

## Table of Contents

<b>2</b>	● <b>In Brief</b>
2	● Overview of Benchmarking and Analysis
<b>3</b>	● <b>Analysis</b>
3	● Outreach
5	● Financial Structure
6	● Profitability and Sustainability
8	● Efficiency and Productivity
9	● Portfolio Quality
<b>10</b>	● <b>Arab Benchmarks</b>
<b>13</b>	● <b>Comparative Regional Benchmarks</b>
<b>16</b>	● <b>Conclusion</b>

## A report from the Microfinance Information eXchange

The microfinance sector in the Arab region continues to evolve and grow while remaining resolutely focused on serving a single market segment: the low end. Institutions in the region are slowly catching up with global norms of scale and outreach, but they already lead the pack in depth of outreach. The sector also continues on parallel tracks, increasingly further apart. While the sector as a whole slowly increases outreach and makes measured steps to greater profitability, a handful of large institutions continue to their lightening fast growth to maintain and build on their preponderant market share. With large efficient bases, these MFI have already lowered interest rates, passing some of their efficiency gains to clients.

How well do Arab MFIs perform when compared to their global peers? What are their strengths? What differences exist across countries? How does performance vary across institutions? What challenges lie ahead for the sector, and how well prepared are institutions to face them?

This report addresses these questions by examining the performance of the Arab microfinance sector in the global context and highlighting variations within the region.



in co-operation with



June 2006

**Microfinance Information eXchange, Inc**

1901 Pennsylvania Avenue NW  
Suite 307  
Washington, DC 20006  
USA

Tel: 1 202 659 9094

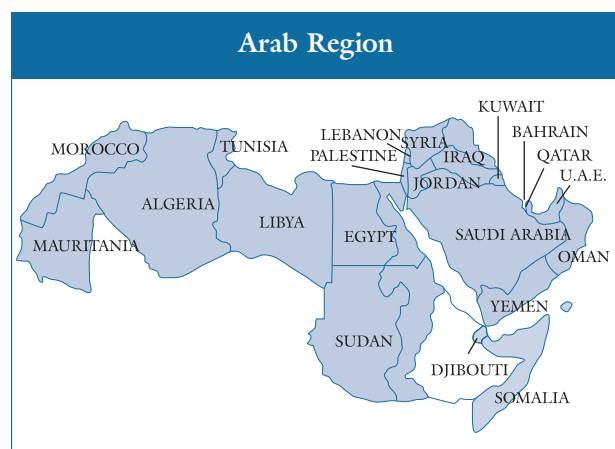
Fax: 1 202 659 9095

[www.themix.org](http://www.themix.org) | [info@themix.org](mailto:info@themix.org)

## —● In Brief

Together, the institutions in this sample serve approximately 590,000 clients and manage over USD 163M in loans, a tremendous achievement given their young age. As in 2003, these institutions mostly draw on grants and donations to fund their growing activity, though large scale

institutions are beginning to buck the trend and increasingly turn to debt for their financing. Excellent portfolio quality and cheap funds have enabled the sector to maintain a tight grip on expenses and generate profits, but microfinance operations in the region remain costly, making the sector one of the least efficient across the globe.



## Overview of Benchmarking and Analysis

The MicroBanking Bulletin (MBB), one of the principal benchmarking products of the Microfinance Information eXchange (MIX), fills a unique niche in the microfinance arena; it offers the global industry metrics and tools by which to analyze the performance of microfinance institutions (MFIs). Its publication of global industry benchmarks creates comparative performance results with which the industry and its retail institutions can contextualize MFI performance

Peer Groups	Criteria	Microfinance Institutions
All MFIs – 302		For a complete list of institutions included in the MBB, visit: <a href="http://www.mixmarket.org">www.mixmarket.org</a> and click on Global Benchmarks 2004.
Arab MFIs – 20		ABA, Al Amana, Al Karama, Al Majmoua, Al Tadamun, AMC, AMEEN, AMSSE, Azal, DBACD, Enda, FATEN, FBPMC, FONDER, JMCC, MEMCO, MFW, NMF, UNRWA, Zakoura
<b>Sustainability</b>		
Arab FSS	Financial self-sufficiency > 100%	[Names of institutions are held confidential]
Arab Non FSS	Financial self-sufficiency < 100%	[Names of institutions are held confidential]
<b>Outreach</b>		
Arab Large Outreach	Number of active borrowers > 30,000	ABA, Al Amana, DBACD, FBPMC, Zakoura
Arab Medium Outreach	Number of active borrowers > 10,000 and ≤ 30,000	Enda, FONDER, MFW, UNRWA
Arab Small Outreach	Number of active borrowers ≤ 10,000	Al Tadamun, Al Karama, Al Majmoua, AMC, AMEEN, AMSSE, Azal, FATEN, JMCC, MEMCO, NMF
<b>Scale</b>		
Arab Large Scale	Gross loan portfolio > USD 8M	ABA, Al Amana, FBPMC, Zakoura
Arab Medium Scale	Gross loan portfolio ≤ USD 8M and > USD 2M	Al Majmoua, AMC, AMEEN, DBACD, Enda, Fondep, JMCC, MEMCO, MFW, UNRWA
Arab Small Scale	Gross loan portfolio ≤ USD 2M	Al Karama, Al Tadamun, AMSSE, Azal, FATEN, NMF

within relevant peer groups. Benchmarks enable institutions to understand relative trends and drivers in their own performance in a comparative perspective. Through standard metrics and analysis processes, the MBB analyzes the performance of MFIs – their profitability, efficiency, and productivity, as well as their scale and outreach. Benchmarks support the transparency needed for improved institutional performance and greater access to diversified sources of funding for growth, such as access to capital markets.

