3	1.2	5.3	1.4	2.0	1.4	1.7	3.1
Deposits to Loans	0.0%	0.0%	44.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	31.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Loan Portfolio/ Total Assets	82.8%	75.3%	78.3%	81.1%	82.0%	77.2%	80.4%	80.7%
SCALE INDICATORS								
Number of Active Borrowers	10,957	4,415	34,948	8,057	11,168	3,712	8,744	11,630
Percent of Women Borrowers	63.0%	86.8%	55.1%	72.0%	62.6%	74.4%	69.8%	62.0%
Number of outstanding loans	10,957	4,415	34,948	8,057	11,328	3,712	8,744	12,357
Gross Loan Portfolio (in thousands US$)	5,346,743	1,412,680	60,110,977	3,813,555	5,802,266	1,439,174	4,140,088	7,519,352
Average Loan Balance per Borrower	684	297	1,939	559	678	492	586	784
Average Loan Balance per Borrower/ GNP per Capita	56.0%	12.8%	128.8%	31.3%	58.2%	17.5%	38.8%	28.2%
Number of Voluntary Savings	-	-	34,846	-	-	-	-	17,735
Average Savings Balance per Saver	389	249	616	n/d	522	249	513	802
MACROECONÓMIC INDICATORS								
GNP per capita	1,190	2,400	1,820	2,400	1,190	2,400	2,400	2,610
GDP Growth Rate	4.0%	3.3%	4.0%	4.0%	4.0%	3.7%	4.0%	3.9%
Deposit Rate	4.9%	4.5%	4.7%	4.9%	4.9%	4.5%	4.9%	4.0%
Inflation Rate	6.5%	6.5%	4.8%	6.5%	6.5%	6.5%	6.5%	3.6%
Financial Penetration	40.6%	38.4%	40.6%	40.6%	40.6%	39.5%	40.6%	29.2%
GENERAL FINANCIAL PERFORMANCE								
Return on Assets	1.9%	-2.6%	1.0%	1.1%	3.5%	-3.8%	1.1%	2.7%
Return on Equity	7.6%	-4.7%	5.6%	2.0%	8.6%	-8.4%	3.0%	10.5%
Operational Self-Sufficiency	120.9%	106.9%	116.2%	117.8%	121.4%	103.0%	117.8%	115.9%
Financial Self-Sufficiency	109.5%	93.8%	112.8%	104.8%	115.4%	86.9%	105.2%	111.6%
REVENUE								
Financial Revenue Ratio	29.7%	30.0%	23.1%	30.5%	30.7%	26.0%	29.4%	28.9%
Profit Margin	8.6%	-6.6%	11.3%	4.5%	13.4%	-15.2%	5.0%	10.4%
Yield on Gross Portfolio (nominal)	32.0%	39.6%	23.7%	33.7%	33.6%	32.2%	32.7%	32.5%
Yield on Gross Portfolio (real)	23.0%	33.6%	16.8%	25.0%	24.6%	24.1%	24.2%	27.6%
EXPENSE								
Total Expense Ratio	26.6%	34.9%	20.3%	29.0%	26.5%	31.7%	27.2%	25.3%
Financial Expense ratio	8.3%	5.3%	6.5%	8.2%	8.2%	7.8%	8.2%	5.8%
Loan Loss Provision Expense ratio	2.0%	1.0%	1.1%	1.6%	1.4%	2.5%	1.5%	1.8%
Operating Ratio	16.2%	23.9%	10.4%	19.4%	15.4%	22.7%	17.9%	16.4%
Personnel Expense Ratio	9.3%	13.9%	4.9%	10.4%	9.1%	12.7%	9.8%	8.9%
Administrative Expense Ratio	6.7%	11.1%	5.5%	8.8%	6.7%	10.2%	8.3%	7.7%
Adjustments Expense Ratio	2.2%	4.4%	0.7%	2.8%	1.8%	4.6%	2.6%	0.5%
EFFICIENCY								
Operating Expense/ Loan Portfolio	19.5%	33.6%	13.5%	26.6%	19.0%	29.6%	23.4%	19.8%
Cost per Borrower	134.1	84.9	241.4	110.6	127.4	102.2	114.3	157.6
Personnel Expense/ Loan Portfolio	11.6%	19.0%	6.3%	14.1%	11.2%	16.7%	12.7%	10.4%
Average Salary/ GNP per Capita	5.8	2.9	5.2	4.3	5.3	3.7	4.4	3.8
PRODUCTIVITY								
Borrowers per Staff Members	111	131	94	113	113	105	111	128
Borrowers per Loan Officer	218	268	143	232	226	224	224	251.
Personnel Distribution Ratio	51.9%	60.5%	60.7%	54.1%	55.1%	51.7%	54.2%	52.2%
PORTFOLIO QUALITY								
Portfolio at Risk> 30 Days	3.3%	4.6%	2.9%	3.4%	2.9%	5.4%	3.4%	2.7%
Portfolio at Risk > 90 Days	1.2%	2.2%	1.0%	1.5%	1.1%	2.8%	1.4%	1.6%
Write-offs Ratio	1.5%	1.3%	0.9%	1.7%	1.5%	1.5%	1.5%	1.9%
Risk Coverage	91.3%	94.0%	96.2%	88.8%	102.4%	86.0%	91.9%	131.0%
Liquid Assets No Prod./ Total Assets	6.5%	8.1%	3.6%	6.8%	4.8%	9.2%	6.6%	7.2%

