Benchmarking Arab Microfinance

A report from the Microfinance Information eXchange

Contents

Microfinance institutions in the Arab world rank among the youngest in the global industry. At 13 years in operation, the region's most senior MFI is barely older than the average institution in Latin America. Arab microfinance has many of the hallmarks of a young sector – non profits offer most financial services, and most clients are reached exclusively with small, working capital loans, and few other financial products. Given its place in the stages of development of the global microfinance industry, Arab microfinance has learned from industry experience and can leverage this knowledge to innovate in its own region.

How does this young sector stack up against its global peers? What differences exist in performance among Arab MFIs? This report addresses these questions. It investigates the performance of Arab MFIs through the lens of industry standard performance metrics and offers an analysis of this region in the world of microfinance and microfinance in this region.

In Brief

Despite its young age relative to the global industry, Arab microfinance has achieved strong relative outreach in a short number of years. With this rapid growth, MFIs in the region maintain their strong outreach to poorer clients.

On the whole, the region's actors have already achieved sustainability, posting average positive returns like most other regions in the world. Arab MFIs earn relatively less on their portfolios, achieving profitability through low total costs. Little access to commercial debt and reliance on donations and equity for growth have kept such costs very low. Excellent portfolio qualities, among the lowest average 'portfolios at risk' in the world have helped Arab MFIs maintain such tight cost control. This lower average portfolio risk might also signal missed opportunities for growth and potential clients left unserved.

Overview of Benchmarking and Analysis

The *MicroBanking Bulletin*, 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 tools and metrics by which to analyze the performance of microfinance institutions. Its biannual publication of global industry benchmarks and customized benchmarking services create comparative performance results with which the industry and its retail institutions can contextualize MFI performance within relevant peer groups. Benchmarks allow institutions to understand relative trends and drivers in their own performance in a comparative perspective. Through standard metrics and analysis processes, the *Bulletin* analyzes the social and financial performance of MFIs – their profitability, efficiency, and productivity, as well as their scale and outreach. As tools, benchmarks support the transparency necessary for improved institutional performance greater access to capital markets for growth.

This report occupies a new place in industry literature on Arab microfinance. While small in scale, Arab microfinance has attracted a small, but dedicated body of literature on regional matters, from institutional case studies[1] and regional surveys[2], to studies of Islamic financing instruments[3]. This Arab benchmark report brings the *Bulletin's* global analysis to the Arab region. The first part of each of the following pages places Arab MFI performance in the spectrum of global industry results by region. Each section then explores the relative diversity within the young, but rapidly growing regional industry. This analysis dissects and compares Arab MFI performance measures and their drivers in the global and regional context.

Data for this report come from the 2002[4] results of 11 participating Arab MFIs. The results published here represent averages of all observations, excluding those whose extreme results unduly affect group averages. To account for diverse institutional and environmental factors, these data are adjusted for inflation, cost-of-funds subsidy, in-kind subsidy and standardized loan loss provisioning. As analyzed in this report, the MFIs are grouped into peer groups by age and scale of operations, allowing for comparisons among like institutions and to analyze the impact of different factors on institutional performance.[5]

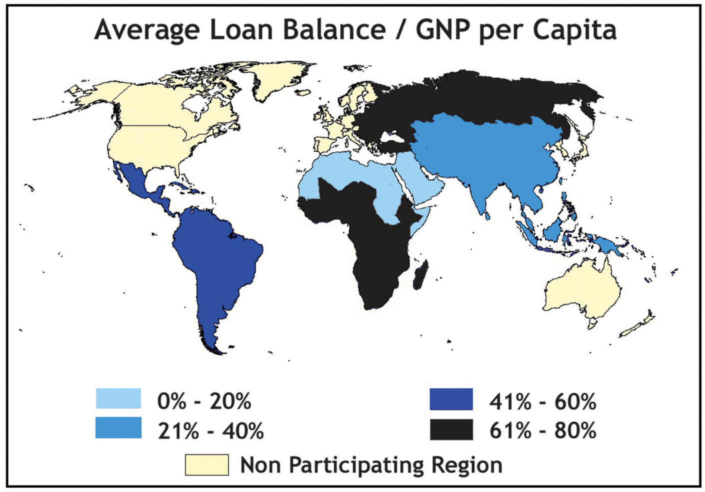
Peer Groups[6]	Characteristics	MBB Peer Group member MFIs
All Arab		ABA, Al Amana, Al Majmoua, AMEEN, Crenda, DBACD, FATEN, Fondep, JMCC, MFW, RADE
Age		
Arab New/Young	= 6 years of microfinance operations	Al Amana, AMEEN, DBACD, Fondep, JMCC, MFW, RADE
Arab Mature	> 6 years of microfinance operations	ABA, Al Majmoua, Crenda, FATEN
Scale		
Arab Small	= $2,000,000 in loan portfolio outstanding	Crenda, FATEN, Fondep, JMCC, RADE
Arab Medium/Large	> $2,000,000 in loan portfolio outstanding	ABA, Al Amana, Al Majmoua, AMEEN, DBACD, MFW

[1] See for example, Dhumale, Rahut, Ameta Sapcanin and Judith Brandsma, "Spinning Off for Sustainable Microfinance: Save the Children Federation into JWDS, Al Majmoua, and FATEN", World Bank, 1999
[2] Brandsma, Judith and Rafika Chaouali, "Making Microfinance Work in the Middle East and North Africa", World Bank 1998; Brandsma, Judith and Laurence Hart, "Making Microfinance Work Better in the Middle East and North Africa" WB 2000, and forthcoming results of 2003 SANABEL regional survey
[3] See for example, Dhumale, Rahut and Ameta Sapcanin "An application of Islamic banking principles to microfinance: technical note", UNDP , 1998
[4] Where available. One institution has reported its 2001 figures.
[5] For more information on the MBB peer grouping and benchmarking processes, log on to www.mixmbb.org
[6] These peer groups were created for the purpose of this report and do not appear in an edition of the *Bulletin*.

