

## Will Microfinance Stay a Separate Asset Class?

By Marco Coppoolse<sup>1</sup>

### Introduction

Since the UN Year of Microfinance in 2005 and the award of the Nobel Peace Prize to Professor Mohammed Yunus in 2006, the microfinance sector has seen strong global expansion and a broadening of its product formula. This whitepaper compares 2005 data with 2007 data for eleven leading institutions in eleven countries.<sup>2</sup>

#### THE MAIN CONCLUSIONS ARE:

- *Growth in microfinance is accelerating; (comparable) returns are decreasing.*
- *The sector is becoming less “micro” with leading institutions growing their portfolios with larger average loan sizes.*
- *Returns are still high in absolute terms; asset quality remains solid.*
- *Expense ratios are decreasing, but remain high in certain countries.*
- *Competition is increasing, especially in countries like Bangladesh and Bolivia.*
- *Institutions active in credits and savings have done better than institutions that only offer credit.*
- *Institutions in well regulated, open markets, which allow multiple products (loans, savings, etc.), tend to develop from microlenders into microfinance banks.*
- *More countries are becoming part of the global microfinance movement.*
- *Leverage has increased only slightly. In a global climate of de-leveraging further leveraging is on hold.*

#### MICROFINANCE HAS DEVELOPED INTO A SEPARATE ASSET CLASS

Today there are approximately 100 microfinance investment vehicles (MIVs), which focus on investing in microfinance debt and/or equity. With this strong proliferation of dedicated investors, the sector has indeed behaved like a separate asset class over the last few years.

#### WILL MICROFINANCE STAY A SEPARATE ASSET CLASS?

The author's view is that over time it will not stay a separate asset class. More and more microfinance institutions (MFIs) are developing into full-fledged microfinance banks. More mainstream investors are entering this asset class, and therefore the way investments are done in this sector will alter. Over time microfinance will become part of a much larger sector of emerging market financial services. Due to increased linkage with the mainstream economy, part of the anti-cyclical nature of microfinance will disappear.

The whitepaper concludes with a review of trends in Peru, India and Bangladesh.

## INTRODUCING THE ELEVEN LEADERS AND THE KEY PERFORMANCE INDICATORS

In this whitepaper the same data sample is used as in the author's August 2007 whitepaper<sup>3</sup>, except that data from Nigeria and the Philippines have been added. In Nigeria LAPO is the leading microfinance institution (MFI). Nigeria promises to be a big market given the size of its population. The Philippines is also an important and potentially large microfinance market, where the sector is lead by Card NGO, which acts in close coordination with Card Bank<sup>4</sup>. New in this whitepaper are discussions of savings parameters and whether microfinance will keep developing as a separate asset class.

The key performance indicators are the same as in the author's 2007 whitepaper and - except for comparable return on equity (CRoE)<sup>5</sup> - are widely used in microfinance. CRoE is a robust measure that corrects returns on equity (RoE) for different levels of leverage and interest rates. If an institution's leverage changes over time, which is often seen with major capital injections to this sector, the CRoE can be compared year on year, whereas the RoE is highly distorted. Three

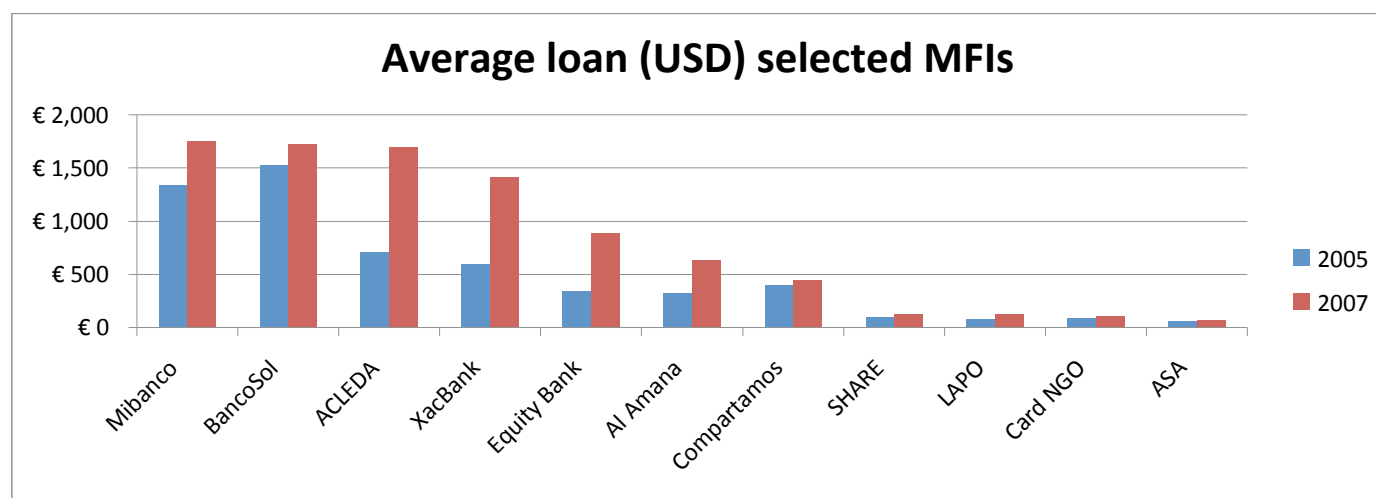
indicators that are discussed - but that do not appear in the previous whitepaper - are: the number of savers, the savings amount and the portfolio at risk over 30 days. Because institutions differ substantially in size, "weighted averages" have been introduced, which compute the averages weighted by their respective portfolio sizes. In certain cases reference is made to the "old sample" used in the August 2007 whitepaper, which excludes Card and LAPO.