Comparative Benchmarks by Country – 2006

INSTITUTIONAL CHARACTERÍSTICS	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	CA	LAC No CA
Number of MFIs	7	11	15	12	20	68	160
Age	18	11	10	14	13	13	12
Total Assets (in thousands US$)	1,771,321	3,350,144	3,904,022	5,742,741	9,533,668	5,227,554	9,231,384
Offices	1	4	5	8	10	7	10
Personnel	9	57	35	99	101	72	99
FINANCIAL STRUCTURE							
Capital / Asset Ratio	42.7%	60.9%	47.7%	37.5%	23.6%	37.5%	23.8%
Commercial Funding Liabilities Ratio	59.4%	35.6%	51.4%	62.2%	75.5%	60.4%	74.7%
Debt/ Equity Ratio	1.3	0.6	1.1	1.7	3.3	1.7	3.1
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Loan Portfolio/ Total Assets	82.8%	78.2%	84.9%	80.5%	81.7%	80.4%	80.7%
SCALE INDICATORS							
Number of Active Borrowers	896	5,973	8,268	12,294	13,206	8,744	11,630
Percent of Women Borrowers	39.2%	70.9%	79.9%	76.0%	58.9%	69.8%	62.0%
Number of outstanding loans	1,375	6,220	8,268	12,294	13,637	8,744	12,357
Gross Loan Portfolio (in thousands US$)	1,404,578	2,652,008	2,914,270	4,773,435	7,727,207	4,140,088	7,519,352
Average Loan Balance per Borrower	766	935	413	394	670	586	784
Average Loan Balance per Borrower/ GNP per Capita	16.7%	38.2%	17.2%	33.2%	73.7%	38.8%	28.2%
Number of Voluntary Savings	-	-	-	-	-	-	17,735
Average Savings Balance per Saver	n/d	777	n/d	256	504	513	802
MACROECONÓMIC INDICATORS							
GNP per capita	4,590	2,450	2,400	1,190	910	2,400	2,610
GDP Growth Rate	4.1%	2.8%	3.3%	4.6%	4.0%	4.0%	3.9%
Deposit Rate	9.8%	4.5%	4.5%	9.3%	4.9%	4.9%	4.0%
Inflation Rate	11.5%	4.0%	6.5%	5.6%	10.2%	6.5%	3.6%
Financial Penetration	50.6%	38.4%	33.1%	64.4%	40.6%	40.6%	29.2%
GENERAL FINANCIAL PERFORMANCE							
Return on Assets	-0.3%	1.1%	-1.8%	3.3%	2.3%	1.1%	2.7%
Return on Equity	-0.6%	3.4%	-5.1%	9.7%	7.1%	3.0%	10.5%
Operational Self-Sufficiency	125.0%	115.8%	105.2%	118.2%	119.4%	117.8%	115.9%
Financial Self-Sufficiency	98.8%	108.0%	93.4%	115.9%	107.3%	105.2%	111.6%
REVENUE							
Financial Revenue Ratio	28.5%	22.3%	28.6%	34.1%	33.0%	29.4%	28.9%
Profit Margin	-1.2%	7.4%	-7.0%	13.7%	6.7%	5.0%	10.4%