Scale and Outreach

As MFIs increase in scale and outreach, they reach more clients with more products. Indicators of scale measure the size of services to microfinance clients – be they loans or deposits. Outreach indicators report on the number and types of clients reached.

Arab microfinance in the world



Arab MFIs reach more and poorer clients with credit services. While among the youngest average institutions in the world – with the exception of MFIs in former Soviet bloc countries – Arab MFI reach a high average number of borrowers. These institutions have yet to achieve the scale of the lead Asian MFIs, but they serve an average 35% more borrowers than do institutions in the more mature Latin American market. The region's institutions have yet, however, to develop diverse financial offerings such as savings, insurance, transfer and payment services offered by MFIs in Africa, Asia and Latin America. They still offer clients primarily loans.

Arab MFIs match their broad outreach with the strongest aggregate depth of outreach on a global scale. The region averages loan balances of 20% of local income levels, amounts more likely to reach poor borrowers with lower debt capacity. Asian MFIs, while still offering some of the lowest relative loan sizes in the industry, present average higher balances than their Arab peers. The presence of more lower middle income countries[7] in the Arab region does mean that higher per capita gross national products (GNPs) may unduly influence this measure when comparing to Arab countries to Asia or Africa.

Microfinance in the Arab world

OUTREACH INDICATORS	All MFIs	All Arab	Arab FSS	Arab New/ Young	Arab Mature	Arab Small	Arab Medium/ Large
Number of Active Borrowers	15,553	18,535	27,375	19,433	16,439	9,672	24,444
Percent of Women Borrowers	62.9%	62.8%	53.2%	63.3%	61.7%	76.0%	54.0%
Gross Loan Portfolio	5,347,516	4,423,187	6,805,917	4,050,485	5,292,827	1,277,554	6,520,276
Average Loan Balance per Borrower	532	406	471	418	377	424	394
Average Loan Balance per Borrower/ GNP per Capita	54.3%	19.9%	29.0%	21.9%	15.3%	24.3%	17.1%

The strong outreach that Arab MFIs demonstrate on average masks the diversity that exists within the region. Similar to their global peers, Arab MFIs that have achieved 100% financial self-sufficiency (FSS) serve 50% more borrowers than do their peers. This difference underscores at a regional level the positive correlation between self-sufficiency and breadth of outreach already noticed on the global scale; FSS MFIs serve more borrowers.

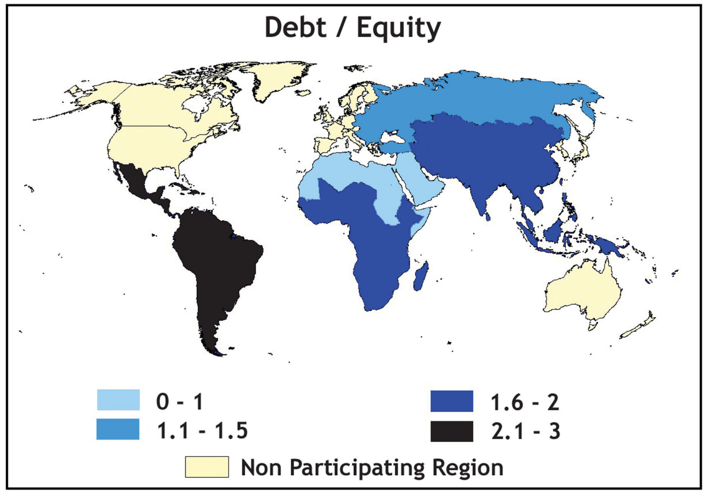
Despite their age, younger Arab MFIs also reach more borrowers than either their elder peers or the regional average. Arab MFIs, on the whole, are much younger than their regional peers. This difference in outreach may provide proof that this relatively young regional industry – and its younger actors in particular – have benefited from global microfinance experience to innovate in and improve their client outreach. Those institutions that do reach larger scale, however, demonstrate less focus on women clients than do their smaller peers. The difficulty of reaching women borrowers in Arab countries may belie the fact that larger institutions broaden their client focus in order to grow in scale.

[7] The World Bank classified income levels of $765 - $2995 Gross National Income per capita as Lower Middle Income for its 2002 World Development Indicators.

Financial Structure

MFIs finance their activities with a variety of funding sources. Measures of financial structure describe these sources of capital, whether debt or equity, and compare them to resources purchased with that funding.

