

THE MICROBANKING BULLETIN

Focus: Reaching the Poor

A CALMEADOW PUBLICATION

ISSUE NO. 5
SEPTEMBER 2000

A SEMI-ANNUAL PUBLICATION DEDICATED TO THE FINANCIAL PERFORMANCE OF
ORGANIZATIONS THAT PROVIDE BANKING SERVICES FOR THE POOR

The MicroBanking Standards Project

The *MicroBanking Bulletin* is one of the principal outputs of the MicroBanking Standards project, which is funded by the Consultative Group to Assist the Poorest (CGAP) and managed by CALMEADOW.

Project Purpose

By collecting financial and portfolio data provided voluntarily by leading microfinance institutions (MFIs), organizing the data by peer groups, and reporting this information, this project is building infrastructure that is critical to the development of the industry. The primary purpose of this database is to help MFI managers and board members understand their performance in comparison with other MFIs. Secondary objectives include establishing industry performance standards, enhancing the transparency of financial reporting, and improving the performance of microfinance institutions.

Project Services

To achieve these objectives, the MicroBanking Standards project provides three services: 1) customized financial performance reports; 2) the *MicroBanking Bulletin*; and 3) network services.

MFIs participate in this project on a *quid pro quo* basis. They provide us with information about their financial and portfolio performance, as well as details regarding accounting practices, subsidies, and the structure of their liabilities. Participating MFIs submit substantiating documentation, such as audited financial statements, annual reports, program appraisals, and other materials that help us understand their operations. With this information, we apply adjustments for inflation, subsidies and loan loss provisioning to create comparable results. *We do not independently verify the information.* Neither CALMEADOW nor CGAP can accept responsibility for the validity of the information presented or consequences resulting from its use by third parties.

In return, we prepare a confidential financial performance report for each participating institution. These reports, which are the primary output of this project, explain the adjustments we made to the data, and compare the institution's performance to its peer group as well as to the whole sample of project participants. These reports are essential tools for MFI managers and board members to benchmark their institution's performance.

The third core service is to work with national and regional associations of microfinance institutions to enhance their ability to collect and manage performance indicators. This service is provided in a variety of different ways, including teaching these networks to collect, adjust and report data at the local level, collecting data on behalf of a network, and providing customized data analysis to compare member institutions to external peer groups. This service to networks allows us to help a wider range of MFIs to improve their financial reporting.

New Participants

Organizations that wish to participate in the MicroBanking Standards project, either to receive customized reports or network services, should contact CALMEADOW's Washington office: email microbanking@calmeadowdc.com, Tel (202) 347-0039, Fax (202) 347-0078. Currently, the only criterion for participation is the ability to fulfill fairly onerous reporting requirements. We reserve the right to establish minimum performance criteria for participation in the *Bulletin*.

Bulletin Submissions

The *Bulletin* welcomes submissions of articles and commentaries, particularly regarding analytical work on the financial performance of microfinance institutions. Submissions may include reviews or summaries of more extensive work elsewhere. Articles should not exceed 2,500 words. We also encourage readers to submit responses to the content of this and previous issues of the *Bulletin*.

The *MicroBanking Bulletin* can be downloaded from CALMEADOW's website: www.calmeadow.com, and it is available in hard copy from PACT Publications—Email: books@pactpub.org, Website: www.pactpub.com, Tel: (212) 697-6222, Fax (212) 692-9748.

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From the Chair

The 5th issue of *The MicroBanking Bulletin* focuses on microfinance programs that reach poorer clients. We are delighted to present a number of contributions about MFIs fulfilling their dual objectives: to serve relatively poorer clients sustainably. Their task is undoubtedly a difficult one. In many countries they work in rural areas. Many of their clients have a very limited capacity to absorb increased loan amounts. Often their clients regard higher rates of interest with great suspicion, complicating the institution's path to sustainability.

The decision to seek out a particularly poor or hard to reach market has fundamental implications for the financial structure of MFIs. These programs, referred to in the *Bulletin* as **Low-end MFIs**, are different than organizations that serve a broader market. Comparisons between institutions need to take into account the markets that they are serving. Unfortunately, we have not yet found wholly satisfying indicators that can be easily gathered, unambiguously interpreted, and readily compared across regions to measure the relative poverty of an MFI's clients.

