2009 Arab Microfinance Analysis & Benchmarking Report

A report from Microfinance Information Exchange (MIX), Sanabel, and Consultative Group to Assist the Poor (CGAP)

May 2010

INTRODUCTION

Despite a gloomy economic climate and a worldwide financial crisis, the microfinance sector in most Arab countries continued to develop both in terms of infrastructure (opening of new branches and staff hiring) and operations (growth of loan portfolios and development of new products). However, there are striking disparities in the maturity and performance of the microfinance market in the different countries included in our sample. Morocco, in particular, has faced a crisis due to a high deterioration in loan portfolio quality.

This report provides a comprehensive view of the performance of the microfinance sector in the Arab region, beginning with a 2006-2008 study of scale and outreach trends with a sample of 35 microfinance institutions (MFIs) and a special focus on the microfinance sector crisis in Morocco, the only country to register a decrease in outreach in 2008. The report then highlights key regional policy improvements, followed by a study of the funding structure of the microfinance sector, the deep changes that have occurred, and key funding characteristics in terms of volume, lender type, and pricing. The last sections of the report analyze both portfolio quality by country and the profitability of the microfinance sector in the region, which now has the highest return on assets (ROA) in the world.

GLOBAL SLOWDOWN, REGIONAL GROWTH

⇨ *Growth continued but at slower rates in 2008, with strong growth in Egypt and Jordan.*

⇨ *Growth in Morocco, the historical market leader, stagnated in 2008, posting a net 6% decrease in outreach.*

While the world economy has experienced slower growth over the past three years, microfinance has continued to expand globally, albeit at much lower rates when compared to growth in previous years. From 2006 to 2008, the number of microfinance borrowers worldwide grew by 21 percent, and portfolio increased by 35 percent for the median MFI.[1] Following this trend, the Arab region also continues to grow at a high rate with outreach growing by 19 percent between 2006 and 2008. This high growth is also evident at the portfolio level, with a 30 percent increase in gross loan portfolio (GLP) from 605,850,000 USD in 2006 to 1,022,200,000 USD in 2008.

1 See Micro Banking Bulletin issue No. 19 for an analysis of a global set of 600 MFIs from 84 countries for the three-year period from 2006 to 2008 for more information.

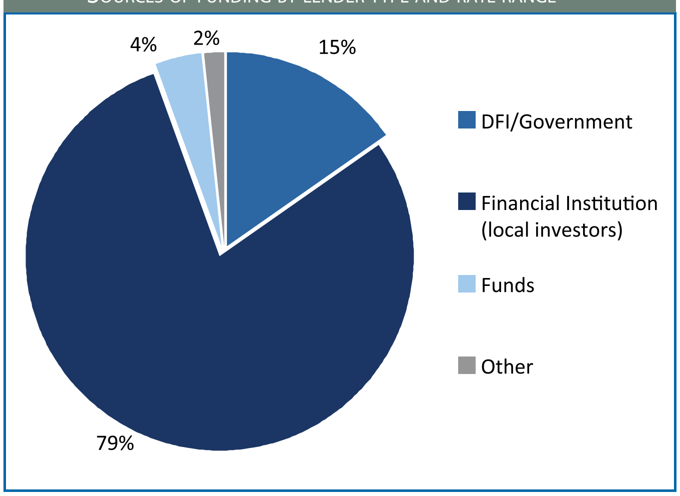
Arab Microfinance: Key Indicators 2008

Number of Borrowers and Volume of Loans by Country (54 MFIs)

Country	Number of participating MFIs	Number of active borrowers	Loan portfolio (USD)
Morocco	9	1,245,850	694,543,920
Egypt	14	862,511	163,760,754
Jordan	7	133,774	121,135,018
Tunisia	1	94,893	33,988,350
Palestine	8	37,353	78,930,471
Iraq	2	26,106	40,988,331
Yemen	6	24,099	3,180,363
Lebanon	3	23,640	20,572,705
Syria	2	21,789	15,358,541
Sudan	2	13,681	2,879,809
Total	54	2,483,696	1,175,338,262

Source: MIX Market, 2008. Results are totals from a data set of 54 MFIs that provided information for 2008.
Mauritania is part of the Arab region but no MFI reported in 2008.

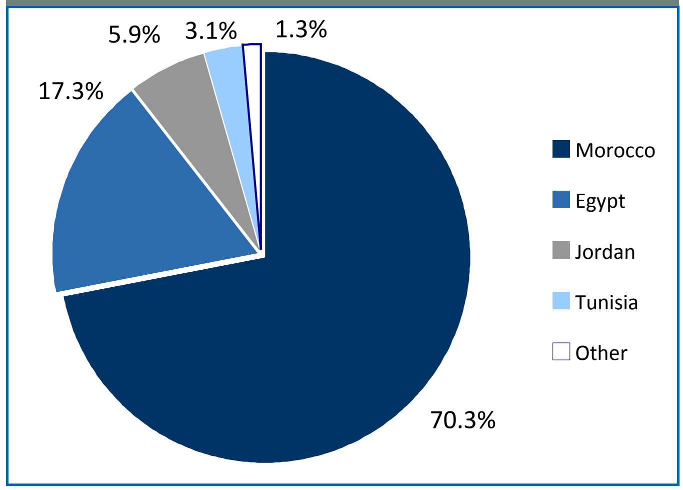
Sources of funding by lender type and rate range



Source: Microfinance Information Exchange, Inc., 2008 Benchmarks

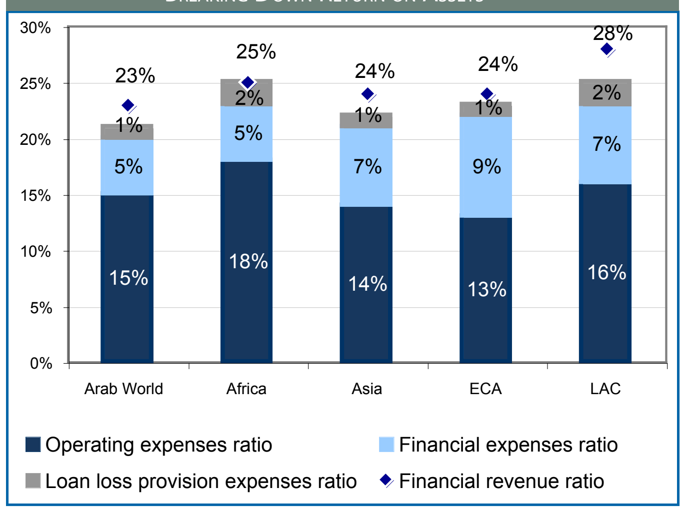
Lender type definitions:
DFI/Government: *Includes development-oriented funders, such as development finance institutions, governments, central banks, bilateral and multilateral development agencies, and development programs.*
Financial Institutions: *Includes commercial banks, public banks, and cooperatives.*
Funds: *Includes all types of microfinance investment vehicles (MIVs) and NGO/foundation funds.*
Other: *Includes NGOs, private individuals and private companies.*

Breaking down regional debt financing by country



Source: Microfinance Information Exchange, Inc., 2008 Benchmarks.

Breaking Down Return on Assets



Source: Microfinance Information Exchange, Inc., 2008 Benchmarks

When compared to other regions in the world, Arab microfinance recorded the second highest median in terms of outreach, after Asia. On average an Arab MFI reached 11,785 borrowers, surpassing the more mature market of Latin America and the Caribbean, where an MFI reaches an average of 9,768 borrowers. In terms of GLP growth, the Arab region also came second globally – this time to Latin America and the Caribbean – with respect to median GLP, which reached approximately 5.1 million USD per MFI.

In the Arab region Morocco and Egypt continued to dominate the microfinance sector in 2008. These two market leaders represented 85 percent of all borrowers and 73 percent of the total loan portfolio of the region (see **Table 1**).

In addition to increased outreach, the sector has also continued to grow in branch infrastructure and staffing, as shown in **Table 2**. Over the past three years the median total number of staff for the median Arab MFI has gone from 90 to 147, a 63 percent increase. Again, Morocco stands out in terms of branch networks (comprising 83 percent of the region's total offices) and staffing (54 percent of the region's total staff). Both GLP and number of borrowers increased for the region by 69 percent and 43 percent, respectively, over the same period, despite the worldwide slowdown in growth in 2007 and 2008.

Table 1 Number of Borrowers and Volume of Loans by Country (54 MFIs)

Country	Number of participating MFIs	Number of active borrowers	Loan portfolio (USD)
Morocco	9	1,245,850	694,543,920
Egypt	14	862,511	163,760,754
Jordan	7	133,774	121,135,018
Tunisia	1	94,893	33,988,350
Palestine	8	37,353	78,930,471
Iraq	2	26,106	40,988,331
Yemen	6	24,099	3,180,363
Lebanon	3	23,640	20,572,705
Syria	2	21,789	15,358,541
Sudan	2	13,681	2,879,809
Total	54	2,483,696	1,175,338,262

Source: MIX Market, 2008.
Results are totals from a data set of 54 MFIs that provided information for 2008.
Mauritania is part of the Arab region but no MFI reported in 2008.

While all of the large markets included in the sample witnessed growth (in real terms) ranging from 19 percent to 36 percent in total outreach to borrowers and from 27 percent to 52 percent in GLP, Morocco was the only exception with total outreach and scale decreasing by 6 percent and 7 percent, respectively, (see **Figure 1**) due to quick loan portfolio deterioration in 2008.

2 The percentage changes for GLP were calculated in accordance with local currency figures to avoid variations in exchange rate between 2006, 2007, and 2008.

Table 2 Increase in Arab MFI activities, 2006-2008 trend data (35 MFIs)

	2006	2007	2008	2006-2008 growth
Total number of offices	1,659	1,956	2,113	27%
Total number of staff	8,536	11,159	12,422	46%
Total number of borrowers	1,508,587	2,021,601	2,150,382	43%
Total GLP (USD)	605,830,090	967,683,119	1,022,233,492	69%

Source: MIX Market 2006-2008 MIX Market. Results are totals from a data set of 35MFIs that provided information for 2006-2008.

Moroccan MFIs Confront Crisis and Strive for a Brighter 2010

Few countries boasted as strong and as vibrant a microfinance sector as Morocco, where MFIs saw the size of their combined loan portfolio multiply 11 times between 2004 and 2007. However, the last two years have shown that this growth came at the cost of asset quality, which – combined with clients having borrowed from multiple MFIs – spurred write-offs and falling returns. There are 12 licensed MFIs serving more than 1 million clients at the end of 2008, but the industry is highly concentrated, with four players accounting for 90 percent of the client base.