Arab microfinance in the world

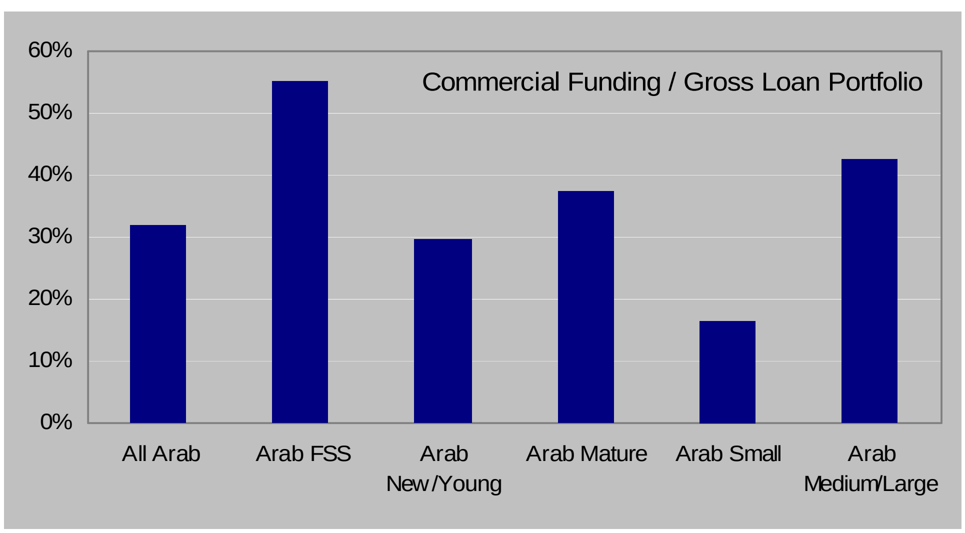


Arab MFIs rely more heavily on donations and retained earnings to finance their growth. As a sector dominated by NGOs, Arab microfinance has fewer sources of capital to fund its growth than do more diverse sectors in Latin America, Asia or Africa. Of those sources within reach of most non profit institutions – loans, donations, and retained earnings – equity, whether donated or earned, accounts for most funding in Arab MFIs. This equity funds almost 60% of the institutions' asset bases. By comparison, more highly leveraged MFIs in Asia and Latin America fund just 35% of their assets through capital. This difference underscores the limits of the narrow institutional focus of the Arab MFI sector. Credit unions, banks, and other financial companies in other regions have greater access to commercial funds from investors and the public at large. If the Arab microfinance sector continues to grow without diversifying its institutional base, independence from public assistance will require stronger relationships with domestic banking sectors or higher net gains on loans.

Microfinance in the Arab world

FINANCING STRUCTURE	All MFIs	All Arab	Arab FSS	Arab New/ Young	Arab Mature	Arab Small	Arab Medium/ Large
Capital/ Asset Ratio	42.7%	66.7%	74.3%	60.8%	80.4%	58.1%	72.4%
Commercial Funding Liabilities Ratio	44.1%	32.0%	55.2%	29.7%	37.6%	16.3%	42.5%
Debt/ Equity Ratio	1.9	0.7	0.4	0.9	0.3	1.0	0.5
Deposits to Loans	15.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	12.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

As the regional average underscores, Arab institutions have less access to commercial funds than do their global counterparts. This is particularly true of debt, where institutional charter and size seem two important contributing factors to low levels of commercial funding liabilities. As a non profit, the average Arab MFI accesses 25% less commercial debt than does its global peer. NGOs tend to attract caution from banks and other potential institutional investors because of their ownership structure and often opaque accounts. The older, non transformed institutions demonstrate the highest dependence on equity for financing. While these more mature MFIs may lag in their funding structure over their younger peers, the latter also have yet to innovate in this area.



Within the Arab countries, small MFIs lead the region in the lowest access to commercial debt, only surpassed at a global level by MFIs operating in the relatively nascent financial sectors of Eastern Europe and Central Asia. While FSS Arab MFIs top the region in access to commercial funding, they still fund their loan portfolios with just two thirds the commercial debt that funds those of their global, self-sufficient peers. To varying degrees, lower access to capital markets and less diversified funding structures remain important risks for growth and client outreach for all Arab MFIs.

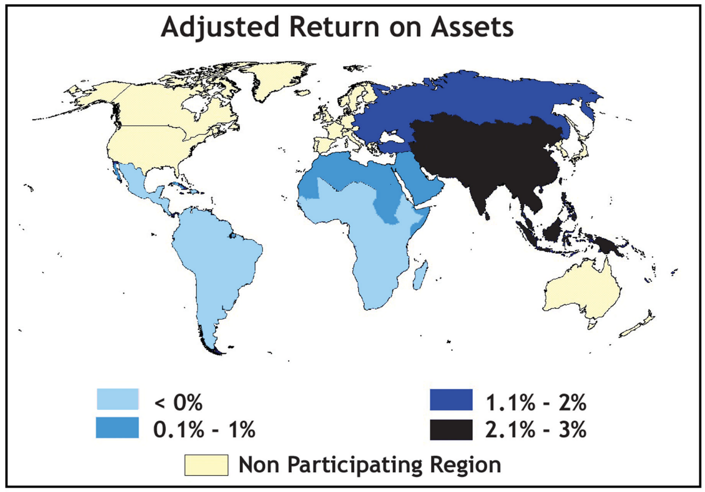
Profitability and Sustainability

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

Arab microfinance in the world

Arab MFIs have achieved profitability and financial sustainability. The Arab microfinance sector, as a whole, counts itself among the profitable regions in microfinance. In fact, apart from sub-Saharan Africa, all regions of the world demonstrate positive returns on their asset (AROA) and equity (AROE) bases. As the following pages will show, lower relative expense levels drive this regional profitability.

Arab institutions average the least difference between returns on assets and equity, as they have the lowest average leverage (debt/equity) ratio of any region. Regions with greater debt funding, like Asia where client savings are an important source of capital, have an AROE that is a multiple of return on assets.



Microfinance in the Arab world

PROFITABILITY AND SUSTAINABILITY	All MFIs	All Arab	Arab FSS	Arab New/ Young	Arab Mature	Arab Small	Arab Medium/ Large
Adjusted Return on Assets	0.1%	0.7%	3.8%	1.6%	-1.4%	-1.5%	2.2%
Adjusted Return on Equity	2.3%	0.4%	4.6%	1.3%	-1.4%	-2.5%	2.4%
Operational Self-Sufficiency	115%	117%	137%	117%	118%	103%	127%
Financial Self-Sufficiency	104%	106%	120%	107%	103%	97%	112%

Levels of profitability and sustainability vary across Arab peer groups and especially along lines of institutional scale and age. The oft noted correlation of scale and profitability seems to hold true for Arab MFIs. Larger regional institutions showed stronger positive earnings than did their peers, at more than three times the peer group average. As with the average Arab MFI, lower relative cost levels help generate these positive returns. In contrast, smaller institutions generated net losses and did not, on average, cover their adjusted total costs (<100% FSS). On the whole, these smaller institutions had much higher expense levels than did their regional peers.