## MICROFINANCE: LESS "MICRO" AND GROWTH INCREASING

One striking feature of the trending from 2005 to 2007 is that all institutions in our sample have seen their average loan size increase, as is shown in Figure 1.

For the first four institutions in this graph, the loan size growth is the result of a conscious policy to expand individual lending in the small and medium-sized enterprise (SME) segment. Joint liability groups and group lending, which once were key to the low default rates in microfinance, are no longer the norm.

**Figure 1: Average Loan Size of Leading MFIs**

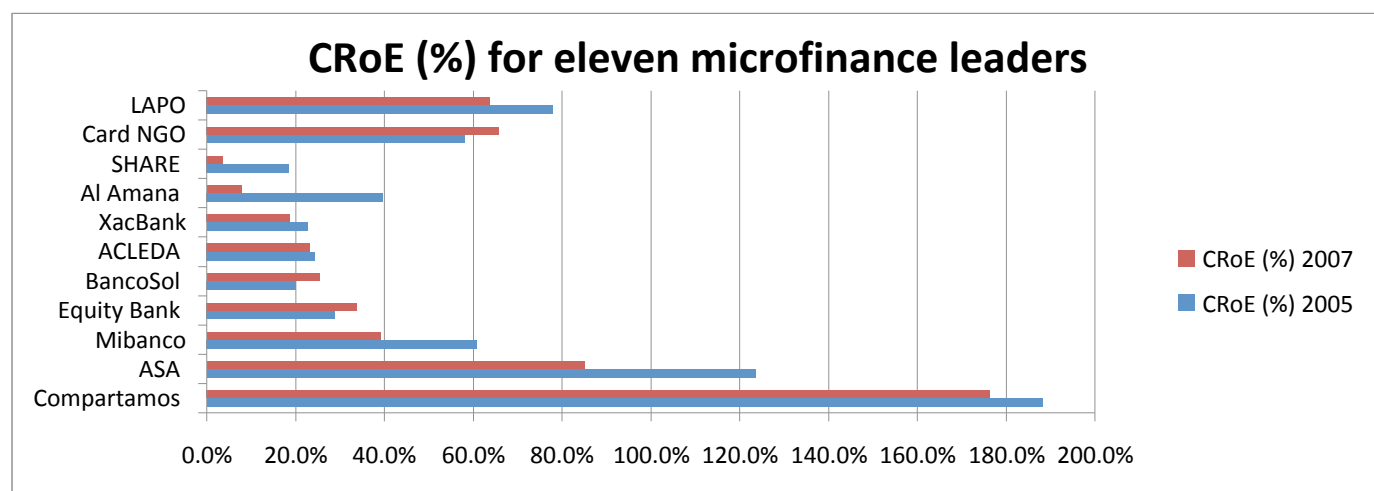


For the last four institutions in the sample, loan sizes have not expanded as much because group lending is still the dominant form of microcredit. Whereas average portfolio growth was around 32% during 2005, the average portfolio growth during 2007 is close to 38%. The increase in loan amount and number of new borrowers both play an important role in this rapid portfolio growth.

## COMPARABLE RETURNS ARE DECREASING

CRoE decreased for 8 out of 11 MFIs in the sample from 2005 to 2007, as is seen in Figure 2. The average CRoE decreased from around 60% to around 49%. In Appendix I, RoE is provided side-by-side with CRoE. RoE remained around 25% in the sample mainly because leverage has increased. Also important is that CARD and LAPO (the MFIs added since the author's August 2007 whitepaper) have above-average RoE. In comparison with other sectors, returns are still high.