This Arab benchmark report dissects and compares Arab MFI performance measures and their drivers in the global and regional contexts. It analyzes the varying performance of Arab institutions by outreach, scale, and financial self-sufficiency. Data for this report come from the 2004 results of 20 best practice MFIs from seven Arab countries<sup>1</sup> and do not include government-run credit distribution programs that abound in the region. The results published here represent medians of all observations. To account for diverse institutional and environmental factors, these data are adjusted for inflation, cost-of-funds subsidy, in-kind subsidy and standardized loan loss provisioning. As analyzed in this report, the

MFIs are grouped into peer groups by outreach, scale, and financial self-sufficiency, allowing for comparisons among like institutions and providing a better understanding of the impact of different factors on institutional performance.<sup>2</sup>



## —● Analysis

### Outreach

A telltale sign of its youth, outreach in the Arab microfinance sector lags behind global norms, and at just over 9,000 clients, the typical Arab institution has the second lowest outreach worldwide. Yet while Arab MFIs serve just two thirds as many borrowers as the median African institution, they reach three times as many as MFIs in Eastern Europe and Central Asia, where another fledgling industry is working to catch up with the more mature sectors. In their efforts to continuously expand outreach, Arab institutions succeeded in adding a significant number of new borrowers over the course of 2004. Nonetheless, the median MFI in the region stagnated at four percent growth, paling in comparison to African

Outreach Indicators	All MFIs	Arab MFIs	Arab FSS	Arab Non FSS	Arab Large Outreach	Arab Medium Outreach	Arab Small Outreach
Number of Active Borrowers	10,421	9,267	9,668	8,343	70,044	13,739	4,547
Percent of Women Borrowers	65.2%	84.5%	88.0%	60.6%	65.0%	94.0%	88.0%
Gross Loan Portfolio	3,951,274	3,898,124	3,898,124	4,110,655	24,982,497	3,898,124	1,908,513
Average Loan Balance per Borrower	423	279	333	208	223	308	457
Average Loan Balance per Borrower/ GNI per Capita	41.9%	17.8%	17.2%	19.0%	17.0%	14.8%	19.6%

<sup>1</sup> The seven countries and their respective MFIs are: Egypt (ABA, Al Tadamun, DBACD), Jordan (AMC, JMCC, MEMCO, MFW), Lebanon (Al Majmoua, AMEEN), Morocco (Al Amana, Al Karama, AMSSE, FBPMC, FONDER, Zakoura), Palestine (FATEN, UNRWA), Tunisia (Enda), Yemen (Azal, NMF).

<sup>2</sup> For more information on the MBB peer grouping and benchmarking processes, log on to [www.mixmbb.org](http://www.mixmbb.org).

and Asian institutions, which grew by 69 and 41 percent, respectively. While the addition of new, smaller institutions to the Arab sample brought down the overall median, higher growth among larger institutions also contributed to this result.

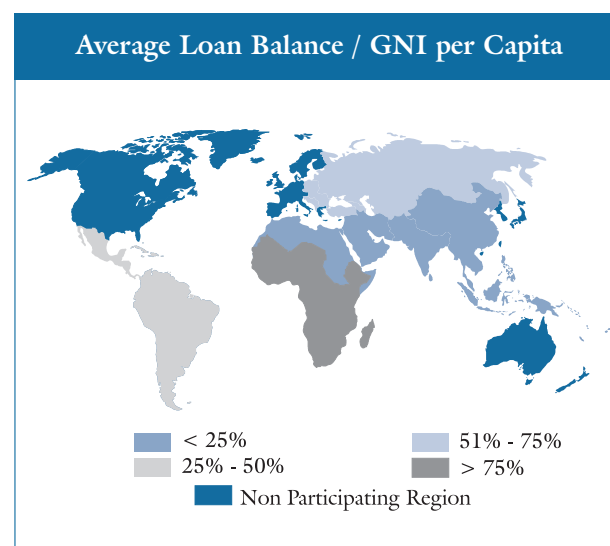
As in 2003, Moroccan institutions dominate outreach in the Arab region; the sector reaches three fourths of borrowers while representing just one third of institutions sampled. This concentration is driven by the two largest MFIs, which, boosted by group loan methodologies, cover 56 percent of the sample. Patterns of outreach across the Arab region lend further evidence to a worldwide trend, that a majority of borrowers sampled are served by larger, sustainable MFIs. While financially self-sufficient institutions constitute 60 percent of the sample, they reach a disproportionate share of borrowers – 81 percent. This result remains concentrated in two countries: Morocco and Jordan. When these two sectors are excluded from the analysis, however, only 17 percent of clients have access to financial services from sustainable MFIs.

Thanks to the soundness of their operations, sustainable institutions are well positioned to expand outreach and effectively break down barriers to financial services. But given today's low market penetration rates, even unsustainable institutions are growing at a solid rate. As profitable MFIs grew by 40 percent, unsustainable institutions were fast on their heels, extending their outreach by 35 percent. The overall client base grew by 182,000 borrowers, a 44 percent increase over the preceding year. While this growth was partly due to the inclusion of four new MFIs in the sample, an overwhelming majority of new borrowers – 95 percent – were in fact added by institutions covered in the 2003 benchmarking report. Except for Lebanon, where the two institutions grew by a modest 7.2 percent, all countries experienced growth of 30 percent or more. Despite the constraints of their operating environment, Palestinian institutions grew at a remarkable rate, extending services to one and a half times as many clients as the previous year.

Building on their sizeable portfolios, large scale institutions accounted for three fourths of new

borrowers, further accentuating the gap between this group and the rest of the sample. While large scale institutions grew from 102,000 borrowers in 2003 to 115,000 in 2004, medium institutions stagnated at 10,000 clients.

Despite their rapidly growing client base, Arab MFIs have remained true to their mission of reaching the poor. Along with Asia, the region is the most resolutely focused on serving the low end of the microfinance market. Women borrowers make up the majority of clients and account for 85 percent of total borrowers, compared to 65 percent worldwide. Moreover, average loan balance amounts to just 18 percent of local per capita income, the lowest of all regions.



Regional figures, however, mask differences across countries. In Egypt, women make up just a little under half of all clients reached, but they constitute the clear majority in Morocco. While partly due to differences in MFI missions, variations in the percentage of women borrowers also stem from the loan methodology employed. Local norms across the region limit female employment outside of the home and hence preclude women from taking full advantage of larger, individual loans meant for enterprise development. As a result, women are more likely to seek group loans while men drive demand for individual loans. As MFIs continue to diversify their services and experiment with new methodologies, differences in client composition across institutions will likely dissipate.

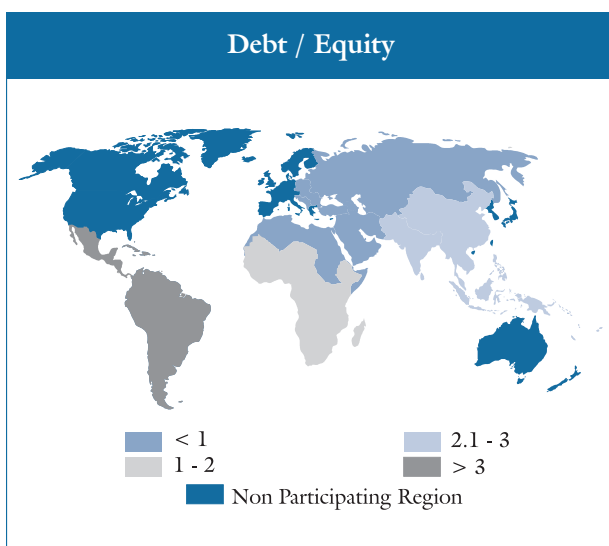
In the case of average loan balance, the figures range from \$108 in Yemen to \$ 967 in Jordan. While the region generally targets individuals at the low end of the market, some sectors also cater to small and medium enterprises, thus raising average loan balance as in Jordan, where loan balances amount to half of local income. While Lebanese MFIs carry the second largest average loan balance in the sample – \$ 944 – this only amounts to 19 percent of local income and is on par with the Yemenite figure, pointing to significant differences in living standards within the region. In fact, when local income is taken into consideration, the Moroccan market shows the greatest depth of outreach, followed closely by the Egyptian sector.