As the crisis unfolded in 2007, Morocco's MFIs still boasted strong financial indicators, with portfolio-at-risk (PAR) of more than 30 days at 1.9 percent, still below the global average of 2.7 percent. With such strong growth in the preceding years, MFI managers in Morocco failed to see the scope of the crisis that was emerging.

During 2008, non-performing loans began to mount, affecting all MFIs. The PAR reached 5 percent at the end of 2008, doubling to 10 percent by June 2009. In May 2009, one of the four leading MFIs, Zakoura, recorded a PAR of more than 30 percent and decided to merge with Fondation Banque Populaire de Microcredit (FBPMC). Moroccan MFIs came to realize the costs of unsustainable growth, namely lenient credit policies, obsolete management information systems (MIS), substandard governance, and lack of internal controls.

According to a recent study by CGAP, MFIs in Morocco have embarked on a path to recovery, aided by timely government support (by developing a plan in close collaboration with the Moroccan central bank and the Federation of MFIs to promote consolidation in the sector)[3] and continued backing from commercial banks that have maintained their credit allocations to the sector. To hasten recovery, Moroccan MFIs are tightening their credit processes, strengthening management, and placing a greater emphasis on loan recovery, including the use of legal action when needed to pursue delinquent borrowers.

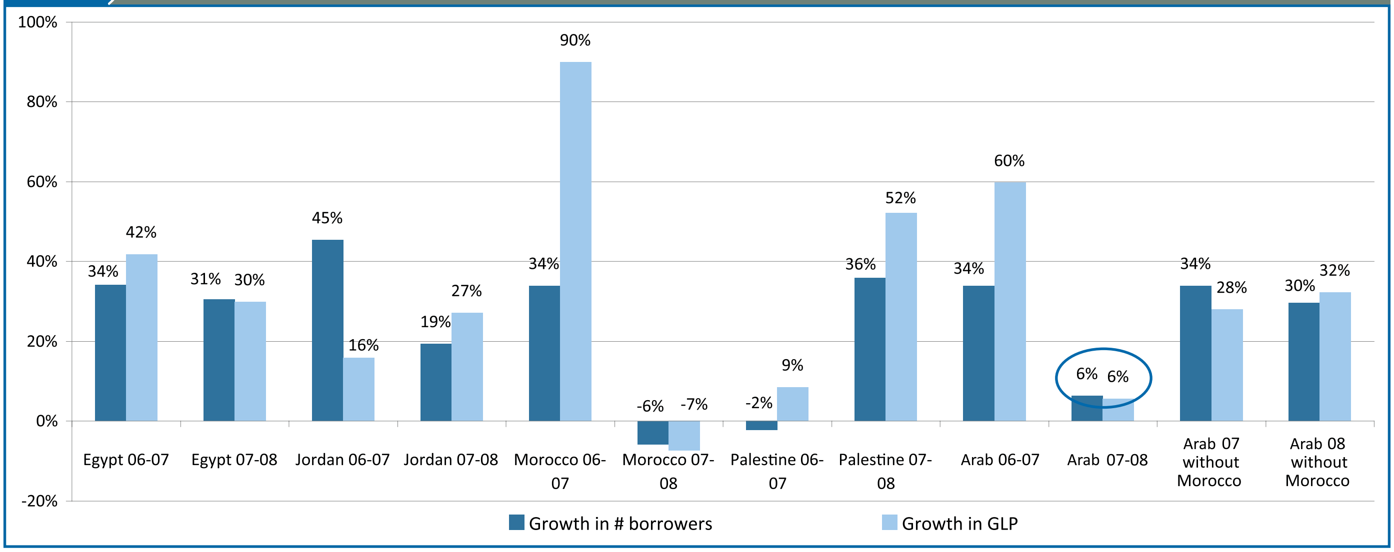
Importantly, the five biggest MFIs are also sharing credit information weekly to curb lending by multiple MFIs to the same client, prompting a decrease in the share of clients with multiple loans to 29 percent in September 2009 from 39 percent in October 2008.

At the same time, MFIs have eased their growth rates and reduced their balance sheet size (total assets declined by 1.2 percent in 2008). The combined cash position of Moroccan MFIs increased correspondingly, reaching a record 15 percent by the end of 2008.

Through these comprehensive measures, and adjustments within the MFIs themselves, the microfinance industry is rebuilding confidence among clients and ensuring that the sector's foundations are sufficiently solid and mature to meet the financing needs of millions of poor families in Morocco.

3 For further information about this government plan, visit: http://www.cgap.org/gm/document-1.9.41164/Morocco_Brief.pdf

FIGURE 1 CHANGE IN NUMBER OF BORROWERS AND LOAN PORTFOLIO (GLP): 2006 – 2008



Source: Microfinance Information Exchange, Inc., 2008 Benchmarks

In the meantime, the Egyptian market recorded 30 percent growth in both outreach and GLP in 2008 over 2007, while the Jordanian market increased outreach by 19 percent and GLP by 27 percent. What is most interesting to note here, however, is the unmatched growth levels recorded by the Palestinian market, which are the highest in the region in terms of both outreach and GLP, at 36 percent and 52 percent, respectively. This growth can be explained by notable improvements in outreach and portfolio during 2008, due to relative improvements in the environment after two years of a slowdown in operations in 2006 and 2007 because of conflict and internal instability.

One factor that helps to explain this continued growth is the ability of MFIs to broaden the range of the products they offer to meet client demand. In 2008, clients of Arab MFIs had access to a variety of loan products, including agricultural, business, consumer education, housing, Islamic, seasonal, youth, and start-up loans. The products offered vary from one country to another, with more mature markets offering a fuller range of products (as in Jordan, Palestine, and Yemen) whereas more nascent markets (such as Sudan) provided a more limited choice. In Jordan, Tamweelcom launched "Progress Loan," which targets small entrepreneurs in various sectors of the economy, providing them with some cutting-edge repayment and business development advantages.

Savings products, however, continue to be offered on a limited scale in the region, due to restrictions in legislation, and can be found only in Mauritania, Palestine, Syria, and Yemen. In 2008, the Mauritanian MFI PROCAPEC introduced a novel savings account for the Hajj to its clients. As a means of developing a market niche, the MFI has enabled its low-income clients to save up to half of the costs associated with the religious pilgrimage. MFIs in Egypt, Jordan, and Lebanon also offer credit life insurance products, in most cases through insurance companies.

MICROFINANCE REGULATION IN THE ARAB WORLD – REGULATION IN A HIGH-GROWTH ENVIRONMENT

Most of the microfinance providers in the Arab world are non-profit institutions regulated by associations or NGO laws. Until 2007 only two countries, Morocco and Tunisia, had passed microfinance-specific laws to regulate the sector. However, over the last two years, policy makers have been busy introducing new laws and regulations to strengthen and support the growth of microfinance. The major policy-related issues and challenges in the region are:[4]

- **New frameworks to support microfinance commercialization.** New regulatory windows for commercial and privately owned institutions are being established in countries such as Egypt, Syria, and Yemen. While Egypt restricts microcredit institutions to lending only, Syria and Yemen have introduced new laws permitting the establishment of deposit-taking MFIs. Very few licenses were granted in 2008 and 2009, but these new regulatory windows should allow commercial players to enter the microfinance space.

- **Transformation policies to support the growth of large MFIs.** Several countries, such as Morocco, Syria, Yemen, and Egypt, are looking at legal and regulatory steps to allow the transformation of non-profit NGOs into commercial microfinance providers. These transformations would help to ensure level playing fields among microfinance providers and help large NGOs to strengthen their equity base and diversify their funding sources.

- **Improving risk management: creation of credit bureaus.** Countries such as Morocco, Palestine, and Egypt are establishing new credit information systems to improve risk management and limit the client over-indebtedness prevalent in some high-growth markets. While the systems in Morocco and Palestine are public and hosted in and managed by central banks, it is a private sector initiative in Egypt. MFIs are included in these credit information reporting schemes and have to report to the credit bureaus. However, several MFIs are reluctant to participate due to the high cost of the system.

- **Restrictions on product diversification.** Islamic microfinance products have the potential to increase market penetration. However, in some jurisdictions, such as Syria and Palestine, regulators are considering limiting MFIs (as commercial banks are also limited) to the provision of either conventional or Islamic products (but not both). This limitation may discourage the majority of existing MFIs, which are currently providing conventional products, from piloting Islamic products that could substantially increase market outreach.

- **Emerging regulations for new technologies.** Branchless banking can reduce costs and expand outreach through the use of non-bank retail agents and information technology to deliver financial services to low-income people beyond traditional banking channels. Though several mobile network operators in different countries are interested in initiating such a service, unclear regulations and the reluctance of regulators have been major obstacles, making the Arab world the last region without a significant branchless banking model. Nevertheless, one branchless banking initiative appears to be emerging in Morocco, and Egyptian regulators are expected to issue payment system regulations in 2010 that would enable mobile banking operations.

- **Interest rate ceilings.** Interest rate ceilings remain a challenge for MFIs in Morocco and Egypt. In Morocco, these caps prevented banks from downscaling, which led them to create affiliated MFIs, such as the Fondation Banque Populaire pour le Microcredit and Ardi (which is affiliated with the Crédit Agricole du Maroc), under the microfinance law. In Egypt, MFIs are lobbying against the interest rate ceilings and hoping that these caps will be canceled.

4 To know more about country-by-country regulation specificities, please see the annex “Country Regulation Overview” on page 20.

A CHANGING FUNDING STRUCTURE

⇨ 2008 saw a decrease in donors' and investors' commitments in large markets.

⇨ The "Financial Institution"[5] lender group is the main source of funding for Arab MFIs.

⇨ There are high regional disparities in access to funding.

At a glance

- 25 funders committed 717 million USD to Middle East and North Africa (MENA)[6] as of December 2008, representing 5 percent of total funding committed to microfinance globally.

- 17 donors and 8 investors are active in MENA; funding committed to the region is almost equally provided by donors and investors.

- The top five funders in MENA account for 54 percent of funding committed to the region.

- Debt is the main funding instrument (62 percent), followed by grants (22 percent), and guarantees (13 percent).

- Morocco and Egypt receive 77 percent of funding committed to MENA.

Source: CGAP Microfinance Funder Survey 2009. Number of respondents: 61

Lower donor and investor commitments[7]

Arab MFIs continue to benefit from the investment of the donor and investor community. The CGAP survey on levels of commitment from donors and investors in 2008, "2009 Microfinance Funder Survey - Middle East and North Africa (MENA)," captures the microfinance portfolios of leading cross-border donors and investors operating in the region and shows that the MENA region received 717 million USD of cross-border funding in 2008. While small in absolute volume, these commitments represent over 5 percent of total global commitments, ahead of the 3 percent that the region holds of the global microfinance loan portfolio. This amount was committed by 25 funders representing 5 percent of the total amount allocated worldwide.