**Figure 2: Comparable Return on Equity for Leading MFIs**



### INSTITUTIONS ACTIVE IN SAVINGS TAKE THE LEAD

Table 1 shows that institutions active in savings expanded more in savings than in credit extended. The number of savers in the sample expanded from nearly 5 million in 2005 to over 9 million in 2007. The number of borrowers expanded from 6.4 million in 2005 to 9.2 million in 2007. Certain countries do not allow savings in microfinance (Morocco, India and the Philippines for NGOs). Compartamos, licensed as a bank since June 2006, has not (yet) offered savings. Those institutions that have actively developed savings like Mibanco, Equity Bank, BancoSol, ACLEDA and XacBank have over 50% of their loan portfolio funded by savings. Their average RoEs have increased from around 22% to around 30%<sup>6</sup>

(see Appendix I) and their expense ratios have decreased from 16.5% to 14.9%, whereas the expense ratios of the other institutions only decreased from 27.5% to 26.6%. On this basis, the more “full-service” MFI seems to be the better model, with lower cost ratios and a better improvement in ratios from 2005 to 2007. From a customer's perspective, the availability of saving products at an acceptable cost and a low minimum balance may be as important as the availability of microcredit. Equity Bank and ACLEDA hold savings worth more than their loan portfolios. In Africa, MFIs have often more saving clients than borrowing clients. The increased attention for savings in microfinance is therefore a positive development from more than one angle.

**Table 1: Key Performance Indicators for Eleven Leaders in Microfinance**

Name	Country	Number of borrowers (*1000)		Portfolio (USD *million)		Portfolio growth (%)		Number of savers (*1000)		Savings (USD *million)		Expense ratio (%)	
		2005	2007	2005	2007	2005	2007	2005	2007	2005	2007	2005	2007
Compartamos	Mexico	453	839	181	378	44	28	0	0	0	0	44,0	39,0
ASA	Bangladesh	4182	5423	255	362	21	16	4059	6664	46	67	9,4	12,6
Mibanco	Peru	155	286	207	501	38	36	57	153	148	280	21,3	22,0
Equity Bank	Kenya	110	393	38	349	-5	70	556	1840	124	495	15,4	11,8
BancoSol	Bolivia	85	121	130	209	16	22	77	170	97	169	14,8	14,7
ACLEDA	Cambodia	141	185	100	315	34	50	92	249	62	345	19,2	13,5
XacBank	Mongolia	50	61	30	86	46	42	65	103	25	67	18,9	14,9
Al Amana	Morocco	250	481	83	305	40	28	0	0	0	0	18,9	14,6
SHARE	India	814	990	82	128	51	28	0	0	0	0	23,4	17,2
Card NGO	Philippines	98	320	9	34	21	52	0	0	0	0	23,3	33,8
LAPO	Nigeria	44	131	3	16	44	52	0	0	0	0	28,1	28,4
<b>Average</b>		<b>580</b>	<b>839</b>	<b>102</b>	<b>244</b>	<b>31,9</b>	<b>38,5</b>	<b>446</b>	<b>834</b>	<b>46</b>	<b>129</b>	<b>21,5</b>	<b>20,2</b>
<b>Weighted average<sup>7</sup></b>		<b>1163</b>	<b>1094</b>	<b>164</b>	<b>338</b>	<b>32,1</b>	<b>36,3</b>	<b>975</b>	<b>1212</b>	<b>60</b>	<b>182</b>	<b>21,1</b>	<b>19,1</b>

## LEVERAGE INCREASES, INTEREST RATES DECREASE AND ASSET QUALITY REMAINS SOLID

Leverage has increased from 2005 to 2007, especially for those institutions operating under full banking regimes like Mibanco, BancoSol, ACLEDA and XacBank. Because Compartamos - although licensed as a bank - has not (yet) acted as such, it is more comparable to NGOs like ASA, Card and LAPO. Apparently the Mexican environment is not very competitive yet, and Compartamos is able to maintain interest rates at levels well above the average.<sup>8</sup> The average rates in microfinance are decreasing, with Bolivia<sup>9</sup> and Bangladesh as clear examples of competitive markets, taking into account that these rates also need to be related to the average loan size. The portfolio at risk over 30 days has improved from 3.3% to 2.7% if we exclude the two new additions of LAPO and Card.

## MICROFINANCE HAS DEVELOPED INTO A SEPARATE ASSET CLASS

In the last few years, microfinance has developed into a separate asset class, especially for debt and private equity investors. Today there are around 100 microfinance investment vehicles (MIVs) focussing on investing in microfinance debt and/or equity. With this strong proliferation of dedicated investors, the sector has indeed become a separate asset class and over the last few years has behaved as such. Due to the deterioration of equity markets since the sub-prime crisis starting in July 2007,

there have not been any new IPOs from MFIs. Should the climate in equity markets improve, however, this trend may soon change: several institutions have announced plans for IPOs in the coming years.