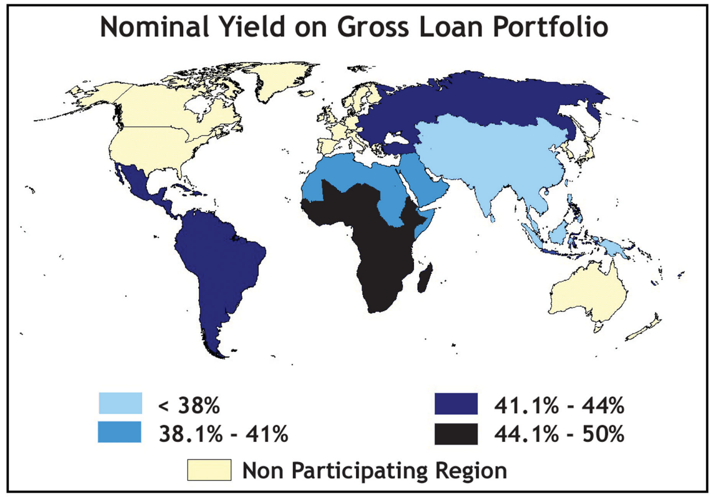
It is noteworthy that more mature Arab institutions fared less well than their younger peers, earning negative adjusted returns on their asset bases. As previously cited, younger Arab MFIs might benefit more from global learning, having started operations planning to reach financial self-sufficiency. More established programs may still be adjusting their business strategies as the industry evolves.

Revenue

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

Arab microfinance in the world

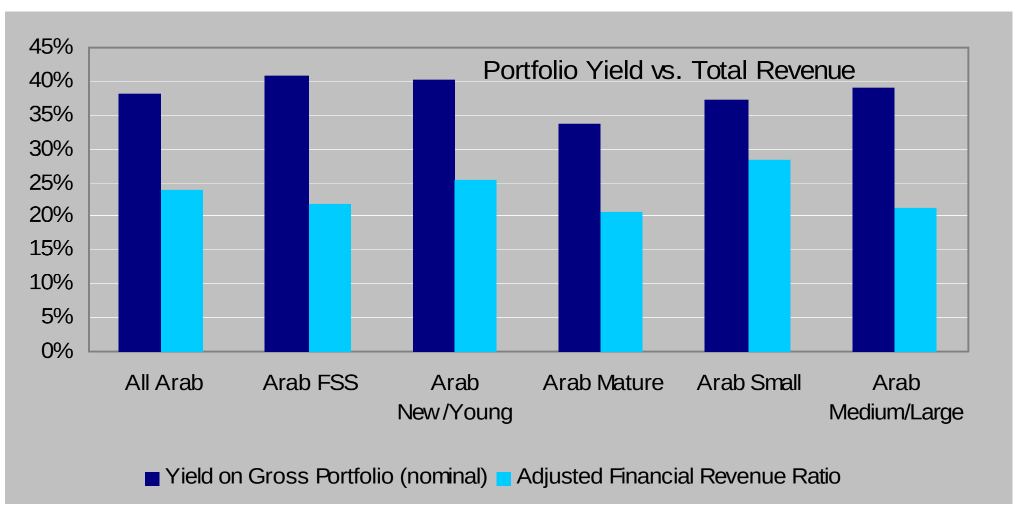
Arab portfolios yield as much as the industry average, but retain more real value. While on par with industry averages, the portfolios of Arab MFIs have among the lowest yields of any region, barring Asia. Yields on Latin American and Eastern European and Central Asian microfinance loan portfolios are several points higher than the Arab yield. These low yields potentially indicate that Arab MFIs charge lower effective interest rates to their borrowers than do MFIs in other regions. When taking into account the impact of inflation on the portfolio yield, however, Arab portfolios retain more of their value than do portfolio in other regions. Thanks to low regional inflation levels, these portfolios earn as much in real terms as those in every other region, except Africa.



Microfinance in the Arab world

REVENUE	All MFIs	All Arab	Arab FSS	Arab New/ Young	Arab Mature	Arab Small	Arab Medium/ Large
Adjusted Financial Revenue Ratio	27.1%	24.1%	21.9%	25.5%	20.7%	28.4%	21.2%
Adjusted Profit Margin	0.3%	3.5%	15.8%	5.2%	-0.4%	-4.0%	8.6%
Yield on Gross Portfolio (nominal)	39.8%	38.2%	41.0%	40.2%	33.8%	37.2%	39.0%
Yield on Gross Portfolio (real)	33.6%	35.0%	37.8%	36.7%	31.2%	33.8%	35.8%

As the highest earning asset in most MFIs, the loan portfolio is the major source of general revenue for institution. Asset allocation – and particularly maximizing the allocation of all available assets to the loan portfolio – is an important determinant in total earnings. With the exception of more mature institutions, Arab MFIs earn similar yields on their portfolios, around 40%. Yet both young and small Arab MFIs earn more total revenues as a percentage of total assets than any of the other peer groups. This difference can be explained by the fact that both peer groups dedicate nearly 80% of their total asset bases to their loan portfolio, whereas other peer groups dedicate between 50% and 60%. Smaller operations may have less developed infrastructure due to their size, allowing for greater asset allocation to their loan portfolios.