While overall funder commitments increased for every region in the world, from 13 percent growth in Sub-Saharan Africa to 33 percent in East Asia and the Pacific, commitments in MENA dropped by 5 percent in 2008 (see **Figure 2**). Indeed eight funders reduced their exposure in the region by around 159 million USD, while 11 increased their exposure by 124 million USD, and three funders maintained the same exposure. A closer examination of commitments by funder type shows that the organizations that have reduced their funding commitments in MENA were mainly donors, while those increasing their commitments are primarily private investors.

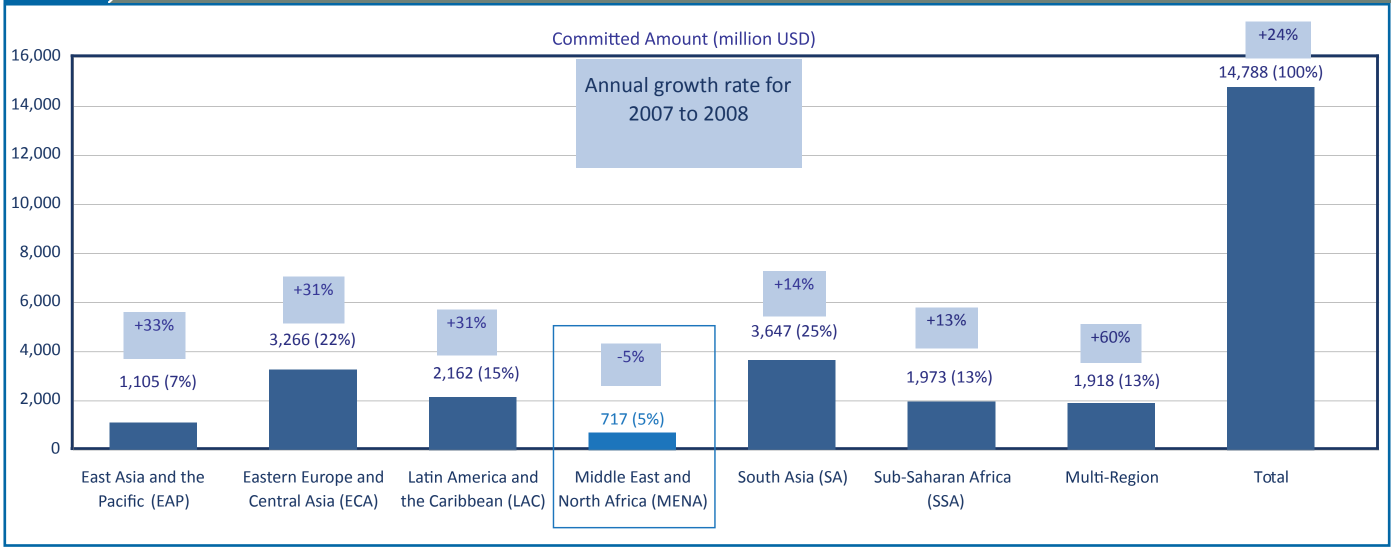
This decrease in funds is due to the closure of significant programs and large projects in 2008 mainly active in the largest regional markets, Morocco and Egypt. Both countries received, cumulatively, 77 percent of total funding committed in the region. Historical support from donors and a high concentration of funding have had a direct impact on outreach and GLP development as both countries cumulated 85 percent of active borrowers and 73 percent of GLP within the region in 2008, and also permitted MFIs to leverage debt from private investors and local banks.

5 Financial Institutions include commercial banks, public banks, and cooperatives.

6 The MENA region does not include Arabic-speaking countries in Sub-Saharan Africa.

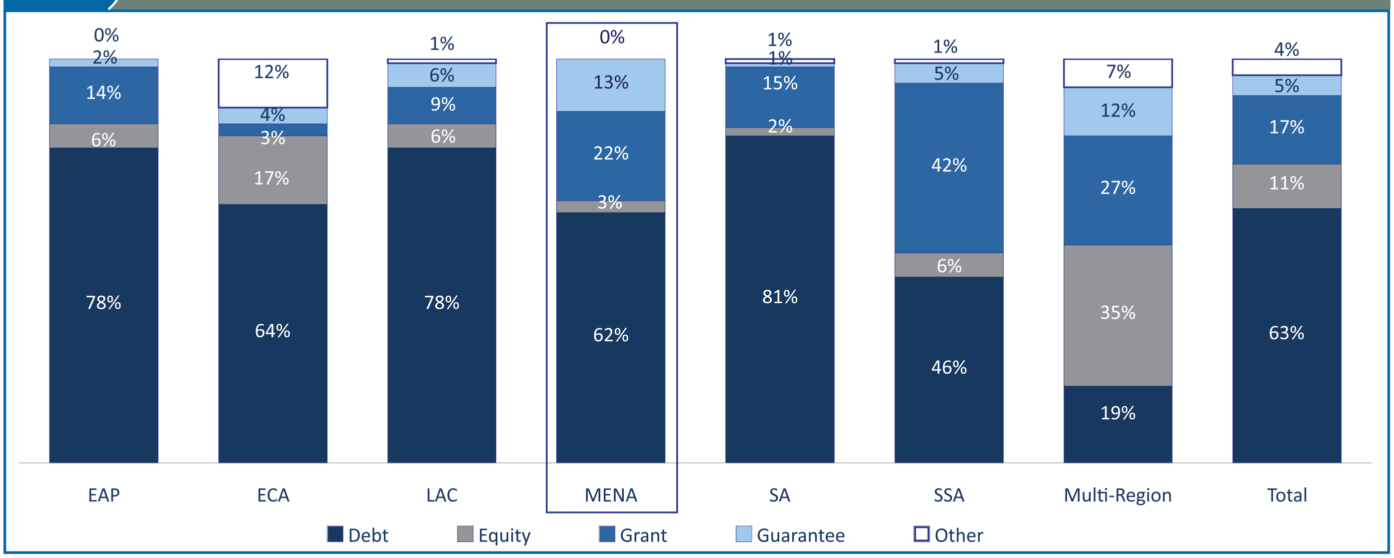
7 Committed cross-border funding at the sector level: the CGAP Microfinance Funder Survey provides data on cross-border investor and donor funding as of December 2008, at all three levels of the microfinance industry – macro (policy and regulatory environment), meso (general market infrastructure and wholesale lending), and micro (retail level). These data are reported by donors and investors. Amounts are committed, i.e., include the entire amount set aside for microfinance in all active projects, whether disbursed or not in 2008.

FIGURE 2 FUNDERS AND DONORS COMMITTED AMOUNTS IN THE MENA REGION



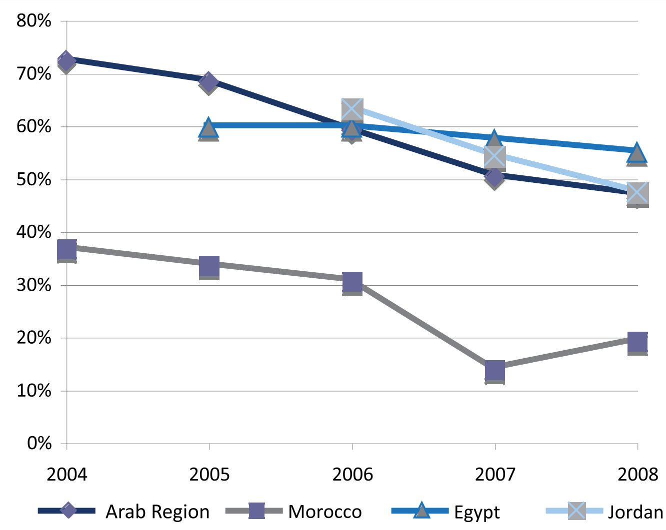
Source: CGAP Microfinance Funder Survey 2009. Number of respondents: 61

FIGURE 3 COMMITTED AMOUNT BY INSTRUMENT



Source: CGAP Microfinance Funder Survey 2009. Number of respondents: 61

FIGURE 4 FINANCIAL STRUCTURE: CAPITAL-TO-ASSET RATIO



Source: Microfinance Information Exchange, Inc., 2004-2008 Benchmarks

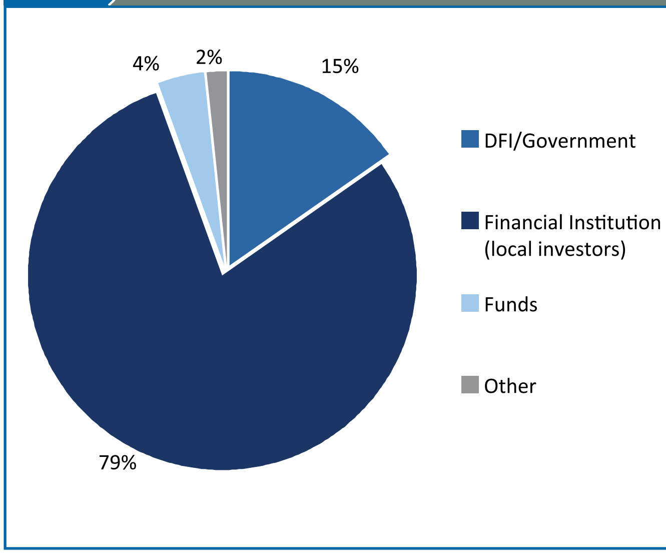
MFI funding structure and lenders[8]

As the previous section illustrates, debt has come to play a primary role for growth because Arab MFIs have few other options. Non-profits constitute 85 percent of MFIs in the region and thus cannot attract shareholder capital, although recent legal developments in Syria, Yemen, and Egypt will open up the equity option to more MFIs. In addition, regulatory constraints in place in most countries do not allow for deposit mobilization. As a result, little funding across the region comes from deposits. Approximately 27 percent of the Arab MFIs included in the sample maintain compulsory savings[9] and only 7 percent provide voluntary microsavings to clients.

Historically, Arab MFIs have funded their growth predominantly through donations and subsidized funding. This is not the case anymore. Since local bank-sourced debt tentatively entered the Arab region in the early 2000s, debt-financing has taken off, bringing down the capital-to-asset ratio from a dominant 75 percent of financing in 2003 to 47 percent in 2008, with some notable regional disparities. Indeed this year and for the first time, Arab MFIs funded their operations mostly through debt (53 percent) versus equity.

Local banks serve as the major lenders to MFIs. Reassured by the increasing maturity of a growing sector, guarantees from international donors and investors, and the gradual enactment of enabling legal frameworks, financial institutions provided 79 percent of funds raised by MFIs, while development-oriented lending from DFIs and governments accounted for another 15 percent (see **Figure 5**). International microfinance-focused funds, while present in a few markets, contributed just 4 percent of total debt financing at the 2008 year end.