## WILL MICROFINANCE STAY A SEPARATE ASSET CLASS?

Several institutions, which started out as microcredit institutions, have now scaled up their operations into full-fledged microfinance banks including Mibanco, BancoSol, ACLEDA and XacBank. Partly due to inadequate local banking structures, they now accommodate larger individual SME loans, savings, remittances, insurance and sometimes even credit cards. Although they still service “the poor,” they have entered new segments and introduced new products. The overall profile of these institutions has become more like an emerging market bank. On the investor side, several mainstream investors and private equity players have entered microfinance in the last few years. More mainstream investors will enter this asset class, which will alter the way investments are made in this sector. Over time microfinance is likely to become part of a much larger sector of emerging market and/or “Bottom of the Pyramid”<sup>10</sup> financial services. Due to increased linkages with the mainstream economy, part of the anti-cyclical quality of microfinance may be lost.

**Table 2: Further Key Performance Indicators for Eleven Leaders in Microfinance**

Name	Country	Capital / assets (%)		Average loan (USD)		Average savings balance (USD)		Financial revenue (%)		PAR>30 (%)	
		2005	2007	2005	2007	2005	2007	2005	2007	2005	2007
Compartamos	Mexico	37,7	44,8	399	450			74,7	68,5	1,2	2,7
ASA	Bangladesh	53,6	58,3	61	67	11	10	23,9	23,5	1,1	3,5
Mibanco	Peru	17,2	11,0	1342	1749	2.584	1.829	30,7	28,2	2,0	1,8
Equity Bank	Kenya	13,9	28,1	348	888	224	269	13,3	17,7	8,1 <sup>11</sup>	8,1
BancoSol	Bolivia	11,4	9,9	1531	1724	1.265	996	18,4	18,7	2,6	1,0
ACLEDA	Cambodia	25,8	10,7	709	1699	670	1.386	24,2	17,3	0,3	0,1
XacBank	Mongolia	16,1	9,2	599	1418	385	646	23,4	17,8	0,7	0,6
Al Amana	Morocco	28,8	13,9	331	633			24,6	16,2	0,2	1,9
SHARE	India	7,5	18,0	101	129			27,9	19,1	13,5	4,4
Card NGO	Philippines	44,3	25,8	88	106			35,9	41,6	5,8	12,6
LAPO	Nigeria	42,0	18,6	77	126			40,2	36,8	1,1	1,9
<b>Average</b>		<b>27,1</b>	<b>22,6</b>	<b>508</b>	<b>817</b>	<b>857</b>	<b>856</b>	<b>30,6</b>	<b>27,8</b>	<b>3,3</b>	<b>3,5</b>
<b>Weighted average</b>		<b>29,2</b>	<b>25,1</b>	<b>629</b>	<b>974</b>	<b>1039</b>	<b>779</b>	<b>32,9</b>	<b>28,0</b>	<b>2,5</b>	<b>2,8</b>

## APPENDIX I: RETURNS IN MICROFINANCE

Name	Country	RoE (%)		Name	Country	CRoE (%)	
		2005	2007			2005	2007
Compartamos	Mexico	55,2	45,7	Compartamos	Mexico	188,2	176,4
ASA	Bangladesh	28,2	19,0	ASA	Bangladesh	123,6	85,1
Mibanco	Peru	34,4	37,1	Mibanco	Peru	60,9	39,2
Equity Bank	Kenya	24,8	19,3	Equity Bank	Kenya	28,9	33,9
BancoSol	Bolivia	22,4	32,7	BancoSol	Bolivia	20,0	25,4
ACLEDA	Cambodia	14,3	22,0	ACLEDA	Cambodia	24,3	23,2
XacBank	Mongolia	19,5	23,2	XacBank	Mongolia	22,7	18,7
Al Amana	Morocco	16,5	11,7	Al Amana	Morocco	39,7	7,8
SHARE	India	23,3	8,3	SHARE	India	18,5	3,7
Card NGO	Philippines	18,8	27,0	Card NGO	Philippines	58,1	65,9
LAPO	Nigeria	25,9	39,1	LAPO	Nigeria	77,9	63,7
<b>Average</b>		<b>25,7</b>	<b>25,9</b>	<b>Average</b>		<b>60,3</b>	<b>49,4</b>
<b>Weighted average</b>		<b>30,4</b>	<b>31,7</b>	<b>Weighted average</b>		<b>86,1</b>	<b>68,4</b>
<b>Average old sample</b>		<b>26,5</b>	<b>24,3</b>	<b>Average old sample</b>		<b>58,5</b>	<b>45,9</b>
<b>Average MFIs with savings</b>		<b>23,9</b>	<b>25,6</b>	<b>Average MFIs with savings</b>		<b>46,7</b>	<b>37,6</b>
<b>Average MFIs without savings</b>		<b>27,9</b>	<b>26,3</b>	<b>Average MFIs without savings</b>		<b>76,5</b>	<b>63,5</b>

