Bosnia and Herzegovina Microfinace Analysis and Benchmarking Report 2008

A report from MIX and AMFI January, 2009

Introduction

Since 1996, a significant number of microcredit organizations have emerged and developed in Bosnia and Herzegovina (BiH)[1]. The 12 organizations which are members of the Association of Microfinance Institutions in Bosnia and Herzegovina (AMFI) comprise 98 percent of the microfinance portfolio in the country. In the last few years, all of them have recorded strong growth in outreach, were highly profitable and attracted the greatest amount of local and foreign funding to date. Moreover, AMFI members continually win recognition and awards due to their high level of transparency and financial reporting. Out of 20 institutions awarded the CGAP Financial Transparency Awards in 2006 worldwide, five microcredit organizations come from BiH.

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1.For more detailed background of the sector, refer to updates on Bosnia and Herzegovina at http://www.themix.org/ee_ca.html.

To keep up with the quickly growing microfinance sector, the authorities of BiH have introduced changes in the legislation several times since 2002. The two separate entities — the Bosnian Federation and Republic of Srpska in fact have different legislations guiding the microfinance sector, hence microfinance institutions are affected differently depending on where they are registered.

In 2007, the gross portfolio of the 12 AMFI members was 856 million KM (644 million USD and 428 million EUR), an 85 percent increase since 2006 levels, while the number of active clients, 297 thousand as of the end of 2007, has increased by 54 percent since 2006. Microcredit organizations operated in both entities through 477 offices.

This report, a joint production of MIX and AMFI, presents analysis of the 2007 legislative changes in BiH, the financial performance and the funding structure of Bosnian microfinance institutions within the context of the macroeconomic environment as of 2007. Thanks to the detailed reporting of all AMFI members to MIX over the course of several years, this report also discusses trend data in performance and funding for Bosnian MFIs for the last four years (2004-2007).

Macroeconomic Environment

In 2007, strong economic growth in the country continued. Import of capital and intermediary products were 30 percent higher than in 2006. Consumption was financed by large salary increases, followed by mild growth of employment, growth of consumer loans, higher pensions paid (18 percent increase in the Federation and 12.5 percent in Republic of Srpska), and additional government transfers related to old foreign currency savings and social support. The local currency, the convertible mark, is pegged to the euro at ratio of 2:1, which at the very least prevents additional inflationary pressures since the government lacks independent monetary policy. Inflation has begun to increase, however, due to global commodity price shocks. Monthly inflation rate was stable for the first seven months of 2007, but it reached higher levels in October (2.1 percent), and November and December (1.1 percent).

While 2007 was a year of strong economic growth, towards the end of the year and in 2008 there were already signs of slowing down of the economy. Demand from the main trading partner, the EU is expected to decrease as a result of the global financial crisis, putting further strain on the current account deficit as exports diminish. Remittances make up for some of the deficit but they too are expected to fall. These macroeconomic events are destabilizing for the Bosnian financial system and are affecting the operations of Bosnian MFIs.

Legislative Environment

A new microfinance law was adopted in both entities in 2006 that stipulates the conditions for transformation of microcredit organizations (MCOs) into non-profit microcredit foundations (MCF) or for-profit microcredit companies (MCCs), which can take the form of Limited Liability (LLC) or a Joint Stock Company (JSC). The law has different conditions in each entitiy.

In the Federation, microcredit organizations first need to transform into foundations. The minimum capital requirements for foundations is 50,000 KM or 25,000 EUR and the maximum loan amount is 10,000 KM or 5,000 EUR. MFIs that provided higher loans than this maximum threshold will have to reduce their maximum loan size when they register as foundations. After becoming foundations, MFIs can choose to become for-profit microcredit companies. The MCC status will enable institutions to open their capital structure to investors. MCCs also face higher capital requirements of 500,000 KM or 250,000 EUR and higher maximum loan amount of 50,000 KM or 25,000 EUR.

In Republic of Srpska, MFIs can directly register as microcredit companies and be subject to the higher capital and maximum loan size requirements (same as outlined for the Federation). As for-profit entities, they will be subject to taxation, however. Neither microcredit foundations nor companies are allowed to take deposits.

The rationale for this law is to keep up with the growing importance and sophistication of the microfinance sector in the country. It allows for greater supervision of the sector. While previously microcredit organizations were supervised by the Ministry of Justice and Ministry of Displaced Person in the Federation and the Ministry of Finance in Republic of Srpska, under the new law microcredit companies will be audited by the respective Banking Agencies of the two entities. The MCC option enables further commercialization of the sector as equity investors step in. The law also stipulates requirements for forming loan loss reserves and calculation of effective interest rates on loans, which are required to be disclosed to clients. The law authorizes mergers and acquisitions, which are expected to occur in the coming years. MIKROFIN, which registered as a microcredit company in 2007, has already merged with another microfinance institution BENEFIT.

The largest MFIs are expected to transform into microcredit companies for the following reasons: 1) most have sufficient capital from capitalized donations and retained earnings; 2) the MCC status will allow the opening of the capital structure to investors; 3) the maximum loan requirements for foundations may be limiting for the bigger MFIs.

As of the writing of this report, 19 non-profit microcredit foundations and one for-profit micro credit company were registered in the Federation, while in the Republic of Srpska, three microcredit companies and three microcredit foundations were registered.