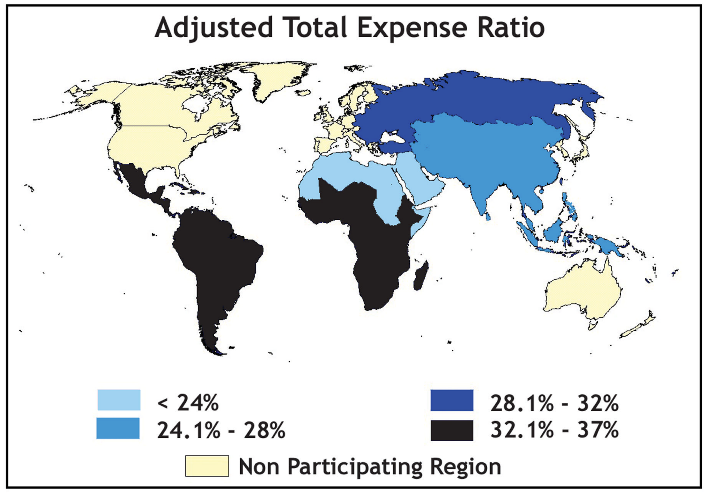
Expense

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

Arab microfinance in the world

Arab MFIs have the lowest total expenses of any region. MFIs in Arab countries manage adjusted total expenditures of less than a quarter of their average total assets. This expense level compares favorably with all other regions, including Asia, the traditional bastion of some of the tightest cost control in the *MicroBanking Bulletin* database.

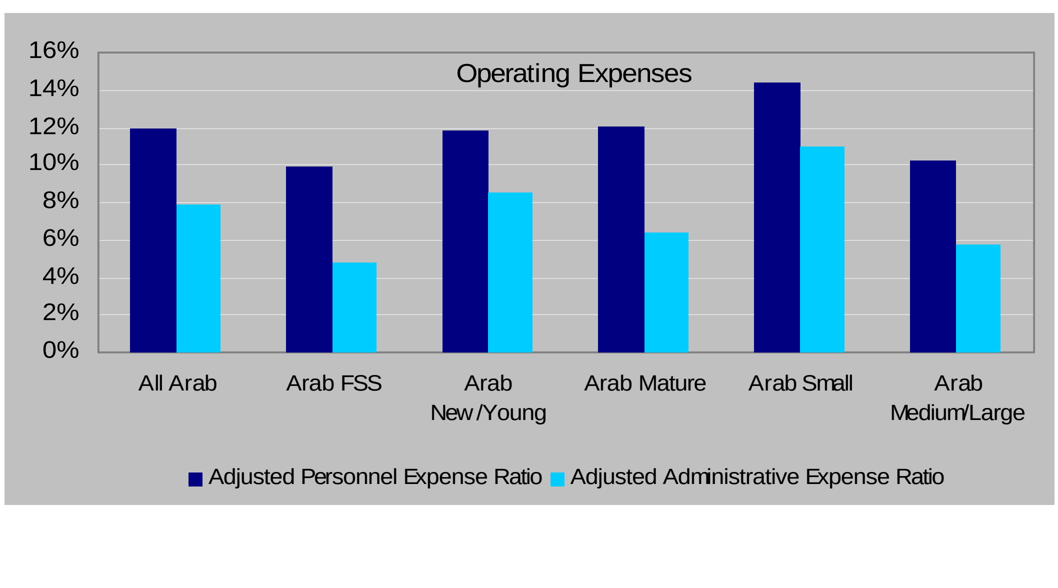
Low adjusted financial expense ratios help Arab MFIs keep total costs down. In fact, Arab MFIs spend less than half the amount on financing that their regional peers spend. These results stem from the higher relative dependence on donor and equity funding by the region's MFIs. As Arab MFIs access more commercial debt or mobilize savings from their clients, they can expect their total financial costs to increase, putting these MFIs on par with those other regions.



Microfinance in the Arab world

EXPENSE	All MFIs	All Arab	Arab FSS	Arab New/ Young	Arab Mature	Arab Small	Arab Medium/ Large
Adjusted Total Expense Ratio	27.7%	23.4%	18.2%	23.9%	22.1%	29.9%	19.1%
Adjusted Financial Expense Ratio	6.2%	2.9%	3.0%	3.1%	2.7%	3.6%	2.5%
Adjusted Loan Loss Provision Expense Ratio	1.8%	0.7%	0.5%	0.6%	1.0%	1.0%	0.5%
Adjusted Personnel Expense Ratio	10.5%	11.9%	9.9%	11.8%	12.0%	14.4%	10.2%
Adjusted Administrative Expense Ratio	8.4%	7.9%	4.8%	8.5%	6.4%	11.0%	5.8%
Adjusted Operating Expense Ratio	19.1%	19.8%	14.7%	20.3%	18.4%	25.4%	16.0%

With the exception of smaller institutions, Arab MFIs present similar cost levels across peer groups. The effect of scale is particularly pronounced on small Arab MFIs. The latter's adjusted operating cost ratios, including personnel and other administrative expenses, climb more nearly 60% higher than those of larger institutions. These higher relative costs explain the average negative returns for the Arab Small peer group. Larger Arab MFIs, by contrast, achieve some of the lowest operating expense ratios in the Arab peer groups. As most Arab microfinance remains a highly urban phenomenon, Arab MFIs are likely to continue to benefit from lower operating costs as they reach scale.