To define our peer groups, the *Bulletin* uses two proxies for client poverty: 1) **Average Loan Balance (ALB)** (total outstanding portfolio / number of active borrowers) and 2) **Depth** (average loan balance as a percent of GNP per capita).¹ While far from perfect, especially in fast growing programs that utilize a strongly incremental approach to microlending, these indicators are among the best available in expressing something about absolute and relative poverty. While we would not want to infer much about the difference between an outstanding balance of US\$200 and US\$300, there is an important difference between an average loan balance US\$50 and US\$500.

An important challenge facing the microfinance industry is to come up with more satisfying indicators of depth of outreach. We invite readers to send us suggestions for other variables we might consider in defining our peer groups that capture the spirit of maximizing outreach.

In our first *Feature Article*, "Reassessing the Financial Viability of Village Banking ...", Gary Woller examines the prejudice that village banking cannot be financially viable. In cooperation with the

SEEP Poverty Lending Working Group, he considers evidence from nine leading village banking institutions that participate in *The MicroBanking Bulletin* and agreed to make their data public. He shows that village banking programs can perform as well as MFIs that use other lending techniques. Woller also finds that different programs achieve their overall results through distinct combinations of productivity and income variables. He concludes with a call to develop standards by which village banking programs can be compared to each other on their own terms. To that end, the *Bulletin* provides a comparison of performance by lending methodology (see Tables A and B).

Kathleen Stack and Didier Thys present the experience of Freedom From Hunger, an NGO that supports programs that combine microcredit with low-cost, high-impact education sessions in nutrition, health and better business. Its innovative approach seeks to reduce delivery costs by partnering with credit unions in a number of countries. This approach allows the very poor to be served through an institution that already has a market presence, which reduces delivery costs and enhances financial performance. This article illustrates a creative way to break old paradigms in the quest to fulfill the dual objectives of outreach and sustainability.

In the *Commentary* section, we are pleased to present an interview with David Gibbons of CASHPOR, who discusses the network's evolution over the past five years. David highlights some of the unique features of working with poverty focused programs in Asia: the fact that the poor tend to work as agricultural laborers, the general resistance of policy makers to allow MFIs to charge 'high enough' interest rates, the regulatory barriers to savings mobilization, and access to funding that would allow more programs to scale up. In another *Commentary*, Beth Rhyne takes issue with Dave Richardson over the potential of MFIs to engage in effective "self-governance". Dave's article on credit unions appeared in the last issue of the *Bulletin*.

This issue includes four *Case Studies*. Geetha Nagarajan, of the *Bulletin's* Editorial Staff, prepared cases of two Asian MFIs. We also have two case studies written by persons close to the institutions, which we have titled "In Their Own Words" to indicate this distinction.

¹The definitions for all of the indicators presented in *The MicroBanking Bulletin* can be found on page 39.

➤ **FINCA Uganda** is one of the most mature programs supported by FINCA international. In a fascinating narrative, Mike McCord highlights the decisions that affected the evolution of FINCA Uganda's financial performance over the past five years and its search to meet its dual objectives.

(1999 ALB: US\$60; Depth: 19.4 percent)

➤ **Pro Mujer** in Bolivia started as an NGO that brought women into economic activity for the first time through a training program. Over time it added a credit component. Nancy Natilson describes the challenges of operating in an competitive environment, yet maintaining an unwavering commitment to serving the poor.

(1999 ALB: US\$116; Depth: 11.5 percent)

➤ **BURO Tangail**, in Bangladesh, has made a strong attempt to incorporate deposit services for poor clients. Geetha Nagarajan highlights BURO's fight to improve sustainability while serving its relatively poor clients (92 percent live on less than US\$1 per day). BURO faces particular challenges related to the additional expense of offering deposit services.

(1999 ALB: US\$57; Depth: 16.0 percent)

➤ Although it serves a heterogeneous clientele, **BASIX** extends its services into rural India. Nagarajan points to the unique challenges faced by a private organization that seeks to compete with subsidized credit to the poor. BASIX has had to face a reduced yield on its portfolio brought on by increased delinquency and higher costs associated with its rural expansion.

(1999 ALB: US\$208; Depth: 56.0 percent)

In the *Bulletin Highlights*, Craig Churchill analyzes the characteristics of financially sustainable MFIs. He finds that there is NOT a strong relationship between loan balances and self-sufficiency, and that some of the most profitable MFIs serve the poorest clients. He then focuses on how low-end MFIs achieve financial self-sufficiency and identifies important regional differences in their strategies. The *Highlights* section also includes an initial taste of longitudinal analysis—how the performance of MFIs changes over time.