Outreach and Scale

In 2007, most Bosnian MFIs showed high growth rates in active borrowers and especially loan portfolio. More than half of the non-bank MFIs presented in **Table 1** grew by more than 50 percent in outreach despite heavy competition from commercial banks that have begun to target traditionally microfinance clients with consumer loans. The fastest growing MFI was LOKmicro more than doubling in both outreach and scale. It was also the most highly leveraged non-bank institution in the sample. Almost half

Table 1 Characteristics of Large Bosnian MFIs

MFI	Status as of Dec. 2008	GLP in mil.KM	# of Active Borrowers	% Growth in Borrow-ers	% Growth in GLP	% of Women Borrowers	Debt to Equity Ratio
EKI	MCF	159.9	44, 459	58%	102%	38%	4.2
LIDER	MCF	9.0	4,849	12%	44%	40%	0.8
LOKmicro	MCF	89.0	26,986	134%	191%	43%	8.8
MI-BOSPO	MCF	56.6	30,565	57%	74%	100%	3.1
MIKRA	MCF	29.6	12,403	7%	88%	100%	1.9
Mikro ALDI	MCF	5.7	3,100	-14%	53%	78%	1.3
MIKROFIN	MCC	189.4	51,508	79%	123%	35%	3.8
Partner	MCF	156.1	51,982	57%	99%	43%	4.1
PRIZMA	MCF	49.2	29,310	40%	133%	83%	2.1
SINERGIJA	MCC	36.2	9,707	53%	91%	34%	4.7
Sunrise	MCF	64.2	23,175	34%	76%	38%	3.8
Women for Women	MCF	11.5	9,235	40%	85%	100%	1.6
TOTAL		**856.4**	**297,279**				

Source: MIX Market, 2006-2007.

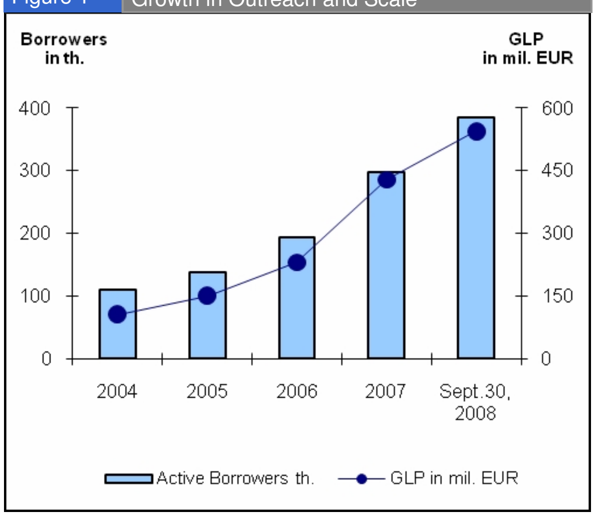
of the MFIs in the sample had a debt-to-equity ratio of 4 or more.

For the market as a whole, the most rapid growth occurred in 2007, with active borrowers increasing by 54 percent and GLP increasing by 85 percent in local currency terms. In contrast, in 2006 the corresponding growth rates were 39 percent for active borrowers and 53 percent for GLP. This trend is not likely to continue in 2008. In fact, quarterly data collected by AMFI from its members (all 12 MFIs in this report provide quarterly data) indicates that as of September 30, 2008 total clients were 385 thousand, an increase of 30 percent from end-of-2007 levels, while GLP was 1,087 million KM (817 million USD and 544 million EUR), an increase of 27 percent in local currency terms (see **Figure 1**).

Some of the growth in scale for Bosnian MFIs was driven by larger loan balances. The median average loan balance per borrower increased by 17 percent in local currency terms from 2,367 KM (1,184 EUR and 1,594 USD) to 2,773 KM (1,387 EUR and 2,087 USD). However, when viewed relative to changes in local income levels, the median average loan balance as a percentage of GNI per capita has slightly decreased from 59 to 54 percent.

One can expect that as more MFIs transform into micro-credit companies and face maximum loan

Figure 1 Growth in Outreach and Scale

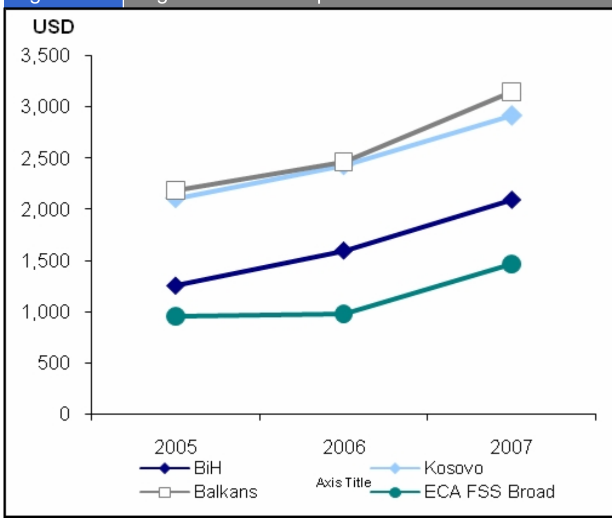


Source: MIX Market, 2004-2007, AMFI Quarterly Updates.

amounts of 25,000 EUR, the loan balances will continue to rise. However, the MFIs which choose to remain non-profit foundations and face the upper loan cap of 5,000 EUR will continue to serve lower income clients with smaller loan balances.

When compared to regional peers, Bosnian MFIs offer the lowest average loan balances (see **Figure 2**), but the number is slightly higher than for other sustainable MFIs in the region with similar target market. That can be explained by the fact that due to the lower level of economic development in regions like Central Asia and the Caucasus, the loan balances are also lower.