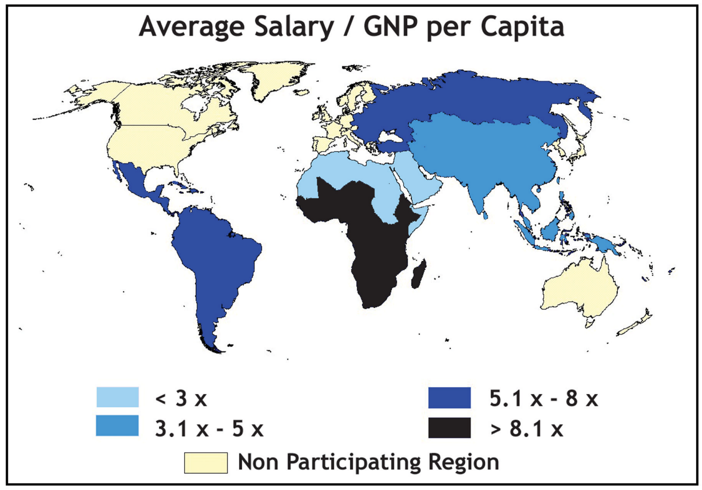


Efficiency and Productivity

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

Arab microfinance in the world

Arab MFIs pay lower average salaries for staff whose productivity is on par with regional averages. Staff members are among the most important resources of microfinance institutions and almost always their largest expense. Many MFIs master costs and achieve positive returns by keeping personnel costs in check and maximizing staff productivity. Relative to local income levels, personnel salaries in the Arab states are the lowest of any MFI region. The relative availability of appropriately skilled labor might explain some of this savings. As mostly credit-giving NGOs, Arab MFIs may not require the same level of staff expertise as institutions that intermediate between savers and borrowers or whose reliance on commercial debt requires higher financial management skills.



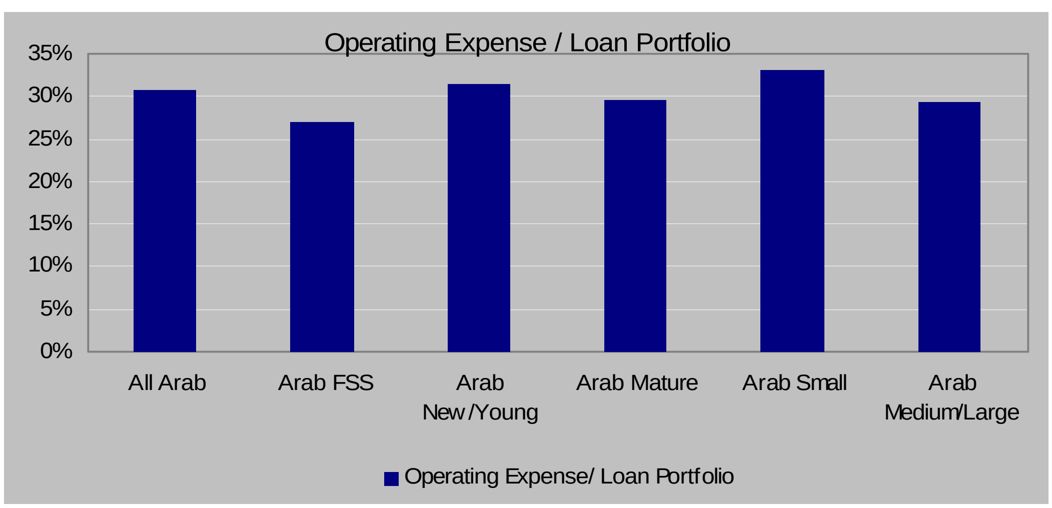
Arab MFI personnel also serve as many or more borrowers than most other regions. Given that Arab MFIs offer fewer diverse financial services on the whole than MFIs in other regions, real personnel productivity may be lower than the simple ratio of staff to borrowers might indicate.

Microfinance in the Arab world

EFFICIENCY	All MFIs	All Arab	Arab FSS	Arab New/ Young	Arab Mature	Arab Small	Arab Medium/ Large
Operating Expense/ Loan Portfolio	29.4%	30.9%	27.0%	31.5%	29.5%	33.2%	29.3%
Personnel Expense/ Loan Portfolio	16.1%	18.9%	18.1%	18.7%	19.2%	18.8%	18.9%
Average Salary/ GNP per Capita	6.7	2.7	3.2	2.9	2.2	2.6	2.8
Adjusted Cost per Borrower	142	99	98	95	107	102	97

PRODUCTIVITY	All MFIs	All Arab	Arab FSS	Arab New/ Young	Arab Mature	Arab Small	Arab Medium/ Large
Borrowers per Staff Member	121	145	112	163	102	175	125

Arab MFIs vary little in the efficiency with which they deliver loans to borrowers. As one might expect, both younger and smaller institutions spend a few cents more in operating expenses for every dinar, dirham, pound or other unit of currency in its outstanding loan portfolio. Lending operations in these two institutional types, due to young operations and small scale, have not yet reached the scale necessary for gains in efficiencies. The most efficient lenders in the region, the FSS Arab MFIs, manage to keep costs to a few points lower than the regional average, but still prove more costly at lending than FSS MFIs on a global scale.

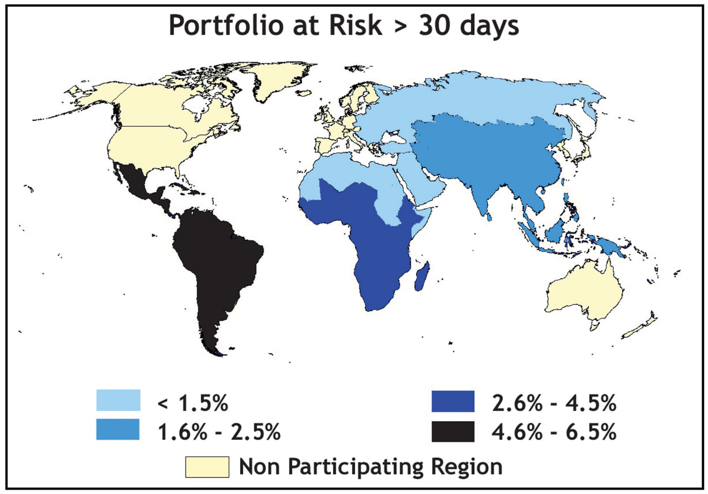


Portfolio Quality

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

Arab microfinance in the world

Arab MFIs maintain higher quality portfolios. Portfolio quality impacts an MFI's revenues, as well as its expenses. The high portfolio quality among Arab MFIs helps these institutions earn more of the money that they plan to earn when pricing their loan products. Compared with other regions, Arab MFIs maintain exceedingly high portfolio quality. Indeed, even in provisioning for future losses through loan loss provision expense, the region's institutions have the lowest expense levels of any region. While such high portfolio quality speaks well of Arab MFIs' operations, it may also indicate that regional institutions do not lend to very risky clients, perhaps under serving a population already bereft of many formal financing options.