Programs targeting relatively poorer clients reach sustainability through a variety of means. We try to illustrate these distinct paths by creating a relatively large number of peer groups. In this issue, we

added one new peer group, dividing Eastern Europe into High-end and Broad. Otherwise, the peer groups remained relatively stable.

As usual, the back of the *Bulletin* contains statistical tables showing results both for peer groups that we have created, and for several other indicators: age of program, scale of operations, lending methodology, degree of financial intermediation, and target market.

This *Bulletin* includes data from 114 MFIs in 46 countries, an increase of ten institutions from Issue No. 4. In each issue, new programs are added, while others drop out. Over half of the participating programs have updated their information within the past year. We only include programs that have contributed data in the past two years. This represents tighter criteria from previous issues of the *Bulletin* that included information from three years. So, while we have gained 17 new programs for this issue, we lost 7 MFIs that did not update their data recently.

These regular changes in the composition of each peer group complicate the interpretation of data from one *Bulletin* to the next. Readers should be cautioned NOT to draw inferences about the evolution of indicators across issues of the *Bulletin*.

To address this issue, the next *MicroBanking Bulletin* will include some information that shows the evolution of key indicators for institutions from which we have a series of data over a number of years. Obviously, these represent a smaller subset of the entire group of programs that are currently sending us data, but this longitudinal analysis will still provide important insights into how MFIs develop over time.

Finally, I would like to recognize the tremendous efforts of Jennifer McDonald who has recently left the *Bulletin* staff to work for a microfinance institution in Africa. Jennifer is known to many of you as the heart and soul of the *Bulletin* during its first three years. Her contributions are far too numerous to list. Suffice it to say that her dedication, attention to detail, and commitment to quality set a standard that her successors must work hard to maintain. Thank you Jennifer.

We hope that you will enjoy this issue and welcome any suggestions for ways in which we can make the *Bulletin* more relevant to your work.

Robert Christen

FEATURE ARTICLES

Reassessing the Financial Viability of Village Banking: Past Performance and Future Prospects

Gary Woller

Village banking institutions (VBIs) target almost exclusively the low-end (very poor to poor) segment of the market. Relative to solidarity group institutions (SGIs) and individual lending institutions (ILIs), VBIs also tend to operate primarily (although far from exclusively) in rural areas. In addition to broad differences in target market and areas of operation, village banking uses a specialized lending technology designed for the specific purpose of delivering small loans to very poor clients.

The socioeconomic profile of village banking clients, the spatial environments in which many VBIs operate, and the idiosyncratic nature of the lending methodology have led some to question the financial viability of village banking. In 1994, for example, Sharon Holt published an assessment of village banking in which she concluded that VBIs faced significant obstacles in achieving self-sufficiency.² While conceding that village banking

showed promise in reaching the very poor, Holt found serious shortcomings in financial operations and program management that threatened VBIs' ability to reach significant scale and achieve long-term self-sufficiency. Holt's critical assessment gave voice to an undercurrent of pessimism regarding the financial viability of village banking that continues to this day.

Six years later, we are in a better position to evaluate the financial viability of village banking and to determine whether continued pessimism is warranted, or whether it should be replaced by a new sense of optimism in light of what VBIs have accomplished and a more informed judgment of what they are capable of accomplishing. To this end, the *Bulletin* and the Poverty Lending Working Group of SEEP have assembled the financial data from nine VBIs considered to be market leaders in their regions for analysis in this article (see Figure 1).³

Figure 1: Summary Statistics: Nine Village Banking Institutions Compared to Bulletin Participants by Credit Methodology^a

	Country	Age (years)	Employees (no.)	Borrowers (no.)	Loan Portfolio (US\$)	Average Loan Balance (US\$)	Depth (%)
Lending Methodology							
Individual	--	8	354	57,255	23,852,221	1,341	109
Solidarity Groups	--	8	274	45,171	8,137,669	222	38
Village Banking	--	8	75	13,879	1,672,098	109	16
Nine VBIs	--	8	105	17,938	1,842,203	94	12.0
AGAPE ^b	Colombia	22	28	4,887	359,546	80	3.2
Compartamos	México	9	236	48,835	6,338,738	129	3.4
FINCA	Kyrgyzstan	3	128	9,944	845,898	85	17.7
FINCA	Nicaragua	7	81	13,701	1,008,709	74	18.1
FINCA	Uganda	7	94	20,769	1,245,815	60	19.4
CRECER ^c	Bolivia	8	87	14,580	2,419,393	166	16.4
Kafo Jiginew (VB product) ^d	Mali	4	46	11,119	574,274	52	6.5
Pro Mujer	Bolivia	5	105	18,919	2,197,372	116	11.5
World Relief	Honduras	9	139	18,691	1,590,086	85	11.5

^a Each of these nine institutions waived their confidentiality agreements with the *Bulletin* to allow their data to be published. The values for the nine VBIs are based on 1999 numbers, with the exception of FINCA Kyrgyzstan, which are based on 1998 data. The data for lending methodology come from Tables A and B in the September 2000 issue of *The MicroBanking Bulletin*.