## APPENDIX II: CASE STUDY PERU

Peru has taken a very proactive approach towards regulating microfinance. In a recent Economist Intelligence Unit Survey,<sup>12</sup> it was rated the number one microfinance market in Latin America. The market leader in Peru is Mibanco, which has seen a strong expansion of its portfolio and product base. Mibanco is able to take savings and has increasingly done so. Mibanco also provides remittances and insurance products. In addition to Mibanco, there are many other operators in the sector, including downscaling banks. Others operate mainly on a local basis. The institutions that compare best with Mibanco are the edpymes, which operate under a special edpyme microfinance regime. The leaders in this sector are Edyficar and Confianza, both of which show very strong growth. Peru may therefore be seen as a model market in the microfinance sector.

Name	RoE (%)		
	2005	2007	2008
Confianza	21,3	21,0	26,1
Mibanco	34,4	37,1	40,7
EDYFICAR	29,3	34,9	31,9
<b>Average</b>	<b>28,3</b>	<b>31,0</b>	<b>32,9</b>
<b>Weighted average</b>	<b>32,4</b>	<b>35,2</b>	<b>37,9</b>

Name	CRoE (%)		
	2005	2007	2008
Confianza	31,4	24,4	33,7
Mibanco	60,9	39,2	34,3
EDYFICAR	42,6	52,3	42,1
<b>Average</b>	<b>44,9</b>	<b>38,6</b>	<b>36,7</b>
<b>Weighted average</b>	<b>55,0</b>	<b>40,3</b>	<b>35,6</b>

Name	Number of borrowers (*1000)			Portfolio (USD *million)			Portfolio growth (%)			Number of savers (*1000)			Savings (USD *million)			Expense ratio (%)		
	2005	2007	2008	2005	2007	2008	2005	2007	2008	2005	2007	2008	2005	2007	2008	2005	2007	2008
Confianza	24	48	0	22	62	87	37,8	39,4	27,9							21,2	21,2	21,6
Mibanco	155	286	361	207	501	787	38,0	36,0	36,4	57	153	236	148	280	494	21,3	22,0	19,8
EDYFICAR	65	137	181	55	128	185	24,1	38,0	31,0							21,3	22,5	22,0
<b>Average</b>	<b>81</b>	<b>157</b>	<b>181</b>	<b>95</b>	<b>230</b>	<b>353</b>	<b>33,3</b>	<b>37,8</b>	<b>31,8</b>	<b>57</b>	<b>153</b>	<b>236</b>	<b>148</b>	<b>280</b>	<b>494</b>	<b>21,3</b>	<b>21,9</b>	<b>21,1</b>
<b>Weighted average</b>	<b>127</b>	<b>237</b>	<b>300</b>	<b>164</b>	<b>392</b>	<b>625</b>	<b>35,3</b>	<b>36,7</b>	<b>34,8</b>	<b>57</b>	<b>153</b>	<b>175</b>	<b>148</b>	<b>280</b>	<b>367</b>	<b>21,3</b>	<b>22,0</b>	<b>20,3</b>

Name	Capital / assets (%)			Average loan (USD)			Average savings balance (USD)			Financial revenue (%)			PAR>30 (%)		
	2005	2007	2008	2005	2007	2008	2005	2007	2008	2005	2007	2008	2005	2007	2008
Confianza	17,3	14,9	15,9	917	1.312					26,9	25,9	27,7	2,9	2,7	
Mibanco	17,2	11,0	8,5	1.342	1.749	2.181	2.584	1.829	2.093	30,7	28,2	25,1	2,0	1,8	
EDYFICAR	16,1	16,9	14,2	843	933	1.024				28,3	31,1	28,7	3,3	2,7	
<b>Average</b>	<b>16,9</b>	<b>14,3</b>	<b>12,9</b>	<b>1.034</b>	<b>1.331</b>	<b>1.603</b>	<b>2.584</b>	<b>1.829</b>	<b>2.093</b>	<b>28,6</b>	<b>28,4</b>	<b>27,2</b>	<b>2,8</b>	<b>2,4</b>	
<b>Weighted average</b>	<b>17,0</b>	<b>12,4</b>	<b>10,1</b>	<b>1.213</b>	<b>1.559</b>	<b>1.961</b>	<b>2.584</b>	<b>1.829</b>	<b>2.093</b>	<b>29,9</b>	<b>28,5</b>	<b>25,9</b>	<b>2,4</b>	<b>2,1</b>	