Yield on Gross Portfolio (nominal)	30.9%	31.6%	32.1%	42.7%	32.9%	32.7%	32.5%
Yield on Gross Portfolio (real)	17.4%	26.5%	24.1%	35.1%	20.6%	24.2%	27.6%
EXPENSE							
Total Expense Ratio	24.8%	25.1%	27.4%	32.5%	29.7%	27.2%	25.3%
Financial Expense ratio	12.8%	4.5%	5.6%	8.0%	10.6%	8.2%	5.8%
Loan Loss Provision Expense ratio	1.1%	1.3%	1.7%	2.1%	2.2%	1.5%	1.8%
Operating Ratio	9.2%	19.3%	18.1%	21.2%	14.8%	17.9%	16.4%
Personnel Expense Ratio	4.7%	9.7%	9.3%	12.7%	7.5%	9.8%	8.9%
Administrative Expense Ratio	4.8%	8.8%	8.8%	9.1%	6.8%	8.3%	7.7%
Adjustments Expense Ratio	4.7%	2.6%	3.8%	1.7%	2.6%	2.6%	0.5%
EFFICIENCY							
Operating Expense/ Loan Portfolio	10.4%	26.5%	23.0%	27.7%	18.6%	23.4%	19.8%
Cost per Borrower	186.7	186.6	101.3	101.6	101.8	114.3	157.6
Personnel Expense/ Loan Portfolio	6.0%	15.6%	11.6%	15.9%	10.3%	12.7%	10.4%
Average Salary/ GNP per Capita	2.1	3.9	3.0	6.2	8.1	4.4	3.8
PRODUCTIVITY							
Borrowers per Staff Members	89	101	133	116	117	111	128
Borrowers per Loan Officer	149	178	287	243	236	22	251
Personnel Distribution Ratio	51.4%	58.0%	51.4%	53.0%	54.2%	54.2%	52.2%
PORTFOLIO QUALITY							
Portfolio at Risk> 30 Days	4.0%	2.8%	3.3%	5.0%	3.0%	3.4%	2.7%
Portfolio at Risk > 90 Days	1.6%	1.4%	1.6%	1.3%	1.1%	1.4%	1.6%
Write-offs Ratio	1.3%	2.2%	1.7%	1.1%	1.5%	1.5%	1.9%
Risk Coverage	28.6%	77.3%	92.5%	91.3%	108.2%	91.9%	131.0%
Liquid Assets No Prod./ Total Assets	3.4%	4.4%	8.0%	7.6%	7.6%	6.6%	7.2%

The analysis in this report is based on a comparison between similar Peer Groups, classified by the following criteria: target market, financial intermediation, sustainability, country and region. The financial statements are adjusted to make comparison possible, taking into account the effect of inflation, subsidies and the differences in loan loss provisions.

Peer Group Criteria and Information Quality

The information included in the peer groups' median is not verified independently. It has been presented voluntarily by transparent MFIs. We show our level of support in the data supplied by each peer group with a quality grading.