### Financial Structure

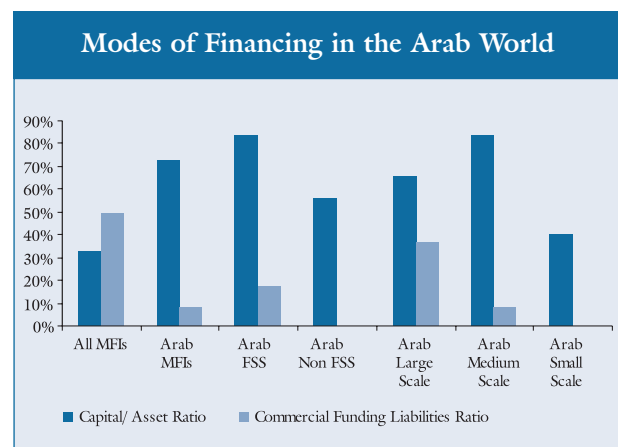
The Arab region continues to be the most capital driven, relying on equity, mostly in the form of donations, for three fourths of assets, compared to one third worldwide. This reliance on capital partly reflects the age of the industry, but Arab MFIs are opening up more slowly to borrowings than their equally young Eastern European and Central Asian counterparts. Since 2003, the share of capital dropped by just four percentage points among Arab MFIs but incurred a 13 point decline in the latter region. Broad access to donor funds has fueled sector growth across the Arab

those institutions that have been approaching banks and investors for funding over the last couple of years are only just now making a dent in their debt-equity ratios. Sector composition has also shaped the financing structure. Largely unregulated and predominantly composed of NGOs, the Arab microfinance sector fails to appeal to local investors who are generally unfamiliar with the industry and do not fully comprehend the risks associated with micro lending. In more diverse sectors where regulated institutions such as banks, credit unions, and non-bank financial institutions are actively engaged in microfinance, MFIs attract more debt.

Moreover, prevailing local regulations prevent MFIs from accessing an important source of debt – client savings. Deposits help diversify the financing structure of both African and Asian institutions, contributing over one tenth of the portfolio in the case of the former. The lack of savings on Arab institutions' balance sheets draws attention to another feature of the sector – its strikingly low level of commercialization. Low investor confidence, the inability to mobilize deposits, and the wide availability of below-market priced debt from charitable foundations, governments, and donors have kept access to commercial borrowings at just eight percent of the loan portfolio, the lowest of all regions. In Africa, Asia, and Latin America, institutions pay market rates on borrowings amounting to more than half of their portfolios. In Eastern Europe and Central Asia, where the microfinance sector is still building relations with local investors, MFIs rely on commercial funds for 15 percent of



region and enabled MFIs to expand operations without resorting to debt. Initial donor capitalization was moreover so high that even





their loan portfolio – up from nothing in the previous year.

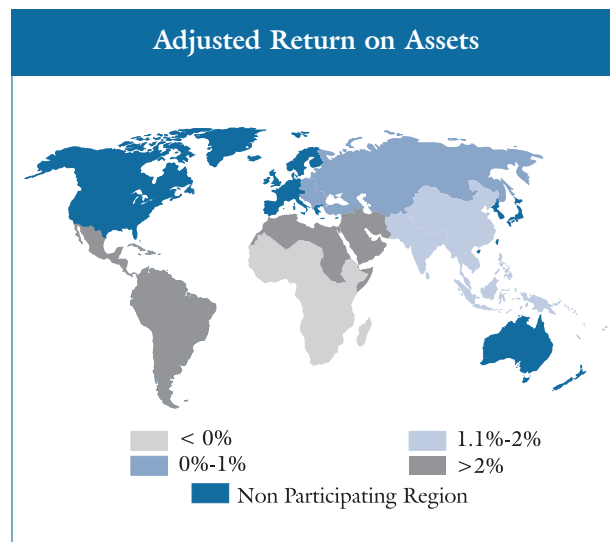
While very modest, there has been an increase in access to debt in general and to commercial funds in particular in the Arab microfinance sector. The capital-to-asset ratio dropped by four percentage points while the share of commercial borrowings rose by three percent of the portfolio. Sector commercialization is primarily driven by large scale institutions, whose portfolios represent two thirds of sector lending; these MFIs saw the share of commercial funds increase from one tenth of their portfolios to just over one third. Commercial debt was largely contracted through local banks and partly facilitated by international donor guarantees. Overdraft facilities additionally enabled institutions to access more funds at market rates. With the exception of large scale institutions, however, most Arab MFIs still depend heavily on donations.

### Profitability and Sustainability

On the whole, Arab MFIs are profitable and generate solid returns that are second only to those in the Latin American sector. At 2.4 percent, the region's return on assets exceeds the global norm of 1.9 percent, and this despite substantial losses in Palestine and Yemen, where conflict and high start-up costs currently stand in the way of profits. Limited access to borrowings, however, strips the region of the leverage effect that arises from debt. While Arab MFIs generate higher returns on assets than their Asian peers, the latter's greater leverage allows them to