### APPENDIX III: CASE STUDY INDIA

India is a country with a very large untapped demand for microfinance. The growth percentage has been over 50%, with returns varying significantly. SKS has taken over the market leader position from SHARE.<sup>13</sup> In the period of observation, the market was heavily influenced by the so-called “Krishna district collector incident” in March 2006. In Andhra Pradesh, which had been the model state for microcredits in India, the collector of the Krishna district accused several MFIs of charging unfairly high interest rates, taking illegal collateral and using dubious methods of loan recovery.<sup>14</sup> Although no formal interest cap exists in India, various sector players lowered their rates in response to this incident, as is reflected in the financial revenue numbers. Since then the central government - in particular Finance Minister P Chidambaram - has taken a positive stance towards the sector, and gradually more regulation has been introduced.<sup>15</sup>

The Indian market may therefore be currently characterized as having significant expansion possibilities, low interest rates due to informal interest ceilings and a credit-only market (where savings are not allowed). It is, however, open to foreign investors and - due to the fact that this is the largest single market in the world - a lot of innovation and investment has taken place in the last few years.<sup>16</sup>

Name	RoE (%)	
	2005	2007
Bandhan	31,4	62,4
Basix	3,3	4,9
SHARE	23,3	8,3
SKS	27,1	12,0
Spandana	79,1	53,6
<b>Average</b>	<b>32,9</b>	<b>28,3</b>
<b>Weighted average</b>	<b>39,8</b>	<b>27,3</b>

Name	CRoE (%)	
	2005	2007
Bandhan	8,8	46,5
Basix	-1,7	-1,1
SHARE	18,5	3,7
SKS	23,9	11,5
Spandana	44,5	39,3
<b>Average</b>	<b>18,8</b>	<b>20,0</b>
<b>Weighted average</b>	<b>24,7</b>	<b>20,3</b>

Name	Number of borrowers (*1000)		Portfolio (USD *million)		Portfolio growth (%)		Number of savers (*1000)		Savings (USD *million)		Expense ratio (%)	
	2005	2007	2005	2007	2005	2007	2005	2007	2005	2007	2005	2007
Bandhan	150	897	8	82	76,4	63,6	0	0	0	0	20,7	16,5
Basix	143	305	22	56	42,1	43,0	0	0	0	0	22,6	21,1
SHARE	814	990	82	128	51,0	28,2	0	0	0	0	23,4	17,2
SKS	173	1.629	21	262	63,1	75,8	0	0	0	0	8,1	17,0
Spandana	722	1.189	64	181	14,2	50,5	0	0	0	0	14,7	12,5
<b>Average</b>	<b>400</b>	<b>1002</b>	<b>39</b>	<b>142</b>	<b>49,4</b>	<b>52,2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,9</b>	<b>16,9</b>
<b>Weighted average</b>	<b>613</b>	<b>1212</b>	<b>60</b>	<b>180</b>	<b>40,5</b>	<b>56,8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18,8</b>	<b>16,1</b>

Name	Capital / assets (%)		Average loan (USD)		Average savings balance (USD)		Financial revenue (%)		PAR>30 (%)	
	2005	2007	2005	2007	2005	2007	2005	2007	2005	2007
Bandhan	4,0	8,2	55	92	0	0	21,8	22,0	0,0	0,1
Basix	21,0	10,5	157	184	0	0	24,8	22,9	1,8	1,2
SHARE	7,5	18,0	101	129	0	0	27,9	19,1	13,5	4,4
SKS	13,6	15,7	119	161	0	0	20,2	20,4	1,5	0,2
Spandana	3,6	10,5	88	153	0	0	22,0	19,8	0,0	4,4
<b>Average</b>	<b>9,9</b>	<b>12,6</b>	<b>104</b>	<b>144</b>	<b>0</b>	<b>0</b>	<b>23,3</b>	<b>20,8</b>	<b>3,4</b>	<b>2,1</b>
<b>Weighted average</b>	<b>8,2</b>	<b>13,5</b>	<b>103</b>	<b>147</b>	<b>0</b>	<b>0</b>	<b>24,6</b>	<b>20,4</b>	<b>6,0</b>	<b>2,1</b>