The information of participating MFIs is classified in this report according to the level verified independently for reliability. The information graded *** is supported by a detailed financial analysis from an independent entity, for example an evaluation by CAMEL, by CGAP or by a reliable agency. The information graded ** is supported by accompanying documents such as audited financial statements, annual reports or evaluations by independent programs which provide our adjustments with a reasonable level of reliability. The information graded * is from MFIs that have limited themselves to answering our questionnaire. This grading represents levels of reliability of the information provided by the MFIs and not a rating of their financial performance.

Neither the drafting group, nor the consultant, nor the studies commission, and neither REDCAMIF nor MIX accept responsibility for the validity of the information presented in this report.

Page 2 offers a brief description of the Peer Groups, its members and the number and classification of each one of the participating institutions. More detailed information is available on the *MicroBanking Bulletin.*

Adjustments

The cost of funds in the financial statements of all the participating MFIs has been adjusted to reflect the long term effect of inflation on the MFIs equity. This adjustment is reflected in the financial statement as a net expense account which at the same time reduces the net income. It is compensated by an equity account reflecting the distribution between real net income and the effect of inflation over equity. This adjustment has been made on all MFIs financial statements with the exception of those using accounting methods adjusted for inflation which are generally accepted.

The profits of the majority of the participating institutions have been adjusted by deducting subsidies in order to reflect real profit. The adjustment of funds expense due to subsidies is the most common adjustment for the institutions participating in this round. In order to be able to compare the institutions with different levels of subsidies, as if they were not subsidized, an additional cost is added for any liability significantly lower than the commercial price. Determining the commercial price is a difficult task. Nevertheless, for comparison reasons, the most important objective is to ensure the uniform application of the selected method to all institutions. We have decided to use the interest on deposits presented by the IMF as the price of commercial rates. We have also excluded donations and revenue is calculated only on the basis of income and operating expenses. Expenses paid by another entity, such as the director's salary, free rent or any other operating expenses, are considered subsidies.

Finally, we normalized the norms for loan loss provisions and write-offs. We provided 50% for outstanding loans from 90 days to 180 days, and 100% for outstanding loans over 180 days. Outstanding loans over 365 days are total write-offs.

Analytic Unit REDCAMIF – MIX

The Analytic Unit is the result of the Joint Cooperation Agreement for MFIs Transparency in Central America between Red Centroamericana de Microfinanzas & the Microfinance Information eXchange. Its goal is to promote transparency in microfinance institutions in Central America by fulfilling the following objectives:

- To increase the availability of standardized information on MFIs performance in the region
- To promote investment in microfinance institutions in Central America.
- Benchmark the performance of institutions in the region.

Red Centroamericana de Microfinanzas (REDCAMIF)

REDCAMIF is a non-profit organization whose mission is to consolidate the microfinance industry in Central America by representing the sector, promoting the institutional strengthening of the networks and their associates and generating strategic alliances which contribute to improve the quality of life of their programs' clients.

Managua, Nicaragua. Telephone: (505) 278-8613, Fax: (505) 252-4005
E-mail: redcamif@cablenet.com.ni Web site: www.redcamif.org

Microfinance Information eXchange (MIX)

The Microfinance Information eXchange, Inc. (MIX) is the leading provider of business information for the microfinance industry. Dedicated to strengthening the microfinance sector, the MIX provides detailed performance and financial information about microfinance institutions, donors, investors, networks and other service providers related to the sector. The MIX carries its activities through two main products: the MIX Market and the MicroBanking Bulletin.

The MIX is a partnership between CGAP (Consultative Group to Assist the Poor), the Citigroup Foundation, the Deutsche Bank Americas Foundation, Open Society Institute and others.

Washington, DC, USA. Telephone: (202) 259-9094, Fax: (202) 259-9095
E-mail: info@themix.org Web site: www.themix.org

REDCAMIF thanks the following institutions for the support given to the Transparency and Benchmarking Program in Central America:

fundación ford

GLOBAL PARTNERSHIPS
In Business to Eliminate Poverty

Hivos