Figure 2 Avg. Loan Balance per Borrower for BiH and Peers

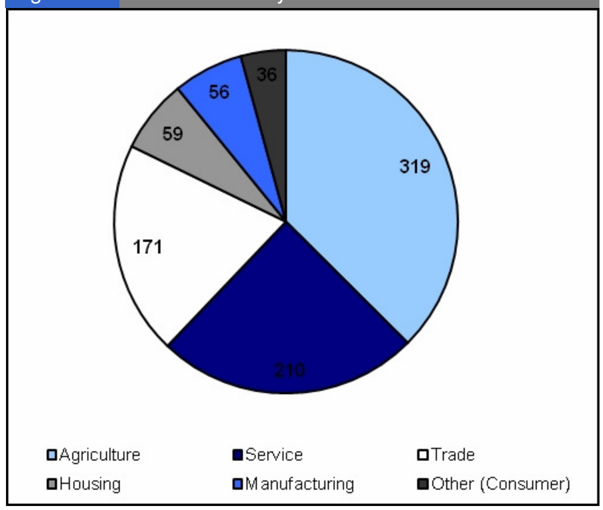


Source: MicroBanking Bulletin, 2005-2007

In terms of sector and regional analysis of the loan portfolio of Bosnian MFIs, the following trends for 2007 emerge (see **Figure 3**). The majority of loans were in agriculture (37 percent), services (25 percent) and trade (20 percent). Loans for manufacturing had a relatively smaller share of 7 percent, while consumer and housing loans comprised about 11 percent of all loans. Some MFIs have started to complement their loan products with life insurance policies.

Regionally, there is a slightly greater concentration of loan portfolio in the Federation of Bosnia and Herzegovina, but MFIs operate in about an equal number of city centers– 24 in the Federation and 28 in Republic of Srpska. 40 percent of the portfolio is concentrated in Tuzla, Sarajevo and Bihac of the Federation and Banja Luka and Doboj in Republic of Srpska. In 2007, more MFIs began operations in Bihac, Zenica, Gradacac, Travnic, Srebrenik, Zepce in the Federation and Visegrad, Brod and Modrica in Republic of Srpska. However, Herzegovina, the rural and sparsely populated southern region of the county still is a market where MFIs have a lot of room to expand their services. Mostar, the main city in Herzegovina, had 5 percent share of the total portfolio.

Figure 3 Loan Portfolio by Sector in Millions of KM[2]



Source: MicroBanking Bulletin, 2007

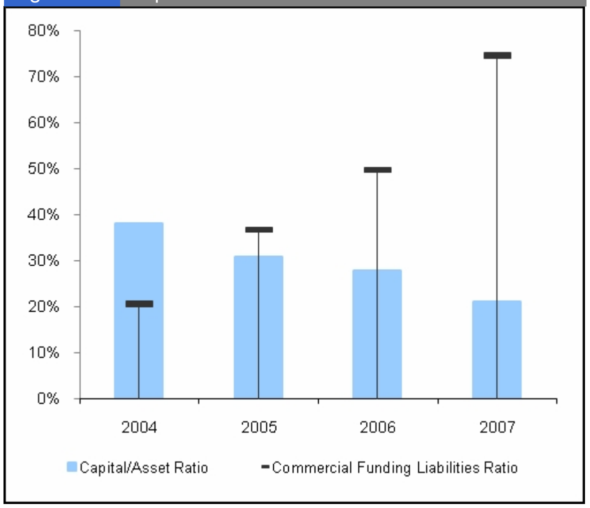
FUNDING ACTIVITIES IN BOSNIA AND HERZEGOVINA 2004-2007

The majority of Bosnian MFIs were established as affiliates of international networks during the post-conflict reconstruction efforts in BiH. As such, they received the majority of funding from donations. As MFIs increased in size and became more efficient and profitable, they began attracting more funds from commercial sources. Their commercial funding liabilities ratio (borrowings at commercial interest rates/average GLP)[3] increased from 21 percent in 2004 to 73 percent in 2007 (see **Figure 4**). Among peers in Kosovo and in the Balkans (Albania, Croatia, Macedonia, Montenegro, Serbia) in general, as well as peers similar in size and market outreach from Eastern Europe and Central Asia (ECA), the Bosnian MFIs are some of the most highly leveraged. The median indicator for debt-to-

2. Figure 3 is based on available data from 11 AMFI members.
3. Note that the ratio also includes voluntary and time deposits in the numerator, but these are absent for all non bank microcredit institutions in BiH.

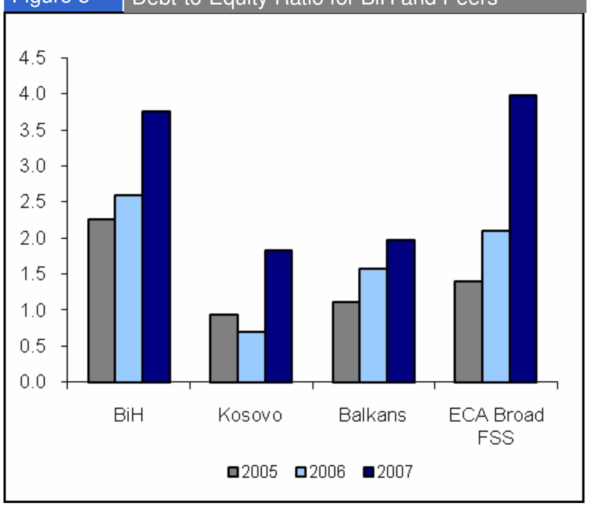
equity more than doubled in the last three years reaching close to 4 in 2007 (see **Figure 5**).