## APPENDIX IV: CASE STUDY BANGLADESH

In Bangladesh three large institutions operate in the microfinance sector, each having over 5 million borrowers and each having a very different profile. BRAC and ASA operate as NGOs, which cannot take savings, except for limited compulsory savings. BRAC's microfinance activities are part of a large NGO with over 100,000 employees and offerings that include education and business development services. ASA<sup>17</sup> has been highly concentrated on microcredit since the early 1990s and has the largest capital base of the three MFIs in the sample. Over the last few years, Grameen has started many new ventures and social businesses with partners mainly from the rich world, such as Grameen Phone.<sup>18</sup> In funding the microfinance sector, apex institution PSKF plays a large role. Funding is available in local currency, but unlike in India, foreign equity participation is not taking place. 2007 figures may have been influenced by natural disasters and the caretaker government regime: RoE's and CRoE's of all institutions in the sample dropped significantly. While returns stayed high at ASA, they decreased severely at BRAC and Grameen. Also the leverage of Grameen Bank has increased. In early 2008 ASA reduced its lending rates from a flat 15% to a flat 12.5%. Grameen and BRAC have followed suit. This

may put further pressure on returns for 2008 and 2009. Due to increased competition and the risk of major natural disasters, the sustainability of the sector may come under pressure.

Name	RoE (%)	
	2005	2007
ASA	28,2	19,0
BRAC	18,1	6,1
Grameen Bank	17,8	1,1
<b>Average</b>	<b>21,3</b>	<b>8,7</b>
<b>Weighted average</b>	<b>20,7</b>	<b>7,5</b>

Name	CRoE (%)	
	2005	2007
ASA	123,6	85,1
BRAC	42,1	4,6
Grameen Bank	17,8	-3,1
<b>Average</b>	<b>61,2</b>	<b>28,9</b>
<b>Weighted average</b>	<b>53,2</b>	<b>22,2</b>

Name	Number of borrowers (*1000)		Portfolio (USD *million)		Portfolio growth		Number of savers(*1000)		Savings (USD * million)		Expense ratio (%)	
	2005	2007	2005	2007	2005	2007	2005	2007	2005	2007	2005	2007
ASA	4.182	5.423	255	362	21,3	15,6	4.059	6.664	46	67	9,4	12,6
BRAC	4.160	6.398	269	529	9,6	33,8	33	33	0,44	0,37	17,9	22,2
Grameen Bank	5.050	6.707	424	532	20,4	9,4	5.580	7.411	195	276	14,6	17,2
<b>Average</b>	<b>4.464</b>	<b>6.176</b>	<b>316</b>	<b>474</b>	<b>17,1</b>	<b>19,6</b>	<b>3.224</b>	<b>4.703</b>	<b>80</b>	<b>115</b>	<b>14,0</b>	<b>17,3</b>
<b>Weighted average</b>	<b>4.564</b>	<b>6.265</b>	<b>335</b>	<b>488</b>	<b>17,6</b>	<b>20,0</b>	<b>3.598</b>	<b>4.479</b>	<b>100</b>	<b>121</b>	<b>14,1</b>	<b>17,8</b>

Name	Capital / assets (%)		Average loan (USD)		Average savings balance (USD)		Financial revenue (%)		PAR>30 (%)	
	2005	2007	2005	2007	2005	2007	2005	2007	2005	2007
ASA	53,6	58,3	61	67	11	10	23,9	23,5	1,1	3,5
BRAC	29,7	20,7	65	83	13	11	23,4	23,6	5,9	3,8
Grameen Bank	11,3	9,1	84	79	35	37	16,9	17,3	2,6	n/a
<b>Average</b>	<b>31,5</b>	<b>29,4</b>	<b>70</b>	<b>76</b>	<b>20</b>	<b>19</b>	<b>21,4</b>	<b>21,5</b>	<b>3,2</b>	<b>3,7</b>
<b>Weighted average</b>	<b>27,9</b>	<b>25,9</b>	<b>72</b>	<b>77</b>	<b>22</b>	<b>20</b>	<b>20,6</b>	<b>21,2</b>	<b>3,1</b>	<b>3,7</b>



<sup>1</sup> This whitepaper is largely an update of the whitepaper published in August 2007 on [www.MicroCapital.org](http://www.MicroCapital.org): "Microfinance: an Emerging Asset Class for Debt and Equity Investors". For more information on Marco Coppoolse's activities in the microfinance sector, see [www.MicrofinancePartners.com](http://www.MicrofinancePartners.com). On this website you can also download the earlier whitepaper, which was also reprinted in *Commercial Microfinance, Trends and Cases*, S Rajagopalan and Radha Purswani, 2008, The Icfai University Press, Hyderabad, India.