FIGURE 5 SOURCES OF FUNDING BY LENDER TYPE AND RATE RANGE



Source: Microfinance Information Exchange, Inc., 2008 Benchmarks

Lender type definitions:
DFI/Government: *Includes development-oriented funders, such as development finance institutions, governments, central banks, bilateral and multilateral development agencies, and development programs.*
Financial Institutions: *Includes commercial banks, public banks, and cooperatives.*
Funds: *Includes all types of microfinance investment vehicles (MIVs) and NGO/foundation funds.*
Other: *Includes NGOs, private individuals and private companies.*

8 Outstanding liabilities at the retail level (cross-border and local): the Funding Structure Database of MIX presents findings on the funding of retail microfinance from both cross-border and local funders. These data are reported by the MFIs, through the disclosure of their balance sheet. Amounts are outstanding.

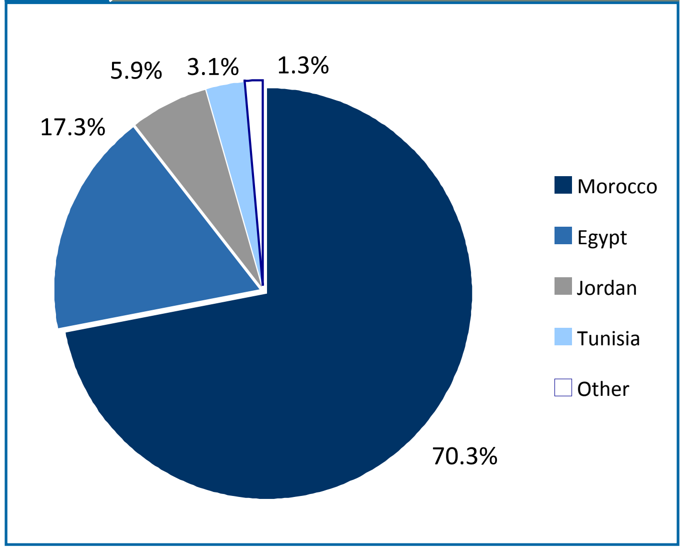
9 A form of loan guarantee used by some MFIs through which a certain percentage of the loan disbursed is deducted from each borrower and saved with the institution until the loan is completely re-paid.

The two major market players in the region, Egypt and Morocco, have matured over the past few years, as evidenced by their increased integration and inclusion in the global financial system and ability to raise funds from local and international banks with less reliance on credit guarantee funds from donors. However, as seen in **Figure 6**, a large gap still exists between Morocco and other Arab countries in terms of commercial debt funding. This may be partially explained by the size of the Moroccan market, but more so by its historical high performance, which has resulted in its regional leadership and international recognition. As **Figure 7** shows, the local banking sector finances up to 80 percent of the total debt liabilities for Moroccan MFIs, but this debt is highly concentrated in the four largest MFIs in Morocco that reached between 100,000 and 470,000 borrowers in 2008. Almost half is being sourced from private banks and the other half from public banks. Moroccan MFIs also benefit both from longer term resources, with a weighted average loan term of 68 months versus 24 months for Arab MFIs in general, and from a 4 percent interest rate, the second lowest within the region (see **Table 3**).

Table 3	Interest rates on borrowing by country
Palestine	1.90%
Morocco	3.70%
Sudan	6.70%
Jordan	7.60%
Egypt	9.60%
Yemen	11%

Source: Microfinance Information Exchange, Inc., 2008 Benchmarks. Results are weighted averages.

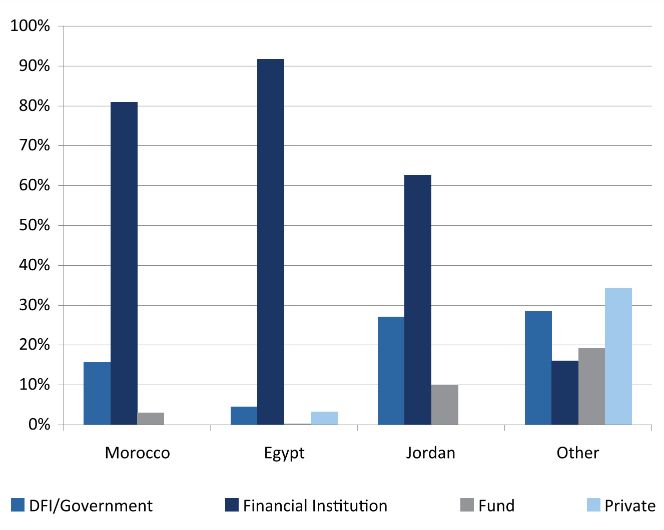
Figure 6 Breaking down regional debt financing by country



Source: Microfinance Information Exchange, Inc., 2008 Benchmarks.

While the Moroccan market is able to easily source commercial funding without resorting to donor credit guarantees, the Egyptian market is still somewhat dependent on credit guarantee schemes to obtain local bank funding. In Egypt, banks are financing around 92 percent of the microfinance sector's debt liabilities, mostly by leveraging U.S. dollar-denominated deposits for collateral or guarantees provided by local and international donors. Local banks continue to cite restrictions in lending to non-profits, requiring cash securities or other guarantees to extend financing. In 2009, the U.S. Agency for International Development (USAID) and Grameen Foundation announced a new collaboration that will make up to the equivalent of 162.5 million USD of financing available to MFIs in local currency throughout the developing world through the Development Credit Authority (DCA). Under this new scheme, the DCA credit guarantee could be extended to two of the largest Egyptian MFIs, namely, DBACD and Lead Foundation.

FIGURE 7 DEBT BY TYPE OF LENDER AND COUNTRY



Source: Microfinance Information Exchange, Inc., 2008 Benchmarks.

Note: "Other" category includes Sudan, Yemen, Syria, Lebanon, and Palestine. It does not include Tunisia.

The young and emerging markets in the region, such as Lebanon, Palestine, Syria, Sudan, and Yemen, secured 80 percent of their debt financing from donors (channeled via national governments), DFIs, and others. These nascent markets – with some exceptions – are not mature enough to raise funds from banks without the help of credit guarantees. In Palestine, the UNDP project financed by the Islamic Development Bank is the largest lender to MFIs. The Social Fund for Development in Yemen also continues to provide wholesale lending to Yemeni MFIs to increase their outreach.

The Arab microfinance sector recorded a low level of financial expenses that can be partly explained by the fact that many MFIs in the region are still accessing funds at subsidized interest rates. The Moroccan microfinance sector pays the lowest interest rates in the region, with a weighted average rate of 4 percent, versus 10.25 percent for Egyptian MFIs and 8.56 percent for MFIs in Jordan. Debt financing in the remaining markets (Lebanon, Palestine, Syria, Sudan, and Yemen) is just 6 percent. Indeed 65 percent of all funding liabilities in 2008 were borrowed at below a 5 percent interest rate, helping to explain the significant gains in profitability in the region in 2008.

EFFICIENCY AND PROFITABILITY

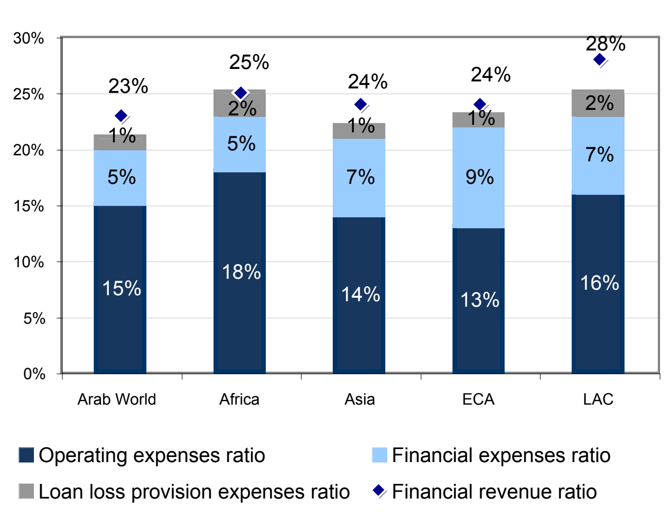
⇨ *The Arab microfinance sector became sustainable in 2008, maintaining the lowest total expense ratio throughout the world.*

⇨ *Arab MFIs (excluding Moroccan MFIs from the sample) improved both productivity and cost per borrower.*

After having recorded a negative ROA amounting to -0.15 percent in 2007, the Arab region was able to record an important increase in profitability, achieving a positive ratio of 2.4 percent in median growth and representing the highest ROA in the world (leaving Latin America and the Caribbean in second place with an ROA of 1.8 percent). This 2.4 percent ROA is interesting given that the region maintained the lowest financial revenue ratio in the world, with 22.8 percent compared to 27.9 percent for Latin America and the Caribbean. This low level of financial revenues is explained by the fact that Arab MFIs both charge among the lowest interest rates and have the second lowest GLP/asset allocation in the world.

At the same time, with a ratio of total expenses to assets of 21.6, the Arab region maintained the lowest total expense ratio in the world – 1.9 points lower than the Asian market, which holds second place, and 6 points less than the African market, which has the highest total expense ratio at 27.6 percent. The detailed analysis of various costs shows that while the region maintained high operating costs – it has the highest personnel expenses in the world – the region maintained low financial and loan loss provision expense ratios.

FIGURE 8 BREAKING DOWN RETURN ON ASSETS



Source: Microfinance Information Exchange, Inc., 2008 Benchmarks

Despite a decrease in efficiency levels over time, the Arab region remains amongst the most efficient regions in the world and ranks just below the global median with an operating expense/loan portfolio ratio of 21 percent. Nevertheless, the cost per borrower for the region rose from 68 USD in 2006 and 2007 to 75 USD in 2008, and productivity fell as the borrowers-per-staff ratio went from 150 to 137. However if we exclude Moroccan MFIs from this sample, trends are reversed, as we notice a decrease of the cost of borrowers going from 80 to 75 USD over this three-year period as well as an increase from 125 to 128 in terms of borrowers per staff member. Indeed, Morocco shows both a high decrease in staff productivity (from 220 to 145 borrowers per staff) because of deteriorating portfolio quality and an important increase of 34 percent of cost per borrower (from 51 to 75 USD from 2006 to 2008). Most regions in the world have seen an increase in costs, attributable to two main factors. First, the increasing portfolio arrears in a number of markets shifted the focus of MFI staff from making productive new loans to recovering delinquent loans and ensuring repayment from current clients. Second, slower growth left many MFIs with excess personnel after having staffed up for continued growth. Also, it is important to note that many of the MFIs in the Arab region registered growth in personnel expenses due to significant salary increases made to offset the increase in food and fuel prices in 2008.