Figure 4 Capital/Asset Structure: 2004-2007 [4]



Source: MicroBanking Bulletin, 2004-2007

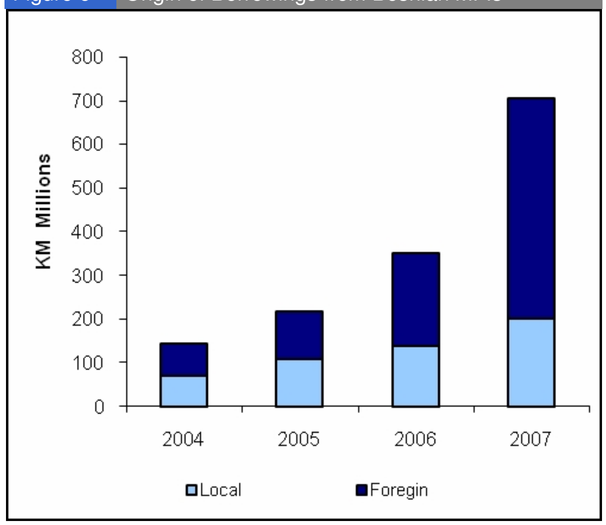
Figure 5 Debt-to-Equity Ratio for BiH and Peers



Source: MicroBanking Bulletin, 2004-2007.
Note: The peer group 'Balkans' does not include Bosnian MFIs. The peer group 'ECA Broad FSS' also does not include Bosnian MFIs and referes to financially self-sufficient MFIs with a broad target market, i.e. those with Average Loan Balance per Borrower/GNI per capita is between 20% and 149%.

The composition of these funds also changed in the last four years. While in 2004-2006, loans from foreign and local sources were split more evenly, in 2007 more than 70 percent of all funding came from foreign lenders (see **Figure 6**). Local commercial banks have been active providers of funding to Bosnian MFIs. Bank loans rose from 24 million KM in 2004 to 143 million KM in 2007, but their share of total borrowings has increased only slightly from 17 to 20 percent. Local banks have an internal exposure limit to MFIs of 5 percent, which may affect the larger MFIs in their ability to obtain local funding in the future.

Figure 6 Origin of Borrowings from Bosnian MFIs



Source: MicroBanking Bulletin, 2004-2007

The most dramatic change in 2007 occurred in funding provided by microfinance investment vehicles (MIVs) (**see Figure 7**). Loans from MIVs increased by 280 percent from 72 million KM in 2006 to 275 million KM in 2007, and comprise 39 percent of total borrowings for 2007. Four of the eleven institutions in the sample increased their borrowings from MIVs by more than 200 percent in 2007. This is a notable change since last year, when MIVs provided 21 percent of total borrowings. The largest investments in 2007 came from Blue Orchard, Oikocredit, DWM and Triodos.

Funding from development financial institutions (DFIs) such as multilateral development organizations and bilateral agencies also increased significantly (almost doubling in amount) in 2007. In 2004 most of the loans came at subsidized rates from USAID and World Bank initiatives, while in 2006 and 2007 EBRD, KfW, EFSE and ICO[5] were the

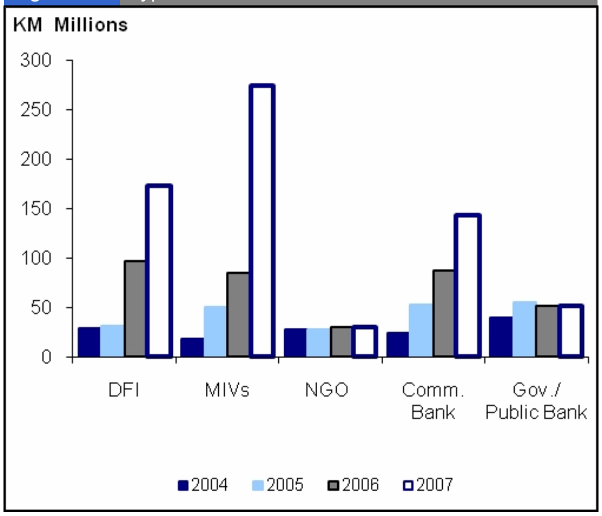
4. Trend data includes 11 Bosnian MFIs, while 2007 data used in peer comparisons includes 13 Bosnian MFIs.

5. The acronyms stand for European Bank for Reconstruction and Development, Kreditanstalt für Wiederaufbau (German Development Bank), European Fund for Southeast Europe and Instituto de Credito Official (state-owned corporate entity attached to the Ministry of Economy and Finance of Spain.).

main funders, lending at more commercial interest rates. In 2007 these four lenders accounted for 93 percent of the total investments from DFIs in 2007.

Funding from foreign NGOs as well as from the government has changed little in terms of actual amounts. However, as foreign commercial lenders moved into the market, the share of subsidized funding has decreased significantly, from 46 percent in 2004 to 12 percent in 2007.

Figure 7 Type of Lenders for Bosnian MFIs

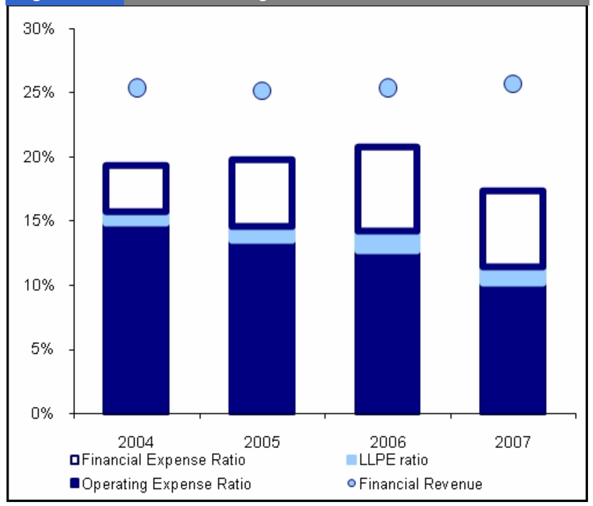


Source: MicroBanking Bulletin, 2004-2007

FINANCIAL PERFORMANCE OF BOSNIAN MFIs

As loan balances increased and MFIs became more efficient in 2007, their bottom line also improved. The adjusted return on assets (RoA) has remained at about 5 percent, while adjusted return on equity (RoE) increased from 17 percent in 2006 to 19.6 percent in 2007. Profitability was driven by a significant reduction in total expenses, which declined from 20.2 to 17.7 percent. A look at the composition of MFIs' expenses reveals that the greatest reduction was achieved in terms of operating expenses, which fell steadily since 2004 but dropped dramatically only in 2007 from 13 percent to 10 percent (see **Figure 8**). On the contrary, financial expense has nearly doubled since 2004 levels from 3.6 percent to 6 percent. This is due to the increased reliance on commercial borrowings instead of on subsidized loans and donations as a source of funding.