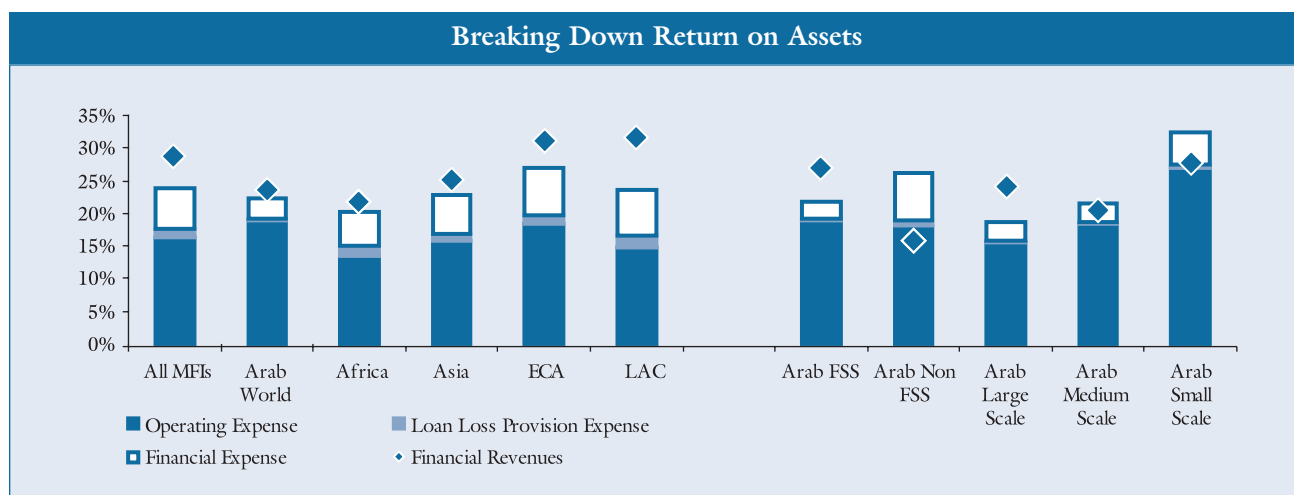
magnify their returns on equity beyond twice the level generated by the Arab sector.

Arab MFIs generally follow a low cost low yield strategy, generating profits by maintaining a tight grip on expenses. These institutions, however, have yet to maximize potential returns, largely because they invest a lower share of assets in their



portfolio than most other regions; at 71 percent of assets, their allocation to their lending operations is eight points below global norms. Hence, while their portfolio yield is comparable to that of Latin American MFIs, their financial revenue is eight points lower and falls behind all regions except Africa.

The overall figure, however, is largely skewed by the Egyptian sector and one Palestinian institution. Asset allocation to the loan portfolio



REVENUE	All MFIs	Arab MFIs	Arab FSS	Arab Non FSS	Arab Large Scale	Arab Medium Scale	Arab Small Scale
Adjusted Financial Revenue Ratio	28.2%	23.7%	26.9%	15.7%	24.1%	20.6%	27.8%
Profit Margin	9.4%	10.3%	20.4%	-62.9%	25.0%	10.3%	-43.4%
Yield on Gross Portfolio (nominal)	35.4%	36.3%	37.9%	28.0%	30.9%	28.0%	48.5%
Yield on Gross Portfolio (real)	27.9%	33.2%	35.5%	19.6%	29.4%	22.8%	36.8%
ASSET UTILIZATION	All MFIs	Arab MFIs	Arab FSS	Arab Non FSS	Arab Large Scale	Arab Medium Scale	Arab Small Scale
Gross Loan Portfolio/ Total Assets	79.5%	71.1%	81.2%	52.0%	81.3%	80.3%	59.6%

ranges from one third to upwards of 90 percent across the sample, with thirteen of the twenty institutions investing at least two thirds of assets in their lending operations. All three Egyptian MFIs, however, dedicate less than half of their assets to their lending activity. These MFIs carry significant amounts of donated equity that they pledge as guarantees in order to obtain loans. While fulfilling a fundraising purpose, this capital remains essentially unutilized, hence distorting asset allocation figures. In Palestine, microfinance operations were significantly reduced following the Al Aqsa Intifada of September 2000. As average income plummeted by 30 percent, widespread client default forced at least one sample institution to write off a significant portion of its portfolio. Since then, the sector has been working to catch up with regional norms and is on the road to recovery, despite the climate of conflict and economic stagnation.

While the sector experienced a slight deterioration in asset allocation, a good number of institutions enhanced their investment in the loan portfolio. Of the sixteen institutions that were included in the 2003 sample, eleven experienced improvements in their returns largely through more optimal asset allocation, hence solidifying existing profits or moving closer to breaking the profitability barrier. This improved performance contributed to an overall rise in the region's profitability since 2003, when it generated 0.7 percent return

on assets and 1.3 percent return on equity.

The typical Arab MFI, however, continues to generate low revenues and attains profitability by mastering costs, maintaining them at a level that only African institutions have achieved. Low levels of commercialization and excellent portfolio quality keep expenses at just 22 percent of assets, compared to 27 percent worldwide. The sector's negligible access to commercial borrowings and its heavy reliance on grants and subsidies continue to rein in financial costs. In Latin America, where institutions are the most leveraged and the most commercialized, the cost of funds runs twice as high. Arab MFIs also benefit from the lowest rate of client delinquency. At 0.3 percent, their loan loss rate is one fourth that of their African peers, saving them from the drain on revenues and the additional costs that portfolios with higher risks incur. Operating environments, however, are subject to change. Donor funds become less available as sectors mature, and MFIs must inevitably turn to commercial investors to pursue growth. As MFI operations expand, competition pushes institutions to explore new market segments, exposing them to additional risks and defaults. Both trends drive up costs and squeeze profit margins, requiring that Arab MFIs boost efficiency and revenues if they are to remain sustainable.

While the Arab region generates profits through a tight cost structure, it is revenues that set apart

the sustainable and non-sustainable institutions within it. Both groups incur the same level of expenses, but the revenues generated by sustainable MFIs exceed those of non-sustainable institutions by eleven points, enabling the former to enjoy healthy levels of profits as the latter sink deeper into the red. Asset management and product pricing emerge as key factors in this divide. The loan portfolio is an MFI's most productive asset, yet non-sustainable institutions invest just 52 percent of their funds in their lending activity, compared to 81 percent among their profitable counterparts. Moreover, their product pricing fails to align with their cost structure, so that their portfolio yield is ten points lower than that of sustainable institutions. Breaking the profitability barrier hence requires better asset management and a more strategic pricing of products that takes into account the cost of lending.

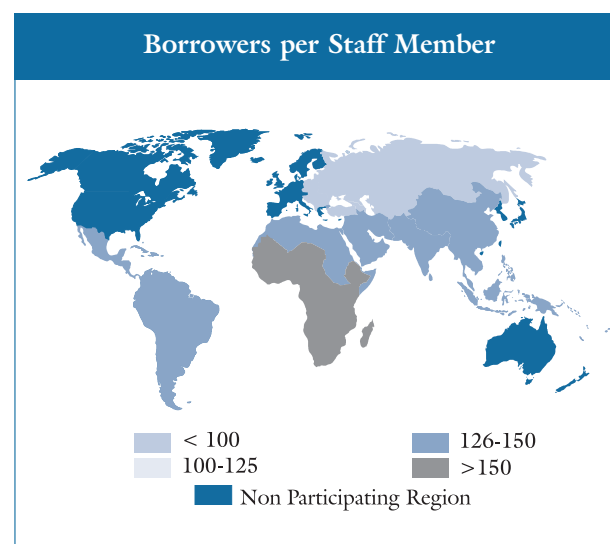
Much like the previous year, operational scale goes hand in hand with sustainability. As small institutions struggle to break even, medium MFIs generate modest returns, and large institutions enjoy solid profits. Large scale institutions benefit from cost levels that are four points lower than the regional median. In addition to being the most productive, large scale institutions are also the most efficient in managing loans and serving clients. Despite a rise in the cost of funds, this group witnessed a three point drop in total expense levels thanks to reductions in operating costs. Financial revenues also increased, but profits remained constant. As these large MFIs expanded the scale of their operations, efforts to build client loyalty ensured that some of the efficiency gains were passed on to borrowers in the form of lower interest rates, bringing portfolio yields down from 35 to 31 percent. Large scale MFIs are thus not only more profitable but can afford to offer their clients more competitive terms on products and services.