The Palestinian market recorded the highest improvement in efficiency; its operating-expense-to-portfolio ratio dropped by 6 percent and financial self-sufficiency rose by 16 percent, making the sector very close to achieving financial self-sufficiency with a ratio of 98 percent. In contrast with regional trends, PAR > 30 days also dropped significantly in 2008 in Palestine. These positive trends may be partially explained by the improvements in the political environment, which consequently reduced the business risks characteristic of conflict areas such as Palestine. However, even if Palestine has the highest improvements in efficiency and PAR, ratios are still far below the regional median, especially because of the global low performance and very high PAR in the previous years. Nevertheless, an ongoing risk faced by Palestinian borrowers (and Lebanese borrowers to some extent) is the currency risk due to the dual currency system.[10] Moreover, with volatile economic and political conditions and high poverty levels, Palestinian borrowers are at constant risk of business failure, over-indebtedness, or default.

In 2008, the Arab region maintained productivity levels above the worldwide median at 118 borrowers, served per staff member. Nevertheless, the fixed trends sample shows that productivity has in fact dropped by 15 percent in comparison to 2007. The increase in staffing highlighted earlier was not matched with an equal increase in the number of borrowers, which can somewhat explain the decline in staff productivity ratios. Staff productivity dropped in all markets within the region with the exception of the Jordanian market, which saw its borrowers-to-staff ratio increase by 3 percent to 175. When examining growth rates in staff and borrowers, Jordan clearly stands out as the only market in the region where growth in borrowers exceeded the growth in staffing.

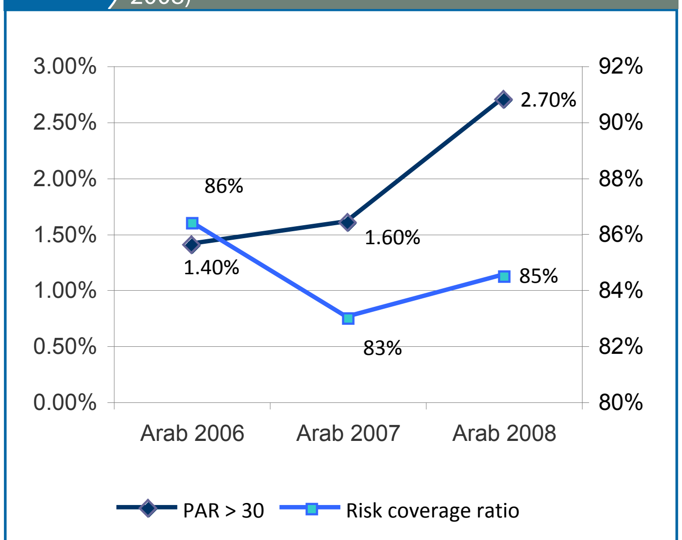
10 While MFIs lend in U.S. dollars, the main currency used within the country is the Israeli Shekel, which increases the risk for end borrowers.

ASSET QUALITY

➾ PAR highly deteriorated in Morocco but remained stable in the rest of the region.

With regard to the loan loss provision expense ratios, the region's provisioning did not keep up with the deterioration in portfolio quality; PAR > 30 days went from 1.4 percent in 2006 to 2.7 percent in 2008 (an increase of over 90 percent). As illustrated in **Figure 9**, however, the risk coverage ratio (representing the loan loss allowance as a percentage of PAR > 30 days) actually decreased in 2007 and 2008 compared to 2006. This may be explained by the notable increase in delinquency in the Moroccan market in 2007 and PAR > 30 days reaching 3.4 percent in 2008 – a phenomenal 470 percent increase compared to 2006 (see **Figure 10**). If we exclude Morocco from the Arab sample, however, PAR > 30 remains stable at 2 percent from 2007 to 2008.

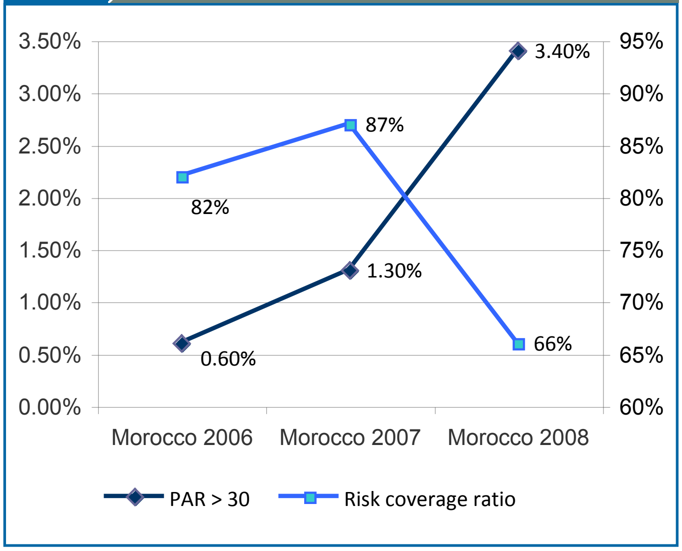
FIGURE 9 PAR > 30 AND COVERAGE IN THE ARAB REGION (2006 – 2008)



Source: MIX Market 2006-2008.

Results are weighted average and from a data set of 35 MFIs that provided information for 2006-2008.

FIGURE 10 PAR > 30 AND RISK COVERAGE IN MOROCCO (2006 – 2008)



Source: MIX Market 2006-2008.

Results are weighted average and from a data set of 35 MFIs that provided information for 2006-2008.

In Morocco, total expenses grew from 23 to 28.5 percent between 2007 and 2008, and there was a sharp increase in PAR > 30 days, as noted above, due to some historically unattended problems, including relaxed credit policies, obsolete MIS, poor governance, and lack of internal controls. The rising costs of food and fuel may also have had an impact on the repayment ability of Moroccan and Arab microentrepreneurs, further aggravating the deterioration in portfolio quality. Moreover, as highlighted in **Figure 10**, the Moroccan market saw its risk coverage ratio drop in 2008, which may be an indication that MFIs opted to draw on their provisioning reserves to cushion against the losses ensuing from delinquent loans.

The Egyptian market also witnessed a decline in portfolio quality with PAR > 30 days increasing from 1.6 percent to 2.7 percent and the total expenses ratio growing by 10 percent to reach 21.2. The Jordanian microfinance sector, however, continues to shine and stand out – as was the case in 2007 – with its continued growth and development in operations. The Jordanian market seems to have been only slightly affected by the financial crisis, recording an increase from 19.7 to 21.7 percent in total expenses and an increase in PAR > 30 days from 1.8 to 2.4 percent that is well covered by a 159 percent risk coverage ratio.

CONCLUSION

The microfinance industry in the Arab region continued to grow, though less than in previous years, and continued to develop a range of new products in response to clients' needs. The region recorded the highest ROA in the world, with the lowest total expense ratio and the lowest financial revenue ratio. Even with the Moroccan delinquency crisis, which clearly affected the whole region's quality of assets, the region recorded the lowest PAR > 30 in the world, and reached sustainability through a 2007-2008 growth in operating expenses. The Moroccan market took steps toward recovering from the crisis with government support and their efforts in tightening up credit processes, which will show results in subsequent years.

In 2008, we witnessed a reversal trend for the financing structure of Arab MFIs from a reliance on grants toward debt funding. With the very limited role played by saving in the financing structure of Arab MFIs, the most immediate concern for Arab MFIs upon the start of the global financial crisis was how the global liquidity contraction would affect the availability of funding. The Arab region was the only region that witnessed a drop in funder commitments (5 percent) in 2008. This drop was driven by the close of several donor and guarantee issuer programs and big projects, and expansion of several private sector commitments. Given this situation, we might expect a refinancing problem to appear in the following years as a result of the global financial crisis.

The Arab microfinance sector is still faced with many challenges, especially at the regulation level, as some countries still do not have microfinance regulations. In addition to the policy improvements discussed earlier that are key factors in helping all MFIs to strengthen their activities, MFIs also need strong governance, appropriate MIS, and internal credit policies and controls.

Charles Cordier
Lead Analyst, MENA, MIX

Ranya Abdel Baki,
Executive Director, Sanabel

CGAP MENA Team

2008 Benchmarks - 54 MFIs 2006-2008 Trend Data MFI Participants - 35 MFIs names in italics	
Egypt	*ESED, Lead Foundation, SBACD*, IDDA, SCDA, *ABA*, ABWA, *FMF, DBACD, Al Tadamun, CEOSS*, RADE, NSBA, ASBA
Iraq	Al-Thiqa, CHF Irak
Jordan	*MEMCO, Tamweelcom, AMC, DEF, Alwatani, MFW*, FINCA-JOR
Lebanon	*AL Majmoua*, Makhzoumi, *Ameen*
Morocco	*FBPMC, FONDEP, Zakoura, AMOS, AMSSF/MC, Al Karama, INMAA, ARDI, Al Amana*
Palestine	*UNRWA*, Al Rafah Bank, *FATEN*, PARC, *ASALA, ACAD*, Reef, Ryada
Sudan	BRAC-SS, *PASED*
Syria	Jabal al Hoss, *FMFI Syria*
Tunisia	*Enda*
Yemen	Abyan, SFSD, *Al Awael, NMF, Azal*, Aden

Peer group	Definition	Description
Country	Egypt (14 MFIs)	Egyptian MFI
	Jordan (7 MFIs)	Jordanian MFI
	Morocco (9 MFIs)	Moroccan MFI
	Palestine (8 MFIs)	Palestinian MFI
	Yemen (6 MFIs)	Yemeni MFI
	Arab region without Morocco (39 MFIs)	All Arab MFIs except Moroccans'
Sustainability	Arab FSS (30 MFIs)	Financial Self-Sufficiency ≥ 100 %
	Arab Non FSS (20 MFIs)	Financial Self-Sufficiency < 100 %
Scale	Arab Small (17 MFIs)	Arab MFI with a gross portfolio of loans < 2 million USD
	Arab Medium (12 MFIs)	Arab MFI with a gross portfolio of loans between 2 and 8 million USD
	Arab Large (25 MFIs)	Arab MFI with a gross portfolio of loans > 8 million USD
Outreach	Arab Small (21 MFIs)	Number of borrowers < 10,000
	Arab Medium (18 MFIs)	Number of borrowers ≥ 10,000 and < 30,000
	Arab Large (15 MFIs)	Number of borrowers > 30,000