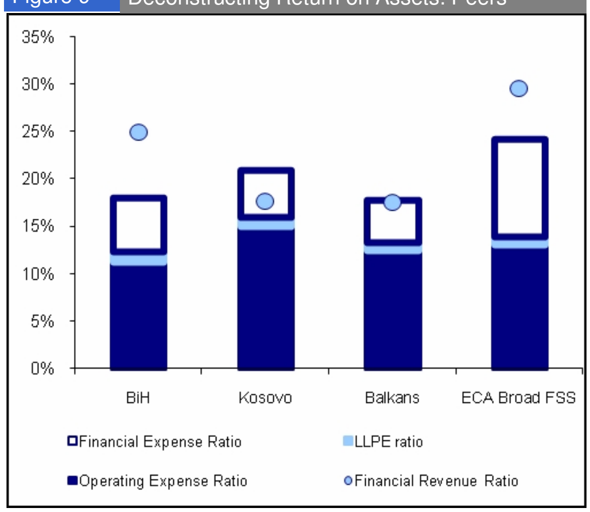
Figure 8 Deconstructing Return on Assets: BiH



Source: MicroBanking Bulletin, 2005-2007.

A comparison with regional and functional peers reveals that the Bosnian MFIs have by far the lowest cost structure and one of the highest margins (see **Figure 9**). Peers from Kosovo and from Balkan countries in general have higher operating costs and lower financial revenues as a percentage of total assets. All Balkan peers have a similar financial expense at about 5 percent, which is one of the lowest in the region as evidenced by the fact that this indicator is twice higher for all financially self sufficient ECA MFIs with broad target market.

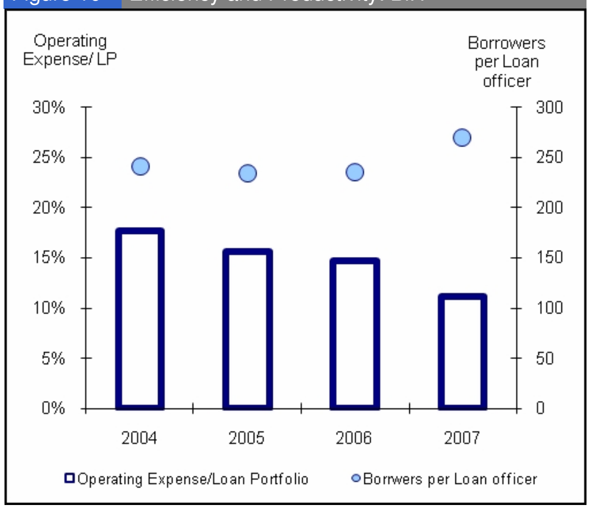
Figure 9 Deconstructing Return on Assets: Peers



Source: MicroBanking Bulletin, 2007

Some of the reduction in expenses since 2004 is due to the near doubling of loan balances over the period. However, improvements in productivity and efficiency have also contributed to the drop in expenses. Bosnian MFIs have become most productive in 2007- while the indicator for borrowers per loan officer has remained more or less at the same level from 2004-2006, it increased by 14 percent in 2007 from 236 to 270. At the same time, the indicator for borrowers per staff member has remained roughly the same (156 in 2006 and 158 in 2007), indicating that MFIs are enhancing their productivity specifically in terms of their loan officers. Similarly, the sharpest drop in operating expenses as a percentage of GLP was in 2007 from 14.6 to 11.1 percent (see **Figure 10**).

Figure 10 Efficiency and Productivity: BiH

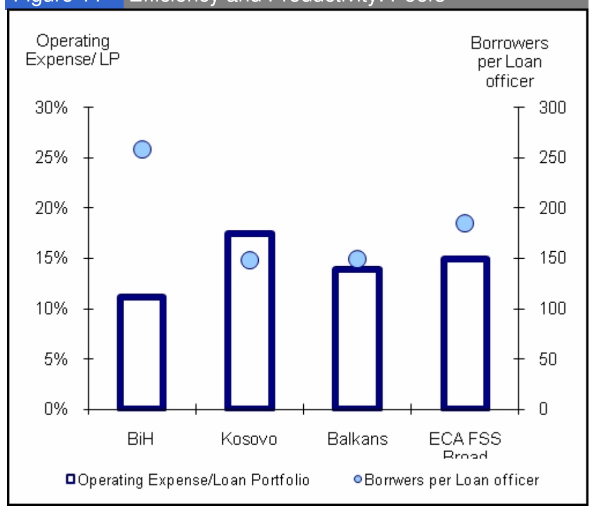


Source: MicroBanking Bulletin, 2004-2007.

Moreover, Bosnian MFIs are almost twice as productive in terms of borrowers per loan officers than their regional peers and are most efficient among all peers in terms of operating expenses as a percentage of the loan portfolio (see **Figure 11**).