### Efficiency and Productivity

Although in line with regional norms, Arab institutions have not attained the high levels of productivity that are typical among institutions that rely on group methodologies to disburse

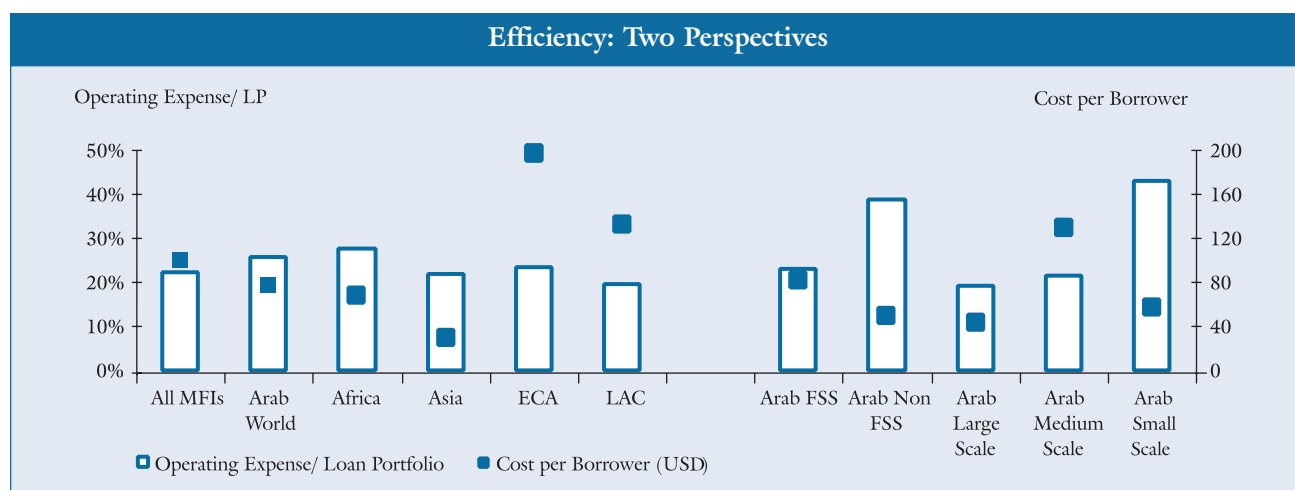
loans. At 128 borrowers each, staff of Arab MFIs reach 25 fewer clients than their African peers and are tied with their Latin American counterparts despite the latter's focus on individual loans. This lower productivity contributes to lower efficiencies, so that despite having one of the tightest cost structures, the Arab sector incurs the second highest cost per dollar lent. Arab institutions hence spend 26 cents to manage each dollar in loans, compared to 22 cents worldwide. While this result partly reflects the sector's low loan sizes, the cost per borrower paints a similar picture, albeit less dramatic. While more efficient than Latin American and Eastern European or Central Asian institutions in this respect, Arab MFIs spend over two and a half times as much per client reached as Asian institutions do.

Boosting productivity would be one channel to improving efficiency. While sector productivity declined over the course of the year, this drop was largely driven by new institutions in the sample. Indeed, MFIs that were included in the 2003 study saw their median productivity rise from 139 to 145 borrowers per staff member. Along with a mild increase in average loan balance, this rise in productivity contributed to improved efficiency within this group of MFIs, whose cost per dollar lent declined by 19 percent over the course of the year.



Since its inception, the Moroccan sector has relied on joint liability groups as the main channel for service delivery. Its focus on group





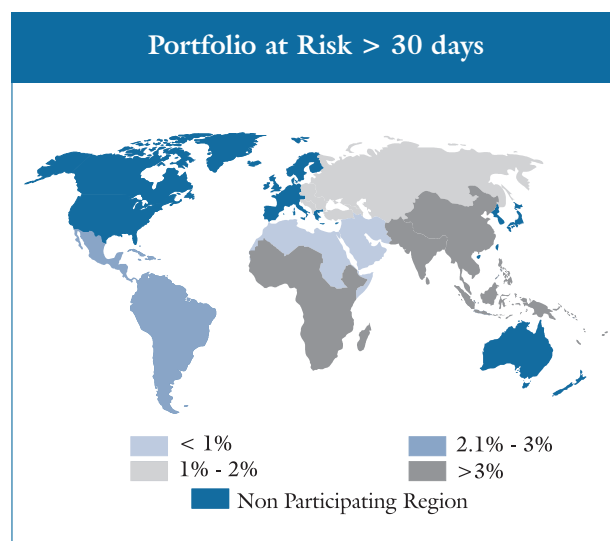
methodology has enabled it to reach 86 more borrowers per staff member than the Egyptian sector, which until recently was dominated by individual loans. Egyptian MFIs, however, are the most efficient within the sample, both in managing their portfolios and serving clients; these institutions spend just 15 cents per dollar lent and 31 dollars per client reached. The recent introduction of group loan products has reinvigorated outreach in the country and should further enhance efficiency levels in the years to come.

As in 2003, size remains inextricably tied with productivity and efficiency. Thanks in part to their staff's remarkable productivity, institutions with large outreach are able to serve clients at just one third of the cost incurred by their medium size peers. These gains in efficiency enable large MFIs to dedicate even more resources to growth and hence further expand outreach. A similar pattern arises in the case of portfolio scale. Institutions with large portfolios manage their loans more efficiently than their peers of lower scale, incurring lower costs per dollar lent than medium scale MFIs despite the latter's larger loan sizes. Institutions should hence capitalize on these mutually reinforcing relationships between size, productivity, and efficiency to expand financial services to an ever-increasing population.

### Portfolio Quality

Arab MFIs continue to maintain the highest quality portfolios, a fact that holds true across all measures of risk. Throughout the region, only

0.5 percent of the portfolio had payments overdue by 30 days, compared to 2.1% globally.