<sup>2</sup> The data used are from [www.MIXMarket.org](http://www.MIXMarket.org). Since the previous analysis, two countries have been added to the dataset: Nigeria and the Philippines. For India, data for the years ending March 2006 and March 2008 are taken a proxy for the 2005 and 2007 calendar years. (In India MFIs have a book year ending March 31.)

<sup>3</sup> Data from [www.MIXMarket.org](http://www.MIXMarket.org). See Note 1 regarding earlier whitepaper.

<sup>4</sup> Card NGO sells its well-established branches to Card Bank. By the end of 2007 Card Bank has a portfolio of about 39% of the portfolio of Card NGO. Therefore Card NGO was selected to go in this sample.

<sup>5</sup> Comparable return on equity (CRoE) was introduced in the 2007 whitepaper. This measure makes returns comparable across different leverage and interest levels. It is the excess return above the risk-free interbank rate. To calculate the comparable profit you take the net profit and deduct the earnings made on the equity. Subsequently you relate to a normative equity of 10%. Or in formula:

The CRoE = ( Net profit – Net profit correction) /  
Assumed average equity =  
(Net profit – ((Average equity x Interbank interest rate)  
x ( 1 - Tax rate)) / Total assets / 10

<sup>6</sup> ASA is included in the group of MFIs offering savings, although they can only take so-called compulsory savings from members, which do not generally exceed 20 percent of the loan balance.

<sup>7</sup> Weighted averages are weighted by the institutions' portfolio sizes.

<sup>8</sup> The financial revenue percentage is only an indicator of the effective annual rate on microcredits, as charged to the client. Annual effective rates are not available on the MIX Market and often are not disclosed to clients. There may be fees that increase the overall rate, and there may be compulsory savings at a below-market interest rate, which increases the effective rate. In Mexico non-recoverable VAT is also charged on the instalment, which also increases the rate. For further reading, refer to [www.mfttransparency.org](http://www.mfttransparency.org).

<sup>9</sup> In more and more microfinance markets, over-indebtedness and borrowing from multiple institutions is a concern. For further reading on Bolivia see: Catalina Robledo, *MicroBanking Bulletin*, Issue 17, Autumn 2008, "Managing the Risks of Growth in Microfinance, A Case Study of Bolivia".

<sup>10</sup> C.K. Prahalad, *The Fortune at the Bottom of the Pyramid*, Wharton School publishing 2005.

<sup>11</sup> Because data are not available, data are assumed to be the same as in 2007.

<sup>12</sup> Economist Intelligence Unit, "2008 Microscope on the Microfinance Business Environment In Latin America and the Caribbean", October 2008, Commissioned by IDB and CAF

<sup>13</sup> It was decided to not replace SHARE by SKS in the sample at this time.

<sup>14</sup> *The Economic Times*, 26 February 2007: "Andhra experience to have its mark on the bill".

<sup>15</sup> India has no specific microfinance regulation. It uses the non-bank finance company (NBFC) regime to regulate the sector. A 12.5 percent capital requirement has been introduced, which has led to significant capital injections in the sector. As of 2012 this

capital requirement is anticipated to be increased to 15 percent. Further regulation is pending. Savings are currently not allowed.

<sup>16</sup> In a recent study by CGAP and JPMorgan, "Shedding Light on Microfinance Equity Valuation: Past and Present", February 2009, India - with a price / book ratio of 6.7 - was seen as a clear outlier. (The average in the total sample was 1.3 to 1.9.) Although there may be reasons for this valuation gap relative to other markets, over time the valuation differences between India and other countries should diminish, especially relative to those in Latin America, which often have more accommodating regulations for full-fledged microfinance banks.

<sup>17</sup> For further insights into ASA read: Stuart Rutherford with Graham A.N. Wright and S.K. Sinha, *Managing Growth of MFIs: ASA Bangladesh - single-minded growth*, Microsave, February 2008.

<sup>18</sup> Grameen was founded by Professor Mohammed Yunus, who was awarded the Nobel Peace Prize in 2006. For further reading: *Banker to the Poor*, Yunus, 1999, Public Affairs, New York; *The Poor Always Pay Back: The Grameen II Story*, Dowla and Barua, 2006, Kumarian Press, Bloomfield, USA; *Creating a World Without Poverty, Social Business and the Future of Capitalism*, Yunus, 2007, Public Affairs, New York.

### About MicroCapital

MicroCapital publishes *The MicroCapital Monitor* and other products offering specialized news and information on international microfinance. As microfinance is an emerging global industry with a legacy of charity, objective news with a business orientation is scarce. MicroCapital seeks to provide candid information on microfinance in an effort to encourage rational growth of the industry.

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