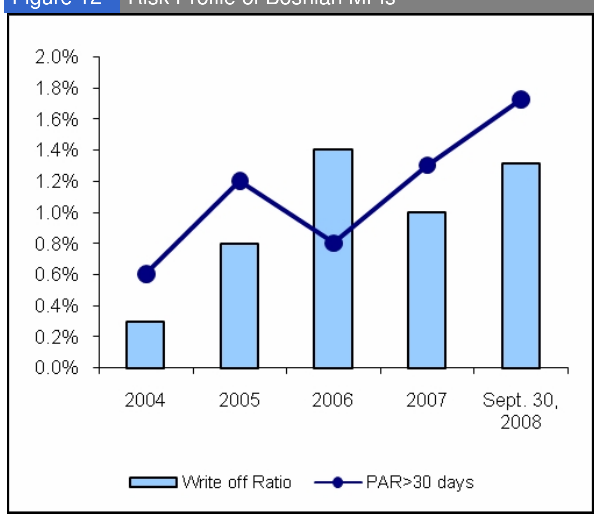
In terms of risk management, Bosnian MFIs have maintained solid portfolio quality over the last four years with PAR>30 days less than 2 percent. However, in the last two years some indicators have increased, raising concerns about the future state of portfolio quality. In particular, in 2006 Bosnian MFIs registered the highest write-off ratio for the past four years, while as of September 30, 2008 they had the highest PAR>30. There is a clear upward trend in the median indicator for portfolio at risk between 2006 and 2008. The inflationary pressures that started at the end of 2007 in BiH as well as the repercussions of the global financial crisis have affected the repayment capacity of clients. Moreover, the Bosnian market may soon reach a point of saturation as MFIs continue to grow in outreach and commercial banks target traditionally microfinance clients. While for the whole of the Balkans, MFIs serve 18 percent of people living below the poverty line, in BiH this number is close to 49 percent[7]. This can indicate broad outreach but may also be a sign of cross-indebtedness in the market - an issue MFIs will increasingly have to deal with in the coming years.

Figure 11 Efficiency and Productivity: Peers



Source: MicroBanking Bulletin, 2007

Figure 12 Risk Profile of Bosnian MFIs



Source: MicroBanking Bulletin, 2004-2007, AMFI Quarterly Updates.

7. This is the "penetration rate" indicator- a proxy measure for how extensive the microfinance sector is in a country.

Upcoming Risks and Challenges

Bosnian MFIs face some challenges ahead in funding their growth. On the one hand, these MFIs face little foreign exchange risk, despite the dominance of foreign funding in the sector, as these funds are euro-based and the convertible mark is pegged to the euro. The risk of devaluation as of the writing of this report is minimal. On the other hand, access to funding at rates similar to 2007 will be challenging. A number of the commercial banks in Bosnia lending to MFIs are foreign owned. The tightening financial conditions and drying up of liquidity for their Western European counterparts have begun to affect Bosnian banks. According to 2007 MBB data, about a third of all loans to MFIs from commercial banks had a maturity of one year; in 2008 MFIs will have greater difficulties obtaining this kind of short term lending. Growth, which will be debt financed, will be funded primarily by foreign lenders. Moreover, the cost of funding is expected to increase. Due to competition among local and foreign lenders, in 2007 MFIs enjoyed some of the lowest rates from MIVs and commercial banks (see **Table 2**). Cost of funding was much higher in other fast growing and profitable markets such as Azerbaijan and Tajikistan (see **Table 3**). As competition eases up and lenders become more cautious, borrowing rates may rise.

Table 2 Cost of Funding for Foreign and Local Lenders

	2004	2005	2006	2007
MIVs	7.80%	8.37%	8.07%	7.76%
Commercial Banks	7.49%	8.13%	7.69%	6.85%

Source: MicroBanking Bulletin, 2004 - 2007
Note: Interest rates are weighted averages. Only fixed rates are included in the calculation.

Table 3 Cost of Funding of Loans by MIVs

Country	Interest Rate
BiH	7.8%
Azerbaijan	9.6%
Tajikistan	10.9%

Source: MicroBanking Bulletin, 2007
Note: Interest Rates are weighted averages.

Looking Ahead

2007 was the most successful year for Bosnian MFIs in terms of increased outreach efficiency and access to funding at a lower cost than for peers. The outlook for 2008 is different - growth will slow down as MFIs concentrate their efforts on controlling portfolio at risk. Growth figures for the first half of 2008 already are more modest. Funding will also come at higher cost. The Bosnian MFIs are well prepared to take on these challenges but the expansion in outreach, branch network and product innovation we have seen in the last four years is not likely to continue at such pace in 2008.

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Ralitsa Sapundzhieva, MIX Analyst – Eastern Europe and Central Asia

Data and Data Preparation

For benchmarking purposes, MIX collects and prepares MFI financial and outreach data according to international microfinance reporting standards as applied in the *MicroBanking Bulletin*. Raw data are collected from the MFI, inputted into standard reporting formats and crosschecked with audited financial statements, ratings and other third party due diligence reports, as available. Performance results are then adjusted, using industry standard adjustments, to eliminate subsidy, guarantee minimal provisioning for risk and reflect the impact of inflation on institutional performance. This process increases comparability of performance results across institutions.