Moreover, once recoveries on loans are taken into account, only 0.3 percent of the portfolio was actually lost over the course of the year. The region's good portfolio quality has certainly contributed to its profitability, by boosting revenues and ensuring minimal levels of risk-related expenses and losses.

The region's low risk levels may in part reflect the predominance of group lending across Arab MFIs. Members of loan groups are subject to peer pressure to pay back their loans on time and are also under the obligation to pay back a loan if a co-member defaults, making such lending methodologies less risky than individual ones. As the sector matures, however, institutions will

have to further diversify their products and reach out to new population groups, potentially increasing their risk. Developing reliable tracking systems and building a strong credit culture

within the client base would ensure that the region maintains its lead in portfolio quality despite the changing environment.



## Arab Benchmarks

INSTITUTIONAL CHARACTERISTICS	Definition	Arab MFIs	Arab FSS	Arab Non Scale	Arab Large Scale	Arab Medium Scale	Arab Small Scale
Number of MFIs	Sample size of group	20	12	8	4	10	6
Age	Years functioning as an MFI	6	7	6	8	6	5
Total Assets	Total Assets, adjusted for inflation and standardized loan portfolio provisioning and write-offs	6,060,845	5,168,095	7,280,317	33,435,770	6,077,935	1,364,310
Offices	Number, including head office	12	14	11	65	11	9
Personnel	Total number of employees	68	72	54	590	72	44
FINANCIAL STRUCTURE	Definition	Arab MFIs	Arab FSS	Arab Non FSS	Arab Large Scale	Arab Medium Scale	Arab Small Scale
Capital/ Asset Ratio	Total Equity, adjusted/ Total Assets, adjusted	72.4%	83.5%	56.0%	66.1%	83.5%	40.0%
Commercial Funding Liabilities Ratio	All liabilities with "market" price/ Gross Loan Portfolio	8.0%	17.1%	0.0%	36.8%	8.0%	0.0%
Debt/ Equity Ratio	Total Liabilities, adjusted/ Total Equity, adjusted	0.4	0.2	0.8	0.7	0.2	1.7
Deposits to Loans	Voluntary Savings/ Gross Loan Portfolio, adjusted	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	Voluntary Savings/ Total Assets, adjusted	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Loan Portfolio/ Total Assets	Gross Loan Portfolio, adjusted/Total Assets, adjusted	71.1%	81.2%	52.0%	81.3%	80.3%	59.6%
SCALE AND OUTREACH	Definition	Arab MFIs	Arab FSS	Arab Non FSS	Arab Large Scale	Arab Medium Scale	Arab Small Scale
Number of Active Borrowers	Number of borrowers with loans outstanding	9,267	9,668	8,343	115,127	13,739	4,547
Percent of Women Borrowers	Number of active women borrowers/ Number of Active Borrowers	84.5%	88.0%	60.6%	74.8%	94.0%	88.0%
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs	3,898,124	3,898,124	4,110,655	25,053,665	3,898,124	1,908,513
Average Loan Balance per Borrower	Gross Loan Portfolio/ Number of Active Borrowers	279	333	208	266	308	457
Average Loan Balance per Borrower/ GNI per Capita	Average Loan Balance per Borrower/ GNI per Capita	17.8%	17.2%	19.0%	18.7%	14.8%	19.6%

PROFITABILITY/ SUSTAINABILITY	Definition	Arab MFIs	Arab FSS	Arab Non FSS	Arab Large Scale	Arab Medium Scale	Arab Small Scale
Return on Assets	Net Operating Income, adjusted and net of taxes/ Average Total Assets	2.4%	5.8%	-8.0%	6.0%	2.4%	-8.0%
Return on Equity	Net Operating Income, adjusted and net of taxes/ Average Total Equity	3.4%	9.5%	-11.1%	9.5%	3.4%	-15.6%
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)	127.8%	137.4%	97.1%	154.1%	125.2%	104.2%
Financial Self-Sufficiency	Financial Revenue, adjusted/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted	111.6%	125.6%	61.5%	133.5%	111.6%	70.3%
REVENUE	Definition	Arab MFIs	Arab FSS	Arab Non FSS	Arab Large Scale	Arab Medium Scale	Arab Small Scale
Adjusted Financial Ratio Revenue	Financial Revenue, adjusted/ Average Total Assets	23.7%	26.9%	15.7%	24.1%	20.6%	27.8%
Profit Margin	Net Operating Income, adjusted/ Financial Revenue, adjusted	10.3%	20.4%	-62.9%	25.0%	10.3%	-43.4%
Yield on Gross Portfolio (nominal)	Financial Revenue from Loan Portfolio/ Average Gross Loan Portfolio	36.3%	37.9%	28.0%	30.9%	28.0%	48.5%
Yield on Gross Portfolio (real)	(Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)	33.2%	35.5%	19.6%	29.4%	22.8%	36.8%
EXPENSE	Definition	Arab MFIs	Arab FSS	Arab Non FSS	Arab Large Scale	Arab Medium Scale	Arab Small Scale
Total Expense Ratio	(Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted/ Average Total Assets	22.1%	22.1%	22.9%	18.2%	21.6%	31.2%
Financial Expense Ratio	Financial Expense, adjusted/ Average Total Assets	2.9%	2.6%	7.4%	3.0%	2.8%	4.9%
Loan Loss Provision Expense Ratio	Net Loan Loss Provision Expense, adjusted/ Average Total Assets	0.3%	0.2%	0.8%	0.2%	0.3%	0.7%
Operating Expense Ratio	Operating Expense, adjusted/ Average Total Assets	19.0%	19.0%	18.1%	15.5%	18.5%	27.0%
Personnel Expense Ratio	Personnel Expense, adjusted/ Average Total Assets	10.8%	11.5%	10.7%	9.5%	10.1%	16.6%
Administrative Expense Ratio	Administrative Expense, adjusted/ Average Total Assets	6.5%	6.9%	5.0%	5.8%	6.9%	8.8%
Adjustment Expense Ratio	Net inflation and subsidized cost-of-funds adjustment expense/ Average Total Assets	22.1%	22.1%	22.9%	18.2%	21.6%	31.2%