Indicator Definitions	
INSTITUTIONAL CHARACTERISTICS	
Number of MFIs	Sample size of group
Age	Years functioning as an MFI
Total Assets	Total Assets, adjusted for inflation and standardized provisioning for loan impairment and write-offs
Offices	Number, including head office
Personnel	Total number of staff members
FINANCING STRUCTURE	
Capital/ Asset Ratio	Adjusted Total Equity / Adjusted Total Assets
Debt to Equity	Adjusted Total Liabilities / Adjusted Total Equity
Deposits to Loans	Deposits / Adjusted Gross Loan Portfolio
Deposits to Total Assets	Deposits / Adjusted Total Assets
Portfolio to Assets	Adjusted Gross Loan Portfolio / Adjusted Total Assets
OUTREACH 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 / Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio / Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/ GNI per Capita	Adjusted Average Loan Balance per Borrower / GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio / Adjusted Number of Loans Outstanding
Average Outstanding Balance / GNI per Capita	Adjusted Average Outstanding Balance / GNI per Capita
Number of Depositors	Number of depositors with any type of deposit account
Number of Deposit Accounts	Number of all deposit accounts
Deposits	Total value of all deposit accounts
Average Deposit Balance per Depositor	Deposits / Number of Depositors
Average Deposit Balance per Depositor / GNI per capita	Average Deposit Balance per Depositor / GNI per Capita
Average Deposit Account Balance	Deposits / Number of Deposit Accounts
Average Deposit Account Balance / GNI per capita	Average Deposit Account Balance / GNI per Capita
MACROECONOMIC INDICATORS	
GNI per Capita	Total income generated by a country's residents, irrespective of location / Total number of residents (World Development Indicators)
GDP Growth Rate	Annual growth in the total output of goods and services occurring within the territory of a given country (World Development Indicators)
Deposit Rate	Interest rate offered to resident customers for demand, time, or savings deposits (IMF/International Financial Statistics)
Inflation Rate	Annual change in average consumer prices (IMF/International Financial Statistics)
Financial Depth	Money aggregate including currency, deposits and electronic currency (M3) / GDP, measuring the monetization of the economy (IMF/International Financial Statistics)
OVERALL FINANCIAL PERFORMANCE	
Return on Assets	(Adjusted Net Operating Income - Taxes) / Adjusted Average Total Assets
Return on Equity	(Adjusted Net Operating Income - Taxes) / Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue / (Financial Expense + Impairment Losses on Loans + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue / Adjusted (Financial Expense + Impairment Losses on Loans + Operating Expense)
REVENUES	
Financial Revenue/Assets	Adjusted Financial Revenue / Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income / Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio / Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate) / (1 + Inflation Rate)
EXPENSES	
Total Expense/ Assets	Adjusted (Financial Expense + Net Impairment Loss + Operating Expense) / Adjusted Average Total Assets
Financial Expense/Assets	Adjusted Financial Expense / Adjusted Average Total Assets
Provision for Loan Impairment/ Assets	Adjusted Impairment Losses on Loans / Adjusted Average Total Assets
Operating Expense / Assets	Adjusted Operating Expense / Adjusted Average Total Assets
Personnel Expense/ Assets	Adjusted Personnel Expense / Adjusted Average Total Assets
Administrative Expense/ Assets	Adjusted Administrative Expense / Adjusted Average Total Assets
Adjustment Expense/ Assets	(Unadjusted Net Operating Income - Adjusted Net Operating Income) / Adjusted Average Total Assets
EFFICIENCY	
Operating Expense/ Loan Portfolio	Adjusted Operating Expense / Adjusted Average Gross Loan Portfolio
Personnel Expense/ Loan Portfolio	Adjusted Personnel Expense / Adjusted Average Gross Loan Portfolio
Average Salary/ GNI per Capita	Adjusted Average Personnel Expense / GNI per capita
Cost per Borrower	Adjusted Operating Expense / Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense / Adjusted Average Number of Loans
PRODUCTIVITY	
Borrowers per Staff Member	Adjusted Number of Active Borrowers / Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding / Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers / Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding / Number of Loan Officers
Depositors per Staff Member	Number of Depositors / Number of Personnel
Deposit Accounts per Staff Member	Number of Deposit Accounts / Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers / Number of Personnel
RISK AND LIQUIDITY	
Portfolio at Risk > 30 Days	Outstanding balance, portfolio overdue > 30 Days + renegotiated portfolio / Adjusted Gross Loan Portfolio
Portfolio at Risk > 90 Days	Outstanding balance, portfolio overdue > 90 Days + renegotiated portfolio / Adjusted Gross Loan Portfolio
Write-off Ratio	Adjusted Value of loans written-off / Adjusted Average Gross Loan Portfolio
Loan Loss Rate	(Adjusted Write-offs - Value of Loans Recovered) / Adjusted Average Gross Loan Portfolio
Risk Coverage Ratio	Adjusted Impairment Loss Allowance / PAR > 30 Days
Non-earning Liquid Assets as a % of Total Assets	Adjusted Cash and banks / Adjusted Total Assets

Arab Benchmarks					
	Country				
	Arab	Morocco	Egypt	Jordan	Yemen
INSTITUTIONAL CHARACTERISTICS					
Number of MFIs	54	9	14	7	6
Age	10	11	11	9	5
Total Assets	10,763,164	55,942,626	7,273,933	16,498,762	517,748
Offices	10	186	9.5	13	3.5
Personnel	112.5	587	334.5	97	30
FINANCING STRUCTURE					
Capital/ Asset Ratio	47%	19.3%	55.0%	47.4%	16.4%
Debt to Equity	91%	423%	82%	111%	111%
Deposits to Loans	0%	0.0%	0.0%	0.0%	10.7%
Deposits to Total Assets	0%	0.0%	0.0%	0.0%	6.0%
Portfolio to Assets	72%	80.7%	63.5%	89.5%	65.7%
OUTREACH INDICATORS					
Number of Active Borrowers	12,589	80,803	30,945.5	17,515	2,706
Percent of Women Borrowers	66.3%	52.4%	69.8%	85.3%	94.9%
Number of Loans Outstanding	13,161	80,803	30,945.5	17,515	2,706
Gross Loan Portfolio	5,479,125	16,926,606	5,183,041	15,249,548	324,058
Average Loan Balance per Borrower	317.325	283.09	180.615	729.96	121.57
Average Loan Balance per Borrower/ GNI per Capita	15.8%	12.4%	11.4%	25.7%	14.0%
Average Outstanding Balance	290.15	283.09	180.615	729.96	121.57
Average Outstanding Balance / GNI per Capita	15.3%	12.4%	11.4%	25.7%	14.0%
Number of Voluntary Depositors	0	0	0	0	2,594
Number of Voluntary Deposit Accounts	2,594	0	12,600	0	3,314
Voluntary Deposits	0	0	0	0	25,601.59
Average Deposit Balance per Depositor	26.4	0	26.29	0	18.09
Average Deposit Balance per Depositor/ GNI per Capita	2.0%	0	0.02	0	0.02
Average Deposit Account Balance	26.4	0	26.29	0	18.09
Average Deposit Account Balance/ GNI per Capita	2.0%	0	0.02	0	0.02
MACROECONOMIC INDICATORS					
GNI per Capita	1,500	2,290	1,500	2,960	950
GDP Growth Rate	5.3%	2.7%	7.1%	6.6%	3.3%
Deposit Rate	5.8%	3.7%	6.1%	5.4%	13.0%
Inflation Rate	5.4%	2.0%	9.3%	5.4%	7.9%
Financial Depth	96.2%	104.8%	96.2%	134.2%	35.2%
OVERALL FINANCIAL PERFORMANCE					
Return on Assets	2.4%	-0.8%	2.4%	4.1%	0.3%
Return on Equity	3.5%	-7.2%	3.2%	7.9%	5.2%
Operational Self-Sufficiency	119.1%	110.1%	149.0%	125.4%	98.0%
Financial Self-Sufficiency	107.3%	95.5%	114.9%	115.4%	96.7%
REVENUES					
Financial Revenue/ Assets	22.8%	24.5%	21.5%	25.7%	34.5%
Profit Margin	6.8%	-1.4%	12.9%	13.3%	-3.6%
Yield on Gross Portfolio (nominal)	33.2%	39.5%	33.0%	35.7%	40.4%
Yield on Gross Portfolio (real)	22.7%	36.7%	21.7%	28.8%	27.6%
EXPENSES					
Total Expense/ Assets	21.6%	29.5%	19.4%	22.5%	34.3%
Financial Expense/ Assets	4.5%	4.3%	6.5%	5.2%	4.9%
Provision for Loan Impairment/ Assets	0.7%	2.9%	0.4%	1.5%	0.4%
Operating Expense/ Assets	14.6%	17.5%	11.6%	15.0%	29.5%
Personnel Expense/ Assets	10.0%	9.0%	8.2%	10.1%	17.5%
Administrative Expense/ Assets	4.8%	5.1%	2.6%	5.0%	9.3%
Adjustment Expense/ Assets	0.4%	0.2%	1.7%	0.1%	1.4%
EFFICIENCY					
Operating Expense/ Loan Portfolio	21.3%	27.1%	21.3%	18.3%	36.3%
Personnel Expense/ Loan Portfolio	14.8%	11.2%	14.9%	12.7%	25.7%
Average Salary/ GNI per Capita	3.39	3.42	1.66	4.37	2.905
Cost per Borrower	75	75	36	121	50
Cost per Loan	71	75	33	134	39
PRODUCTIVITY					
Borrowers per Staff Member	118	145	122	174	99
Loans per Staff Member	118	146	122	176	99
Borrowers per Loan Officer	211	211	247	303	183
Loans per Loan Officer	217	212	247	303	184
Voluntary Depositors per Staff Member	0	0	0	0	97
Deposit Accounts per Staff Member	66.6	0	101	0	143
Personnel Allocation Ratio	54%	73.3%	56.5%	54.1%	46.9%
RISK AND LIQUIDITY					
Portfolio at Risk> 30 Days	2.38%	3.1%	0.8%	1.9%	1.4%
Portfolio at Risk> 90 Days	0.80%	1.9%	0.5%	1.3%	0.1%
Write-off Ratio	0.79%	4.1%	0.0%	0.4%	0.6%
Loan Loss Rate	0.40%	4.1%	0.0%	0.2%	0.4%
Risk Coverage Ratio	72.53%	77.4%	78.2%	152.2%	68.0%
Non-earning Liquid Assets as a % of Total Assets	19.61%	11.4%	22.4%	4.6%	26.0%