Eastern Europe and Central Asia (ECA) MFI Participants

2007 Benchmarks (Bosnia and Herzegovina, Kosovo, Balkans, ECA FSS Broad)
2004-2007 Trend Data Bosnia and Herzegovina MFI Participants, *names in italics*

Bosnia and Herzegovina	*EKI*, LIDER, *LOKmicro*, *MI-BOSPO, MIKRA*, *Mikro ALDI, MIKROFIN, Partner, PRIZMA*, *SINERGIJA, Sunrise, Women for Women*
Balkans:	
Albania	ASC Union, BESA, MAFF, ProCredit Bank, Opportunity Albania;
Croatia	DEMOS, NOA
Kosovo	Atlantic Capital Partners, BZMF, FINCA, KEP, KGMAMF, KosInvest, KRK, ProCredit, START
Macedonia	FULM, Horizonti, Moznosti, ProCredit Bank
Montenegro	Opportunity Bank Montenegro
Serbia	AgroInvest, MDF, Opportunity Bank Serbia, ProCredit Bank
ECA FSS Broad:	
Albania	BESA, MAFF
Armenia	ACBA, AREGAK, ECLOF-ARM, INECO, KAMURJ, SEF-ARM
Azerbaijan	Aqroinvest, Azercredit, AzerDemirYolBank, CredAgro, FINCA, FinDev, Access Bank, Normicro
Georgia	CREDO, Crystal Fund, Lazika Capital
Kazakhstan	A-invest, Arnur Credit, KLF
Kosovo	KGMAMF, KRK
Kyrgyzstan	1st MCC, Agrokredit Plus, Elet-Capital, FMCC, Kompanion, Mol Bulak Finance
Macedonia	FULM, ProCredit Bank
Mongolia	Khan Bank, TFS, Xac Bank
Montenegro	Opportunity Bank Montenegro
Poland	Inicjatywa Mikro
Romania	LAM, ProCredit
Russia	Alternativa, BFSBS, Doveriye (Amursk), Edistvo (Volgograd), EKPA, FFECC, FINCA, Garant, Intellekt, Lider, Narodnyi Kredit, Partner, Rost, Rus, SMS, Tsimlyansk, Vostok Kapital
Serbia	Agroinvest, MDF, Procredit Bank
Tajikistan	ASTI, Borshud, Imkoniyat, IMON, JOVID, MLF HUMO, MLF MicroInvest

Peer Group Definitions

Peer Group	Definition	Description
Sub Region	Balkans	MFIs from Albania, Croatia, Kosovo, Macedonia, Montenegro, Serbia
Sustainability	FSS	Financial Self-Sufficiency < 100 %
	Non FSS	Financial Self-Sufficiency > 100 %
Target Market*	Low End	Depth* < 20% OR average loan size < USD 150
	Broad	Depth* between 20% and 149%
	High End	Depth* between 150% and 250%
	Small Business	Depth* over 250%

* Depth = Average Loan Balance per Borrower/ GNI per Capita

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
Commercial Funding Liabilities Ratio	(Voluntary and Time Deposits + Borrowings at Commercial Interest Rates) / Adjusted Average Gross Loan Portfolio
Debt to Equity	Adjusted Total Liabilities/ Adjusted Total Equity
Deposits to Loans	Voluntary Deposits/ Adjusted Gross Loan Portfolio
Deposits to Total Assets	Voluntary 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 Voluntary Depositors	Number of depositors with voluntary deposit and time deposit accounts
Number of Voluntary Deposit Accounts	Number of voluntary deposit and time deposit accounts
Voluntary Deposits	Total value of voluntary deposit and time deposit accounts
Average Deposit Balance per Depositor	Voluntary Deposits/ Number of Voluntary Depositors
Average Deposit Balance per Depositor / GNI per capita	Average Deposit Balance per Depositor / GNI per capita
Average Deposit Account Balance	Voluntary Depositors/ Number of Voluntary 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
GDP Growth Rate	Annual growth in the total output of goods and services occurring within the territory of a given country
Deposit Rate	Interest rate offered to resident customers for demand, time, or savings deposits
Inflation Rate	Annual change in average consumer prices
Financial Depth	Money aggregate including currency, deposits and electronic currency (M3) / GDP

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 Loan Loss Provision Expense + 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	(Adjusted Net Operating Income - Unadjusted Net Operating Income)/ Adjusted Average Total Assets

Indicator Definitions (cont'd)

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
Voluntary Depositors per Staff Member	Number of Voluntary 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
Current Ratio	Short Term Assets/ Short Term Liabilities