<b>EFFICIENCY</b>	<b>Definition</b>	<b>Arab MFIs</b>	<b>Arab FSS</b>	<b>Arab Non FSS</b>	<b>Arab Large Scale</b>	<b>Arab Medium Scale</b>	<b>Arab Small Scale</b>
Operating Expense/ Loan Portfolio	Operating Expense, adjusted/ Average Gross Loan Portfolio	25.7%	23.2%	38.9%	19.1%	21.7%	42.9%
Personnel Expense/ Loan Portfolio	Personnel Expense, adjusted/ Average Gross Loan Portfolio	14.9%	14.2%	25.3%	12.3%	14.0%	28.5%
Average Salary/ GNI per Capita	Average Personnel Expense, adjusted/ GNI per capita	3.5	3.5	3.3	442.8%	327.9%	418.5%
Cost per Borrower	Operating Expense, adjusted/ Average Number of Active Borrowers	77	81	49	43	129	57
<b>PRODUCTIVITY</b>	<b>Definition</b>	<b>Arab MFIs</b>	<b>Arab FSS</b>	<b>Arab Non FSS</b>	<b>Arab Large Scale</b>	<b>Arab Medium Scale</b>	<b>Arab Small Scale</b>
Borrowers per Staff Member	Number of Active Borrowers/ Number of personnel	128	145	92	251	113	119
Borrowers per Loan Officer	Number of Active Borrowers/ Number of loan officers	181	207	142	301	173	177
Personnel Allocation Ratio	Number of Loan Officers/ Number of personnel	72.6%	74.8%	68.6%	83.1%	69.5%	72.1%
<b>PORTFOLIO QUALITY</b>	<b>Definition</b>	<b>Arab MFIs</b>	<b>Arab FSS</b>	<b>Arab Non FSS</b>	<b>Arab Large Scale</b>	<b>Arab Medium Scale</b>	<b>Arab Small Scale</b>
Portfolio at Risk > 30 Days	Outstanding balance, loans overdue > 30 Days/ Gross Loan Portfolio, adjusted	0.50%	0.5%	0.9%	0.2%	1.3%	0.3%
Portfolio at Risk > 90 Days	Outstanding balance, loans overdue > 90 Days/ Gross Loan Portfolio, adjusted	0.20%	0.2%	0.4%	0.1%	0.5%	0.1%
Write-off Ratio	Value of loans written-off/ Adjusted Average Gross Loan Portfolio	0.30%	0.4%	0.0%	0.3%	0.2%	0.3%
Loan Loss Rate	Adjusted Write-offs, net of recoveries/ Adjusted Average Gross Loan Portfolio	0.8	95.0%	46.7%	88.3%	106.6%	26.6%
Risk Coverage	Loan loss reserve, adjusted/ PAR > 30 Days	0.50%	0.5%	0.9%	0.2%	1.3%	0.3%

## Comparative Regional Benchmarks

INSTITUTIONAL CHARACTERISTICS	Definition	All MFIs	Arab world	Africa	Asia	ECA	LAC
Number of MFIs	Sample size of group	302	20	57	68	60	97
Age	Years functioning as an MFI	9	6	7	12	6	12
Total Assets	Total Assets, adjusted for inflation and standardized loan portfolio provisioning and write-offs	5,594,307	6,060,845	5,414,823	2,795,842	3,599,901	12,573,790
Offices	Number, including head office	9	12	12	9	7	10
Personnel	Total number of employees	96	68	126	117	42	122
FINANCIAL STRUCTURE	Definition	All MFIs	Arab world	Africa	Asia	ECA	LAC
Capital/ Asset Ratio	Total Equity, adjusted/ Total Assets, adjusted	32.6%	72.4%	33.5%	27.9%	56.0%	23.8%
Commercial Funding Liabilities Ratio	All liabilities with "market" price/ Gross Loan Portfolio	49.1%	8.0%	54.6%	62.7%	14.6%	72.7%
Debt/ Equity Ratio	Total Liabilities, adjusted/ Total Equity, adjusted	1.9	0.4	2	2.1	0.8	3.2
Deposits to Loans	Voluntary Savings/ Gross Loan Portfolio, adjusted	0.0%	0.0%	11.60%	2.60%	0.0%	0.0%
Deposits to Total Assets	Voluntary Savings/ Total Assets, adjusted	0.0%	0.0%	8.80%	1.80%	0.0%	0.0%
Gross Loan Portfolio/ Total Assets	Gross Loan Portfolio, adjusted/ Total Assets, adjusted	79.5%	71.1%	69.0%	73.9%	87.4%	81.9%
SCALE AND OUTREACH	Definition	All MFIs	Arab world	Africa	Asia	ECA	LAC
Number of Active Borrowers	Number of borrowers with loans outstanding	10,421	9,267	15,542	11,512	2,884	15,400
Percent of Women Borrowers	Number of active women borrowers/ Number of Active Borrowers	65.2%	84.5%	60.0%	92.0%	60.8%	60.6%
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs	3,951,274	3,898,124	3,855,794	1,880,771	2,780,486	10,415,392
Average Loan Balance per Borrower	Gross Loan Portfolio/ Number of Active Borrowers	423	279	172	113	1,023	720
Average Loan Balance per Borrower/ GNI per Capita	Average Loan Balance per Borrower/ GNI per Capita	41.9%	17.8%	85.5%	18.7%	57.5%	37.8%
Number of Voluntary Savers	Number of savers with passbook and time deposit accounts	0	0	4,916	4,417	0	0
Voluntary Savings	Total value of passbook and time deposit accounts	0	0	115,178	42,651	0	0
Average Savings Balance per Saver	Voluntary Savings/ Number of Voluntary Savers	175	n/a	98	93	3,167	654



PROFITABILITY/ SUSTAINABILITY	Definition	All MFIs	Arab world	Africa	Asia	ECA	LAC
Return on Assets	Net Operating Income, adjusted and net of taxes/ Average Total Assets	1.9%	2.4%	-1.1%	1.4%	0.9%	3.6%
Return on Equity	Net Operating Income, adjusted and net of taxes/ Average Total Equity	6.9%	3.4%	-3.9%	7.6%	3.2%	14.2%
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)	119.8%	127.8%	111.1%	116.1%	128.1%	119.9%
Financial Self-Sufficiency	Financial Revenue, adjusted/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted	110.4%	111.6%	98.1%	109.9%	108.5%	114.8%
REVENUE	Definition	All MFIs	Arab world	Africa	Asia	ECA	LAC
Adjusted Financial Revenue Ratio	Financial Revenue, adjusted/ Average Total Assets	28.2%	23.7%	21.9%	25.2%	31.2%	31.6%
Profit Margin	Net Operating Income, adjusted/ Financial Revenue, adjusted	9.4%	10.3%	-1.9%	9.0%	7.8%	12.9%
Yield on Gross Portfolio (nominal)	Financial Revenue from Loan Portfolio/ Average Gross Loan Portfolio	35.4%	36.3%	30.6%	33.1%	36.9%	36.4%
Yield on Gross Portfolio (real)	(Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)	27.9%	33.2%	24.9%	26.7%	28.4%	28.4%
EXPENSE	Definition	All MFIs	Arab world	Africa	Asia	ECA	LAC
Total Expense Ratio	(Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted/ Average Total Assets	26.8%	22.1%	21.4%	25.4%	30.5%	28.2%
Financial Expense Ratio	Financial Expense, adjusted/ Average Total Assets	6.1%	2.9%	5.1%	6.1%	7.3%	7.1%
Loan Loss Provision Expense Ratio	Net Loan Loss Provision Expense, adjusted/ Average Total Assets	1.3%	0.3%	1.4%	1.1%	1.1%	1.7%
Operating Expense Ratio	Operating Expense, adjusted/ Average Total Assets	16.4%	19.0%	13.6%	15.7%	18.5%	14.9%
Personnel Expense Ratio	Personnel Expense, adjusted/ Average Total Assets	9.1%	10.8%	7.2%	8.5%	12.0%	8.4%
Administrative Expense Ratio	Administrative Expense, adjusted/ Average Total Assets	7.3%	6.5%	7.5%	7.3%	7.5%	7.2%
Adjustment Expense Ratio	Net inflation and subsidized cost-of-funds adjustment expense/ Average Total Assets	1.6%	2.5%	1.8%	1.6%	3.8%	0.8%