Arab Benchmarks	Sustainability		Outreach		
	Arab FSS	Arab Non FSS	Arab Small	Arab Medium	Arab Large
INSTITUTIONAL CHARACTERISTICS					
Number of MFIs	30	20	21	18	15
Age	11	7	8	9	13
Total Assets	14,463,615	4,084,742	2,121,807	11,506,868	32,438,566
Offices	12.5	7.5	5	10	45
Personnel	119.5	77	37	119.5	611
FINANCING STRUCTURE					
Capital/ Asset Ratio	48%	42%	61%	41%	38%
Debt to Equity	107%	91%	43%	142%	164%
Deposits to Loans	0%	1%	0%	0%	0%
Deposits to Total Assets	0%	0%	0%	0%	0%
Portfolio to Assets	80%	66%	65%	83%	82%
OUTREACH INDICATORS					
Number of Active Borrowers	17,115.5	5,999.5	3,062	15,511.5	94,893
Percent of Women Borrowers	68.5%	66.8%	78.3%	62.0%	64.0%
Number of Loans Outstanding	17,486	5,999.5	3,062	16,200	100,807
Gross Loan Portfolio	12,344,842	2,668,016	1,129,263	5,479,125	19,869,823
Average Loan Balance per Borrower	373.31	245.53	344.84	277.305	290.15
Average Loan Balance per Borrower/ GNI per Capita	15.5%	16.4%	26.1%	14.5%	13.7%
Average Outstanding Balance	344.84	245.53	344.84	271.52	290.15
Average Outstanding Balance / GNI per Capita	15.2%	15.7%	26.1%	13.7%	13.5%
Number of Voluntary Depositors	0	374	608.5	0	0
Number of Voluntary Deposit Accounts	12,600	1,270	2,594	13,161	0
Voluntary Deposits	0	13,077	3,005.95	0	0
Average Deposit Balance per Depositor	22.4	68.5	36.2	26.3	0.0
Average Deposit Balance per Depositor/ GNI per Capita	2.0%	4.5%	2.0%	2.0%	0.0%
Average Deposit Account Balance	22.4	58.4	36.2	26.3	0.0
Average Deposit Account Balance/ GNI per Capita	2.0%	4.0%	2.0%	2.0%	0.0%
MACROECONOMIC INDICATORS					
GNI per Capita	1,500	1,395	1,290	1,740	2,290
GDP Growth Rate	6.6%	3.3%	3.3%	6.6%	6.6%
Deposit Rate	6.1%	5.0%	5.4%	6.1%	5.4%
Inflation Rate	5.4%	3.9%	4.1%	5.4%	5.4%
Financial Depth	96.2%	50.3%	35.2%	96.2%	96.2%
OVERALL FINANCIAL PERFORMANCE					
Return on Assets	4.2%	-4.9%	-7.0%	1.8%	2.9%
Return on Equity	7.8%	-13.1%	0.3%	3.5%	6.4%
Operational Self-Sufficiency	132.0%	85.8%	112.2%	121.8%	131.7%
Financial Self-Sufficiency	118.1%	63.2%	74.0%	108.9%	114.9%
REVENUES					
Financial Revenue/ Assets	23.1%	22.2%	18.7%	22.0%	23.9%
Profit Margin	15.3%	-60.6%	-35.1%	8.1%	12.9%
Yield on Gross Portfolio (nominal)	33.4%	31.9%	32.6%	32.3%	33.5%
Yield on Gross Portfolio (real)	22.8%	22.0%	19.9%	22.4%	25.0%
EXPENSES					
Total Expense/ Assets	20.5%	27.2%	24.5%	17.7%	22.0%
Financial Expense/ Assets	4.7%	3.8%	0.6%	4.6%	5.5%
Provision for Loan Impairment/ Assets	0.7%	0.5%	0.8%	0.3%	1.7%
Operating Expense/ Assets	14.5%	19.1%	22.4%	14.8%	13.0%
Personnel Expense/ Assets	10.1%	11.2%	14.4%	9.4%	9.1%
Administrative Expense/ Assets	4.3%	5.0%	5.5%	5.2%	4.2%
Adjustment Expense/ Assets	0.2%	2.4%	0.9%	0.3%	0.2%
EFFICIENCY					
Operating Expense/ Loan Portfolio	17.8%	27.9%	28.0%	19.1%	18.0%
Personnel Expense/ Loan Portfolio	12.7%	19.7%	19.0%	14.5%	12.4%
Average Salary/ GNI per Capita	3.315	3.58	3.78	3.115	3.39
Cost per Borrower	74	73	122	99	60
Cost per Loan	68	66	89	79	56
PRODUCTIVITY					
Borrowers per Staff Member	139	89	71	117	186
Loans per Staff Member	146	89	71	115	191
Borrowers per Loan Officer	255	175	158	202	281
Loans per Loan Officer	258	175	158	204	293
Voluntary Depositors per Staff Member	0	12	12	0	0
Deposit Accounts per Staff Member	142.8	41.9	58.6	100.8	0.0
Personnel Allocation Ratio	54%	55%	52%	56%	59%
RISK AND LIQUIDITY					
Portfolio at Risk> 30 Days	2.14%	3.39%	4.41%	1.94%	0.95%
Portfolio at Risk> 90 Days	1.02%	0.61%	1.11%	0.60%	0.80%
Write-off Ratio	0.32%	2.91%	1.91%	0.33%	0.42%
Loan Loss Rate	0.13%	2.45%	1.91%	0.14%	0.37%
Risk Coverage Ratio	72.53%	77.86%	58.04%	88.56%	83.52%
Non-earning Liquid Assets as a % of Total Assets	19.63%	22.70%	26.10%	16.75%	14.42%

Arab Benchmarks	Scale		
	Arab Small	Arab Medium	Arab Large
INSTITUTIONAL CHARACTERISTICS			
Number of MFIs	17	12	25
Age	7	10.5	11
Total Assets	1,605,105	5,319,047	28,696,913
Offices	4	9.5	14
Personnel	37	110.5	288
FINANCING STRUCTURE			
Capital/ Asset Ratio	37%	54%	50%
Debt to Equity	120%	84%	102%
Deposits to Loans	4%	0%	0%
Deposits to Total Assets	2%	0%	0%
Portfolio to Assets	60%	76%	83%
OUTREACH INDICATORS			
Number of Active Borrowers	3,133	15,784	34,345
Percent of Women Borrowers	88.0%	70.2%	52.4%
Number of Loans Outstanding	3,141	15,784	38,171
Gross Loan Portfolio	900,686	3,995,033	16,746,888
Average Loan Balance per Borrower	168.27	266.96	729.96
Average Loan Balance per Borrower/ GNI per Capita	15.3%	12.3%	22.9%
Average Outstanding Balance	168.27	266.96	705.185
Average Outstanding Balance / GNI per Capita	15.3%	12.3%	24.2%
Number of Voluntary Depositors	1,874	0	0
Number of Voluntary Deposit Accounts	4,288	4,414	822
Voluntary Deposits	34,318	0	0
Average Deposit Balance per Depositor	24.4	59.9	199.1
Average Deposit Balance per Depositor/ GNI per Capita	2.0%	4.5%	11.0%
Average Deposit Account Balance	24.4	49.8	199.1
Average Deposit Account Balance/ GNI per Capita	2.0%	4.0%	11.0%
MACROECONOMIC INDICATORS			
GNI per Capita	1,290	1,500	2,290
GDP Growth Rate	3.3%	6.6%	6.3%
Deposit Rate	6.1%	5.4%	5.4%
Inflation Rate	7.9%	5.4%	3.9%
Financial Depth	35.2%	96.2%	96.2%
OVERALL FINANCIAL PERFORMANCE			
Return on Assets	2.0%	0.8%	2.6%
Return on Equity	5.4%	0.7%	4.0%
Operational Self-Sufficiency	110.0%	122.1%	124.2%
Financial Self-Sufficiency	83.3%	108.5%	112.8%
REVENUES			
Financial Revenue/ Assets	22.4%	25.3%	21.6%
Profit Margin	-21.6%	7.8%	11.4%
Yield on Gross Portfolio (nominal)	34.1%	35.7%	28.6%
Yield on Gross Portfolio (real)	23.1%	26.5%	20.6%
EXPENSES			
Total Expense/ Assets	29.6%	25.4%	18.8%
Financial Expense/ Assets	4.0%	4.5%	4.5%
Provision for Loan Impairment/ Assets	0.3%	1.3%	0.7%
Operating Expense/ Assets	26.2%	20.1%	14.0%
Personnel Expense/ Assets	16.7%	13.2%	9.2%
Administrative Expense/ Assets	6.8%	6.3%	3.9%
Adjustment Expense/ Assets	0.7%	2.5%	0.1%
EFFICIENCY			
Operating Expense/ Loan Portfolio	30.9%	26.7%	15.1%
Personnel Expense/ Loan Portfolio	20.1%	17.8%	10.2%
Average Salary/ GNI per Capita	2.77	3.3	3.97
Cost per Borrower	67	72	76
Cost per Loan	61	54	74
PRODUCTIVITY			
Borrowers per Staff Member	71	117	145
Loans per Staff Member	71	117	149
Borrowers per Loan Officer	147	184	261
Loans per Loan Officer	147	184	264
Voluntary Depositors per Staff Member	37	0	0
Deposit Accounts per Staff Member	58.6	251.0	22.3
Personnel Allocation Ratio	48%	61%	54%
RISK AND LIQUIDITY			
Portfolio at Risk> 30 Days	2.83%	2.34%	1.93%
Portfolio at Risk> 90 Days	0.71%	0.62%	1.23%
Write-off Ratio	3.41%	0.91%	0.42%
Loan Loss Rate	3.41%	0.37%	0.20%
Risk Coverage Ratio	57.51%	78.20%	95.26%
Non-earning Liquid Assets as a % of Total Assets	23.89%	20.03%	12.69%

ANNEX:
COUNTRY REGULATION OVERVIEW

Morocco

Currently, Morocco has 12 licensed microcredit associations (Associations de Microcredit or AMCs), governed by the Microcredit Associations Law (1999)[11] and licensed by the Ministry of Finance to provide microcredit services. The law defines microcredit as the provision of credit for productive purposes to the poor, and subsequent regulation now sets the loan ceiling of any such credit at 50,000 MAD (approximately 5,500 USD). Licensed AMCs enjoy a variety of fiscal privileges, including (i) tax exemptions for five years following licensing and (ii) the ability to raise capital from donations and any form of borrowing (except deposits from the general public). AMCs are regulated by the Ministry of Finance, but AMC supervision has been delegated to the Moroccan Central Bank since 2007.

Moreover, and perhaps most significantly, the Ministry of Finance has the authority to set a maximum interest rate, as well as to cap commissions and fees. However, to date, the Ministry of Finance has not established any such maximum or caps. This distinguishes AMCs from banks and for-profit entities which, while permitted to engage in microfinance, are subject to interest rate caps which have prevented them from profitably serving the sector.

In 2004[12] and 2007,[13] the Microcredit Associations Law was amended to expand the definition of microcredit to include loans to own, build, or improve a house by a poor person and loans to provide households with water or electricity, as well as certain lending linked to tourism promotion. These amendments also allowed MFIs to act as agents for licensed insurance companies to facilitate the provision of microinsurance services to MFI clients.