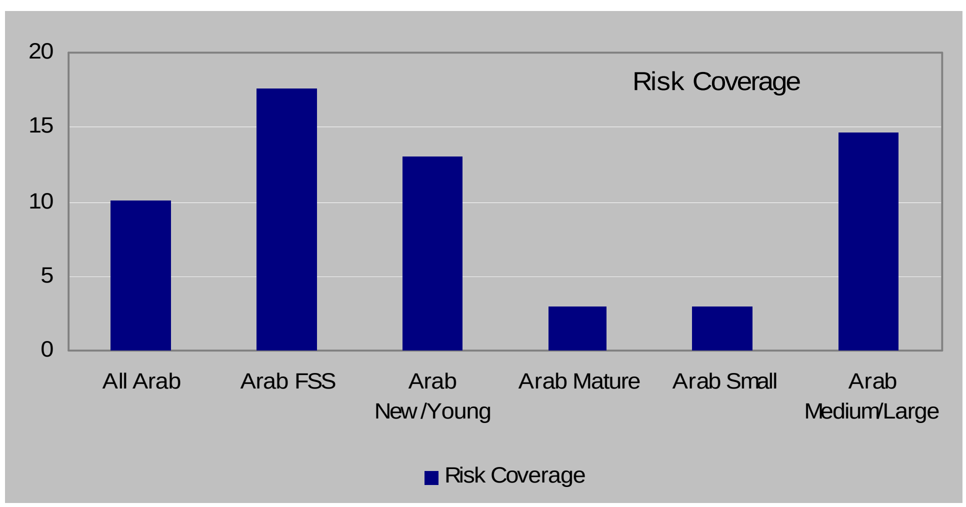


Microfinance in the Arab world

PORTFOLIO QUALITY	All MFIs	All Arab	Arab FSS	Arab New/ Young	Arab Mature	Arab Small	Arab Medium/ Large
Portfolio at Risk> 30 Days	2.8%	1.1%	0.8%	0.4%	2.7%	0.6%	1.4%
Portfolio at Risk> 90 Days	1.5%	0.7%	0.7%	0.2%	1.8%	0.4%	0.9%
Risk Coverage	1.3	10.0	17.6	13.0	3.0	3.0	14.7

With the exception of more mature Arab MFIs, the region's institutions demonstrate portfolio quality that far exceeds the global average. Mature Arab MFIs, at 2.7% portfolio at risk over 30 days, still fare better than their global peers, but have credit risk levels nearly twice as high as the next closest regional peer group – larger Arab MFIs.

All Arab institutions provision more for potential loss due to loan default than the global average MFI. This risk coverage ratio, as a measure of provision to total portfolio outstanding, is as much as ten times higher for Arab MFIs. Within this group, younger and larger scale Arab MFIs provision more than their peers. For the latter, this over provisioning may be a protection against the perceived increased risk from their larger, more diversified portfolios.



Regional Comparative Benchmark Tables

INSTITUTIONAL CHARACTERISTICS	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Number of MFIs	Sample size of group	124	10	21	22	22	50
Age	Years functioning as an MFI	8	6	8	9	4	12
Total Assets	Total Assets, adjusted for inflation and standardized loan portfolio provisioning and write-offs	7,931,000	8,237,985	7,734,962	7,224,607	5,341,523	11,700,878
Offices	Number, including head office	19	18	72	38	13	12
Personnel	Total number of employees	120	139	141	252	74	100

FINANCIAL STRUCTURE	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Capital/ Asset Ratio	Total Equity, adjusted/ Total Assets, adjusted	42.7%	66.7%	44.4%	37.6%	60.1%	35.3%
Commercial Funding Liabilities Ratio	All liabilities with "market" price/ Average Gross Loan Portfolio	44.1%	32.0%	42.6%	65.8%	9.0%	71.8%
Debt/ Equity Ratio	Total Liabilities, adjusted/ Total Equity, adjusted	1.9	0.7	2.0	1.6	1.1	2.7
Deposits to Loans	Voluntary Savings/ Gross Loan Portfolio, adjusted	15.3%	0.0%	0.2%	15.1%	0.0%	28.7%
Deposits to Total Assets	Voluntary Savings/ Total Assets, adjusted	12.3%	0.0%	11.0%	11.6%	0.0%	20.8%
Gross Loan Portfolio/ Total Assets	Gross Loan Portfolio, adjusted/ Total Assets, adjusted	70.9%	68.1%	65.1%	68.4%	78.1%	69.3%

SCALE AND OUTREACH	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Number of Active Borrowers	Number of borrowers with loans outstanding	15,553	18,535	21,974	32,915	6,040	13,755
Percent of Women Borrowers	Number of active women borrowers/ Number of Active Borrowers	62.9%	62.8%	70.8%	71.2%	59.5%	61.3%
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs	5,347,516	4,423,187	5,273,209\	4,912,373	4,454,067	8,559,291
Average Loan Balance per Borrower	Gross Loan Portfolio/ Number of Active Borrowers	532	406	228	195	926	816
Average Loan Balance per Borrower/ GNP per Capita	Average Loan Balance per Borrower/ GNP per Capita	54.3%	19.9%	69.1%	35.9%	79.7%	57.4%
Number of Voluntary Savers	Number of savers with passbook and time deposit accounts	3,345	-	27,082	18,374	-	2,422
Voluntary Savings	Total value of passbook and time deposit accounts	1,197,175	-	1,308,311	815,659	-	3,184,896
Average Savings Balance per Saver	Voluntary Savings/ Number of Voluntary Savers	269	n/a	105	39	n/a	741