<b>EFFICIENCY</b>	<b>Definition</b>	<b>All MFIs</b>	<b>Arab world</b>	<b>Africa</b>	<b>Asia</b>	<b>ECA</b>	<b>LAC</b>
Operating Expense/ Loan Portfolio	Operating Expense, adjusted/ Average Gross Loan Portfolio	22.2%	25.7%	27.6%	21.8%	23.5%	19.6%
Personnel Expense/ Loan Portfolio	Personnel Expense, adjusted/ Average Gross Loan Portfolio	12.6%	14.9%	12.9%	10.6%	13.9%	10.2%
Voluntary Savers per Staff Member	Number of Voluntary Savers/ Number of personnel	0	0	69	112	0	0
Personnel Allocation Ratio	Number of Loan Officers/ Number of personnel	55.2%	72.6%	50.8%	65.0%	53.0%	47.3%
<b>PORTFOLIO QUALITY</b>	<b>Definition</b>	<b>All MFIs</b>	<b>Arab world</b>	<b>Africa</b>	<b>Asia</b>	<b>ECA</b>	<b>LAC</b>
Portfolio at Risk> 30 Days	Outstanding balance, loans overdue> 30 Days/ Gross Loan Portfolio, adjusted	5.2%	2.1%	0.5%	3.4%	3.2%	1.1%
Portfolio at Risk> 90 Days	Outstanding balance, loans overdue> 90 Days/ Gross Loan Portfolio, adjusted	2.8%	0.9%	0.2%	1.2%	1.4%	0.3%
Write-off Ratio	Value of loans written-off/ Adjusted Average Gross Loan Portfolio	3.0%	1.3%	0.4%	1.5%	0.9%	0.8%
Loan Loss Rate	Adjusted Write-offs, net of recoveries/ Adjusted Average Gross Loan Portfolio	2.5%	1.0%	0.3%	1.4%	0.5%	0.6%
Risk Coverage	Loan loss reserve, adjusted/ PAR > 30 Days	278.7%	1.0	0.8	0.7	0.8	1.3

## Conclusion

Despite its young age, the Arab microfinance sector has made tremendous achievements in a number of areas, successfully breaking through the profitability barrier without deviating from its target clientele at the low end of the market. Given their operational strength and high growth rates, large, profitable institutions in the region will continue to build on their client base and effectively break down barriers to financial services while continuously reducing the cost to clients. In order to step out of the shadow cast by large MFIs, medium and small scale institutions will have to dramatically accelerate their growth, perhaps by reaching out to new, more risky segments of the population and diversifying their products. However, it is more likely that large institutions will lead the way in product innovation. Currently, loans are primarily issued for working capital, and prevailing regulations prohibit non-bank entities from mobilizing deposits. The poor hence lack access to much needed financial products and services such as consumption loans, savings, insurance, and

money transfer services. As the sector matures, product diversification will become key to retaining existing clients and attracting new ones, and profitable institutions will likely be at the helm of these innovations thanks to their operational soundness.

Sector maturity will additionally drive institutions toward new funding sources as competition for donor grants intensifies. As the cost of funds increases, Arab institutions will have to boost their operational efficiency in order to maintain their tight grip on the cost structure. Generating profits will additionally require that institutions boost their revenues, namely through a more optimal asset allocation to their loan portfolios. While large scale institutions have taken significant steps to address these challenges, their medium and small scale counterparts have yet to embark on a change of course.

**Hind Tazi**  
Analyst

Microfinance Information eXchange  
June 2006



The Microfinance Information eXchange (MIX) is a non profit organization that works to support the growth and development of a healthy microfinance sector. MIX's mission is to help build the microfinance market infrastructure by offering data sourcing, benchmarking and performance monitoring tools, as well as specialized information services. MIX is supported by the Consultative Group to Assist the Poor (CGAP), Citigroup Foundation, Deutsche Bank Americas Foundation, Omidyar Network, Open Society Institute, Rockdale Foundation and others. To learn more about MIX, please visit the website at [www.themix.org](http://www.themix.org).

Sanabel is a regional network for microfinance institutions in the Arab world. Its mission is to maximize outreach to microentrepreneurs in the Arab

world by providing microfinance institutions with a forum for mutual learning and exchange, capacity building services, and advocacy for best practice microfinance. By June 2007, Sanabel envisions an Arab microfinance industry where 1,500,000 clients are served across 12 countries with a range of high quality financial products and services by an increasingly diverse array of well capitalized, best practice microfinance service providers.

Through its partnership with the MIX, Sanabel also aims to improve transparency and standards of practice by encouraging participation in the MIX Market and benchmarking services (MicroBanking Bulletin) and the utilization of external audits, standard reporting, and ratings services. For more information, please visit the Sanabel website at: [www.sanabelnetwork.org](http://www.sanabelnetwork.org).

in co-operation with



Sanabel  
1 El Sad El Aly Square, 5th Floor, Suite 51  
Dokki, Giza Egypt  
Tel: +20 2 337 0714 / 748 8624  
Fax: +20 2 337 0714  
[www.sanabelnetwork.org](http://www.sanabelnetwork.org)



Microfinance Information eXchange  
1901 Pennsylvania Avenue, NW Suite 307  
Washington, DC 20006, USA  
Tel: +1 212 659 9094  
Fax: +1 212 659 9095  
[www.themix.org](http://www.themix.org)