11 Law No. 18/97

12 Law No. 58/03

13 Law No. 04/07

In late 2009, the Moroccan Central Bank established a credit bureau to which all MFIs are expected to submit credit information.

For an analysis of the regulatory environment for microfinance in Morocco, see http://www.cgap.org/gm/document-1.9.2829/diagnostic_Morocco.pdf.

Syria

Under Syrian law, for-profit companies are not permitted to engage in microfinance activities and consequently, NGOs were the main providers of microcredit. However, in February 2007, a presidential order issued Syria's General Microfinance Decree No. 15, the first and only Syrian legislation exclusively dedicated to microfinance. The Decree permitted the Currency and Monetary Council (CMC) to license Social Financial Banking Institutions (SFBIs).[14] With a minimum capital requirement of 250 million SYP (approximately 5 million USD), SFBIs are allowed to provide various financial services, including microlending, deposit-taking, and microinsurance. According to the Decree, all SFBIs require prior CMC approval of their interest rates.[15] In January 2010, CMC issued prudential regulations applicable to both SFBIs and banks with microfinance portfolios. The new regulations allow SFBIs to participate in CMC's credit information system without a minimum threshold and established solvency, liquidity, reserve, capital adequacy, and credit risk concentration ratios.

To date, the First Microfinance Institution (which was operating before the Decree as a microcredit program under the auspices of the Aga Khan Foundation) is the only institution to be licensed. However, applications have been submitted by two other MFIs.

For an analysis of the regulatory environment for microfinance in Syria, see http://www.cgap.org/gm/

14 The word "social" in the term "Social Financial Banking Institutions" reflects only the social objectives of these institutions; it does not mean that these institutions must be non-profit or charitable entities.

15 Article 9 of the General Microfinance Decree No. 15 of 2007 and Article 13 of the Prudential Regulations.

document-1.9.2923/Syria_Policy-Reg-Framework. pdf.

Egypt

Institutions providing microfinance services in Egypt include banks and NGOs, as well as the National Postal Authority and informal institutions such as rotating savings and credit associations. Banks are regulated by the Central Bank of Egypt. NGOs are overseen by the Ministry of Social Solidarity and are supervised as any other NGO with no specific attention to their finance activities. Except for two recently registered service companies,[16] no for-profit microcredit providers (such as microfinance banks or other non-bank financial institutions) exist in Egypt.

Until recently, there were no microfinance-specific regulations in Egypt. In 2009, the Egyptian Parliament passed the Law for the Regulation of Non-Banking Financial Markets and Instruments (commonly known as the "Single Regulator Law"), which shifted the regulatory and supervisory authority for all non-banking financial markets and instruments (including microcredit) to a "Single Regulator." The new Single Regulator is expected to issue General Rules for Microfinance Companies (MFCs) by which a new category of non-deposit taking, non-bank, and for-profit microlending institutions is created. In addition, the Ministry of Investment (which champions access to finance in Egypt) has prepared a draft Microfinance Law, currently pending Parliamentary approval, to exempt MFCs from the 7 percent interest rate cap stipulated by the Civil Code. The draft Microfinance Law also facilitates the "transformation" of NGO MFIs into the new MFC category by providing guidelines on NGO MFI investment and ownership in MFCs.

16 Due to the absence of an explicit legal framework that allows for the establishment of non-banking companies to provide credit, a new model of microfinance service companies has emerged in Egypt over the past two years. The main objective of these service companies is to act as an agent for private sector banks interested in downscaling and who do not want to directly handle the operations of their microfinance portfolios (e.g., marketing, loan disbursement, and collection operations). Reefy was established in 2007 and is managing the microfinance portfolio of the Commercial International Bank and Tanmeyah began operations in July 2009.

Jordan

Under Jordanian law, there is no requirement to obtain government approval to lend and any legal entity may engage in lending. With the exemption of one commercial bank (Cairo Amman Bank) with a microfinance portfolio, microcredit providers are either registered as non-profit companies or for-profit companies (in addition to some quasi-governmental organizations). Consequently, a number of regulatory bodies are involved in the sector: the Ministry of Industry and Trade (MIT), the Ministry of Planning and International Cooperation, the Central Bank of Jordan, and, recently, the Ministry of Social Development (MOSD). None of the government entities, in the absence of microfinance-specific legislation, takes direct responsibility for monitoring microlending activities as a sector and as a result, microlending services are supervised differently based on the legal formation of the institution providing such services.

In 2003, Jordan passed an interim law[17] authorizing the creation of the National Microfinance Bank (NMB).[18] Despite the use of the word "bank," NMB is not allowed to accept deposits from the public and does not fall under the supervision of the Central Bank. The law exempts NMB from a wide array of taxes and duties and permits NMB to offer both conventional and Islamic lending products. In 2004, in order to create a level playing field, the government extended this exemption to all MFIs.[19]

In 2008, the new Associations Law gave MOSD the authority to supervise non-profit MFIs formerly under MIT authority. In September 2009, the Associations Law was amended and gave "financial companies" registered as non-profit companies (e.g., MFIs)

17 The Jordanian Constitution gives the Government, while the Parliament is in recess, the authority to issue interim laws.

18 The bank is a private share-holding non-profit company established through a partnership between the King Abdullah II Fund for Development, AGFUND, and two private sector investors.

19 Council of Ministers Resolution No. 3524 (23 November 2004), which exempted all institutions then engaged in microfinance, whether for-profit or non-profit, from income tax and any other fees and taxes.

the right to transform to commercial/for-profit companies and remain under the supervision of MIT. The transformation procedures have yet to be determined and approved by the Council of Ministers.

For an analysis of the regulatory environment for microfinance in Jordan, see http://www.cgap.org/gm/document-1.1.1304/Jordan_Diagnostic_Report_2009.pdf.

Yemen

With the exception of one commercial bank (Attadamun Islamic Bank) with a microfinance portfolio, microcredit providers are either registered as NGOs, foundations, or non-profit companies (in addition to one quasi-governmental organization[20]). Currently, most of the providers report to the Small and Micro Enterprise Development Unit of the Social Fund for Development (SFD). NGOs and foundation MFIs are not permitted to collect savings[21] for on-lending or investments.

Microfinance Banks Law No.15/2009 was issued on 6 April 2009. Besides regulating the activities of microfinance banks, the law allows these banks to mobilize voluntary microsavings and does not cap interest rates. The Central Bank of Yemen (CBY), with some support from GTZ, is expected to finalize the establishment of a microfinance supervisory unit, as well as issue related regulation on, among other things, licensing procedures and requirements. However, to date, no licenses have been issued.

In 2002, Al-Amal Bank Law No. 23[22] was issued to establish a quasi-governmental microfinance bank.[23] The law allowed Al-Amal Bank to provide credit and savings services without the need to be supervised by CBY. However, the bank did not commence operations until late 2008 and is now planning to register with CBY under the Microfinance Banks Law of 2009, and will consequently be regulated as any other microfinance bank.

For an analysis of the regulatory environment for microfinance in Yemen, see http://www.cgap.org/gm/document-1.9.2831/diagnostic_Yemen.pdf.

Iraq

Currently, despite few legal restrictions on the provision of credit services,[24] the only entities providing microlending services in Iraq are NGOs. However, NGO MFIs, due to their non-profit structure, are limited in their ability to attract private investment. In addition, foreign funding is reportedly subject to prior government approval.[25] Under a proposed NGO law, pending Parliamentary approval, funding organizations would be required to notify the NGO Office (the NGO supervisory body), and the receipt of funds would be subject to NGO Office approval. These limitations ultimately restrict the capacity of NGOs to build a sustainable microcredit sector. The Central Bank of Iraq is consequently interested in issuing regulation to allow the establishment of non-deposit-taking, non-bank MFIs.

20 Small Enterprise Development Fund.

21 In the event that an MFI collects savings from borrowers or guarantors, these funds are considered part of the loan (early repayment) or part of the guarantee (deposit), but cannot be used as source of financing.

22 This law, as an indication of government's entry into the microfinance sector, was very controversial, especially as Jordan created a similar quasi-governmental organization (NMB) the following year.

23 The bank is a private share-holding non-profit company established through a partnership between the Government of Yemen (represented by SFD), AGFUND, and private sector investors.

24 A preliminary review of relevant regulation suggests that there is no explicit legal requirement to obtain prior approval to lend under Iraqi law. Both the Banking Law and the Central Bank Law differentiate between "banking business" (for which a license is required) defined by both laws as accepting deposits from the public and using these deposits to grant credit, and "banking activities" (as defined in Article 27 of the Banking Law), which do not require licensing and which include credit activities. Moreover, Article 3/2/a of the Banking Law excludes "persons who fund the credits they make exclusively from non-refundable capital subscriptions . . ." from Central Bank supervision.

25 The Ministry of Planning has reportedly begun requiring that all foreign grants be processed through its Iraqi Strategic Review Board (though U.S. government grants had been previously exempt). So far, compliance by donors with this requirement has been irregular.

About Microfinance Information Exchange (MIX):

The Microfinance Information Exchange (MIX) is the leading provider of business information and data services for the microfinance industry. Dedicated to strengthening the microfinance sector by promoting transparency, MIX provides detailed performance and financial information on microfinance institutions, investors, networks, and service providers associated with the industry. MIX does this through a variety of publicly available platforms, including MIX Market (www.mixmarket.org) and the MicroBanking Bulletin.

MIX is a non-profit company founded by CGAP (the Consultative Group to Assist the Poor) and sponsored by CGAP, the Citi Foundation, Deutsche Bank Americas Foundation, Omidyar Network, IFAD (International Fund for Agricultural Development), Bill & Melinda Gates Foundation, and others. MIX is a private corporation.

Microfinance Information eXchange

For more information, please visit www.themix.org or e-mail info@themix.org

This report was produced with the support of:

Sanabel

Sanabel was established in 2002 when 17 representatives from seven Arab countries gathered in Tunisia to launch a network designed to serve microfinance institutions in the Arab world. At this meeting the group adopted by-laws and membership criteria, articulated a vision, mission and objectives and elected an executive committee. At its General Assembly meeting in December 2003, Sanabel members voted to formalize the organization by registering Sanabel as a not-for-profit organization and opening a regional office. In 2004, the organization was incorporated and registered as a non-profit organization in both Atlanta, Georgia, USA and in Cairo, Egypt where the headquarters is located.

SANABEL
The Microfinance Network of Arab Countries

For more information, visit www.sanabelnetwork.org

Consultative Group to Assist the Poor (CGAP)

Housed at the World Bank, CGAP is a global resource center for microfinance standards, operational tools, training and advisory services. Its members – including bilateral, multilateral and private funders of microfinance programs – are committed to building more inclusive financial systems for the poor.

CGAP

For more information, visit: www.cgap.org