Bosnia

	BiH	Kosovo	Balkans	Broad FSS	BiH Trend 2004	2005	2006	2007
INSTITUTIONAL CHARACTERISTICS								
Number of MFIs	12	10	26	66	11	11	11	11
Age	10	7	8	8	7	8	9	10
Total Assets	42,630,038	7,659,023	20,297,945	6,745,446	11,440,477	13,847,857	26,203,813	45,484,820
Offices	41	6	11	8	17	18	36	42
Personnel	130	29	75	47	55	72	106	139
FINANCING STRUCTURE								
Capital/ Asset Ratio	22.7%	40.0%	36.3%	19.7%	37.9%	30.8%	27.8%	21.0%
Commercial Funding Liabilities Ratio	72.5%	54.4%	58.6%	79.7%	20.6%	36.7%	49.7%	73.1%
Debt to Equity	3.4	1.5	1.8	4.0	1.6	2.3	2.6	3.8
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Portfolio to Assets	92.8%	84.8%	86.9%	88.7%	87.9%	92.7%	90.4%	93.0%
OUTREACH INDICATORS								
Number of Active Borrowers	25,081	3,752	5,607	4,506	9,750	12,319	17,250	26,986
Percent of Women Borrowers	42.8%	27.6%	36.6%	46.7%	47.0%	51.9%	46.5%	43.0%
Number of Loans Outstanding	25,081	3,752	5,607	4,625	9,806	12,319	17,340	26,986
Gross Loan Portfolio	39,821,358	6,500,960	17,736,561	6,188,256	9,354,143	11,557,492	23,014,059	42,591,685
Average Loan Balance per Borrower	1,942	2,562	3,032	1,861	1,320	1,253	1,594	2,087
Average Loan Balance per Borrower/ GNI per Capita	50.3%	173.9%	113.6%	73.6%	57.9%	46.4%	59.0%	54.0%
Average Outstanding Balance	1,863	2,562	3,032	1,744	1,314	1,253	1,585	2,087
Average Outstanding Balance / GNI per Capita	48.2%	173.9%	113.6%	72.5%	57.7%	46.4%	58.7%	54.0%
Number of Voluntary Depositors	0	0	0	0	0	0	0	0
Number of Voluntary Deposit Accounts	0	0	0	0	0	0	0	0
Voluntary Deposits	0	0	0	0	0	0	0	0
Average Deposit Balance per Depositor	0	1,325	1,441	3,594	0	0	0	0
Average Deposit Account Balance	0	1,325	1,441	2,644	0	0	0	0
MACROECONOMIC INDICATORS								
GNI per Capita	3,862	1,474	2,960	2,730	2,280	2,700	2,700	3,862
GDP Growth Rate	5.8%	11.2%	7.3%	8.1%	6.2%	5.0%	5.0%	5.8%
Deposit Rate	3.6%	2.1%	4.1%	5.7%	3.7%	3.6%	3.7%	3.6%
Inflation Rate	1.3%	4.4%	4.4%	9.0%	0.4%	3.8%	7.4%	1.3%
Financial Depth	56.3%	n.a.	44.3%	29.7%	49.2%	54.7%	54.7%	56.3%
OVERALL FINANCIAL PERFORMANCE								
Return on Assets	5.4%	0.2%	0.7%	2.2%	7.2%	3.9%	4.9%	4.7%
Return on Equity	18.7%	-0.1%	1.4%	12.9%	18.3%	16.2%	17.0%	19.6%
Operational Self-Sufficiency	136.3%	115.1%	113.9%	126.3%	138.4%	129.0%	137.4%	132.7%
Financial Self-Sufficiency	134.0%	102.5%	105.7%	112.2%	134.3%	123.8%	124.6%	130.7%
REVENUES								
Financial Revenue/ Assets	25.0%	17.6%	17.5%	29.6%	25.4%	25.2%	25.4%	25.7%
Profit Margin	25.3%	2.1%	5.4%	10.9%	25.5%	19.2%	19.7%	23.5%
Yield on Gross Portfolio (nominal)	26.0%	20.7%	20.8%	33.5%	30.4%	29.3%	28.7%	27.0%
Yield on Gross Portfolio (real)	24.3%	15.6%	15.3%	19.7%	29.9%	24.6%	19.8%	25.3%
EXPENSES								
Total Expense/ Assets	17.5%	20.6%	18.5%	25.0%	19.6%	20.9%	20.2%	17.7%
Financial Expense/ Assets	5.7%	5.0%	4.5%	10.4%	3.6%	5.2%	6.6%	6.0%
Provision for Loan Impairment/ Assets	1.2%	1.0%	0.9%	0.9%	0.9%	1.1%	1.5%	1.2%
Operating Expense/ Assets	11.2%	15.0%	12.4%	13.0%	14.9%	13.5%	12.7%	10.2%
Personnel Expense/ Assets	7.0%	7.4%	6.5%	6.6%	10.7%	8.7%	8.4%	6.8%
Administrative Expense/ Assets	3.4%	7.0%	5.9%	6.0%	4.2%	4.2%	4.0%	3.2%
Adjustment Expense/ Assets	0.2%	1.9%	1.9%	1.7%	0.1%	1.1%	1.5%	0.2%
EFFICIENCY								
Operating Expense/ Loan Portfolio	11.1%	17.5%	13.8%	14.9%	17.6%	15.6%	14.6%	11.1%
Personnel Expense/ Loan Portfolio	7.6%	8.9%	7.2%	7.6%	12.8%	9.9%	9.3%	7.5%
Average Salary/ GNI per Capita	555.3%	982.9%	496.5%	366.2%	807.8%	576.8%	675.3%	573.6%
Cost per Borrower	197	452	452	195	199	160	180	198
Cost per Loan	192	452	452	183	199	157	175	188
PRODUCTIVITY								
Borrowers per Staff Member	157	74	73	74	153	151	156	158
Loans per Staff Member	157	74	73	74	154	155	161	158
Borrowers per Loan Officer	258	148	149	184	241	234	236	270
Loans per Loan Officer	263	148	149	184	241	237	242	280
Voluntary Depositors per Staff Member	0	0	0	0	0	0	0	0
Deposit Accounts per Staff Member	0	0	0	0	0	0	0	0
Personnel Allocation Ratio	65.1%	45.3%	48.0%	43.5%	60.0%	63.8%	66.0%	65.2%
RISK AND LIQUIDITY								
Portfolio at Risk> 30 Days	1.2%	1.4%	1.6%	0.8%	0.6%	1.2%	0.8%	1.3%
Portfolio at Risk> 90 Days	0.3%	0.6%	0.6%	0.4%	0.2%	0.4%	0.3%	0.3%
Write-off Ratio	0.9%	0.4%	0.5%	0.2%	0.3%	0.8%	1.4%	1.0%
Loan Loss Rate	0.9%	0.3%	0.3%	0.1%	0.2%	0.5%	1.0%	0.9%
Risk Coverage Ratio	116.8%	100.0%	142.3%	164.3%	345.1%	210.3%	257.7%	111.4%

Bosnia Microfinance Analysis and Benchmarking Report, 2008

This publication was jointly produced by the Association of Microfinance Institutions in Bosnia and Herzegovina (AMFI) and the Microfinance Information Exchange, Inc. (MIX).

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In addition, it is the mission of AMFI to participate actively in the national and regional microfinance industry and to promote the active role of its member MFIs in the economic development of BiH and Southeast Europe with the aim to alleviate poverty. For more information, visit http://www.amfi.ba.

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