PROFITABILITY AND SUSTAINABILITY	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Adjusted Return on Assets	Net Operating Income, adjusted and net of taxes/ Average Total Assets	0.1%	0.7%	-1.9%	2.1%	1.1%	-0.1%
Adjusted Return on Equity	Net Operating Income, adjusted and net of taxes/ Average Total Equity	2.3%	0.4%	-3.1%	10.3%	3.7%	1.1%
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)	115%	117%	110%	134%	123%	110%
Financial Self-Sufficiency	Financial Revenue, adjusted/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted	104%	106%	100%	115%	107%	102%

REVENUE	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Adjusted Financial Revenue Ratio	Financial Revenue, adjusted/ Average Total Assets	27.1%	24.1%	31.2%	24.0%	30.3%	31.7%
Adjusted Profit Margin	Net Operating Income, adjusted/ Financial Revenue, adjusted	0.3%	3.5%	-6.3%	7.6%	2.0%	-0.8%
Yield on Gross Portfolio (nominal)	Financial Revenue from Loan Portfolio/ Average Gross Loan Portfolio	39.8%	38.2%	49.7%	35.6%	41.3%	43.6%
Yield on Gross Portfolio (real)	(Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)	33.6%	35.0%	42.7%	30.4%	36.1%	35.1%

EXPENSE	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Adjusted Total Expense Ratio	(Financial Expense + Net Loan Loss Provision Expense + Operating Expense), adjusted/ Average Total Assets	27.7%	23.4%	36.3%	24.8%	29.1%	34.4%
Adjusted Financial Expense Ratio	Financial Expense, adjusted/ Average Total Assets	6.2%	2.9%	4.7%	6.7%	4.4%	8.8%
Adjusted Loan Loss Provision Expense Ratio	Net Loan Loss Provision Expense, adjusted/ Average Total Assets	1.8%	0.7%	1.1%	1.3%	2.1%	2.7%
Adjusted Personnel Expense Ratio	Personnel Expense, adjusted/ Average Total Assets	10.5%	11.9%	15.3%	8.4%	12.6%	10.0%
Adjusted Administrative Expense Ratio	Administrative Expense, adjusted/ Average Total Assets	8.4%	7.9%	14.5%	5.3%	10.1%	8.4%
Adjusted Operating Expense Ratio	Operating Expense, adjusted/ Average Total Assets	19.1%	19.8%	29.8%	12.5%	22.6%	18.4%
Adjustment Expense Ratio	Net inflation and subsidized cost-of-funds adjustment expense/ Average Total Assets	1.8%	1.4%	1.7%	1.4%	2.9%	2.0%

EFFICIENCY	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Operating Expense/ Loan Portfolio	Operating Expense, adjusted/ Average Gross Loan Portfolio	29.4%	30.9%	50.3%	21.7%	34.0%	27.3%
Personnel Expense/ Loan Portfolio	Personnel Expense, adjusted/ Average Gross Loan Portfolio	16.1%	18.9%	25.5%	14.0%	18.6%	14.7%
Average Salary/ GNP per Capita	Average Personnel Expense, adjusted/ GNP per capita	6.7	2.7	15.1	4.6	7.7	6.1
Adjusted Cost per Borrower	Operating Expense, adjusted/ Average Number of Active Borrowers	142	99	75	35	249	195

PRODUCTIVITY	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Borrowers per Staff Member	Number of Active Borrowers/ Number of personnel	121	145	180	149	92	128
Borrowers per Loan Officer	Number of Active Borrowers/ Number of loan officers	284	232	400	307	186	353
Voluntary Savers per Staff Member	Number of Voluntary Savers/ Number of personnel	34	-	132	127	-	28
Personnel Allocation Ratio	Number of Loan Officers/ Number of personnel	48.3%	60.7%	46.8%	51.7%	51.2%	41.0%

PORTFOLIO QUALITY	Definition	All MFIs	Arab World	Africa	Asia	E. Europe/ C. Asia	Latin America
Portfolio at Risk> 30 Days	Outstanding balance, loans overdue> 30 Days/ Gross Loan Portfolio, adjusted	2.8%	1.1%	2.6%	2.5%	1.1%	4.9%
Portfolio at Risk> 90 Days	Outstanding balance, loans overdue> 90 Days/ Gross Loan Portfolio, adjusted	1.5%	0.7%	1.3%	1.3%	0.4%	2.0%
Risk Coverage	Loan loss reserve, adjusted/ PAR > 30 Days	1.3	10.0	1.0	0.9	3.6	1.2

Conclusion

In many aspects, Arab microfinance has quickly shed its image as a young regional industry. It has grown at enormous pace to attain client outreach levels comparable to those of more mature regions. While a handful of countries drive this growth, the region as a whole has surpassed the forecasts once considered ambitious by regional experts. From a set of young institutions struggling with high costs associated with their small scale, Arab MFIs have also broken the barrier of sustainability, earning net positive returns from their financial services. The excellent portfolio quality, among the best in the industry, bodes well for future growth.

In other aspects, though, Arab microfinance still faces the challenges and growing pains of its youth. Almost all Arab microfinance clients are served today by NGOs. Hamstrung by legislation or institutional form, these non profits often offer little more than credit to their clients. Savings, insurance and transfer services – particularly important in a region with strong remittance flows – are yet to reach most microfinance clients. Similar funding constraints, sometimes resulting from institutional form or poor connections to the local banking sector, mean that Arab MFIs fund their growth through donations and equity. Improving linkages to formal financial sector actors will enable continued growth and could expand financial service offering.

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

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