^b Asociación General para Asesorar Pequeñas Empresas.

^c Crédito con Educación Rural. CRECER is an affiliate of Freedom from Hunger.

^d Kafo Jiginew, also affiliated with Freedom from Hunger, is a full-service credit union that offers village banking as one of its product lines. All figures reported for Kafo Jiginew in this article refer solely to its village banking product.

²Holt, Sharon, "The Village Bank Methodology: Performance and Prospects" in *The New World of Microenterprise Finance*, eds., Maria Otero and Elisabeth Rhyne, Connecticut: Kumarian Press, 1994, pp.156-184.

³The definitions for all of the indicators presented in *The MicroBanking Bulletin* can be found on page 39.

The intent in this selection process and in writing this article was to answer the following questions:

- 1) Can VBIs become self-sufficient?
- 2) What factors have driven the self-sufficiency levels of VBIs relative to the other lending methodologies?
- 3) How useful are standard efficiency indicators for comparing financial performance across lending methodologies?
- 4) What factors have driven the self-sufficiency levels of our nine VBIs relative to other VBIs and to each other?

Figure 2: Comparison of Self-sufficiency across Lending Methodologies

Lending Methodology	Operational Self-sufficiency	Financial Self-sufficiency
Individual	121.8	104.8
Solidarity Groups	92.6	81.9
Village Banking	103.4	85.7
Nine VBIs	113.3	99.8
AGAPE	110.7	88.5
Compartamos	170.1	143.7
FINCA Kyrgyzstan ⁴	118.0	108.0
FINCA Nicaragua	122.3	99.0
FINCA Uganda	94.8	87.7
CRECER	95.7	92.3
Kafo Jiginew (VB product)	72.2	72.0
Pro Mujer Bolivia	110.1	100.1
World Relief Honduras	125.8	107.1

Source: *The MicroBanking Bulletin*, September 2000.

Self-sufficiency

As shown in Figure 2, the ILIs have achieved levels of self-sufficiency much higher than both VBIs and SGIs. The self-sufficiency levels of our nine VBIs, on the other hand, are considerably higher than the full sample of VBIs. Of the nine, six have achieved operational self-sufficiency, and six have a financial self-sufficiency ratio above 90 percent. Three of the nine have a higher ratio than the mean financial self-sufficiency for the ILIs. Thus the answer to the question “Can village banking institutions become

⁴By year-end 1999, FINCA Kyrgyzstan’s financial self-sufficiency ratio had fallen from 108 to 74.4 reflecting unrealized currency translation losses caused by a 150 percent devaluation in the Kyrgyz som. Over the same period, FINCA Kyrgyzstan improved its operational self-sufficiency from 118 to 133, its administrative expense ratio from 89.5 to 61.8, its staff productivity from 78 to 95, and its cost per borrower from US\$66 to US\$49—impressive achievements under any circumstances. For this reason it was decided that reporting FINCA Kyrgyzstan’s 1999 financial self-sufficiency in Figure 2 would give a misleading picture of its institutional and management performance relative to the other MFIs examined in this article. This also means that the average financial self-sufficiency ratio for our nine VBIs is higher than it would have been if 1999 figures for FINCA Kyrgyzstan had been reported.

self-sufficient?” is “Yes!” Not only that, VBIs *can* reach levels of self-sufficiency achieved by solidarity group and individual lenders.

Factors Driving Self-sufficiency

Having established that VBIs *can* be self-sufficient, the next step is to try to determine which factors drive their relative self-sufficiency levels. Two factors in particular can be identified: institutional efficiency and return on portfolio.

Institutional Efficiency

In Figure 3, values are reported for four commonly used efficiency indicators. The first three indicators measure, respectively, the ratio of total administrative and salary expenses to the average loan portfolio and the ratio of total administrative expenses to the average number of borrowers. Staff productivity measures the ratio of total present borrowers to total staff.

Judging administrative efficiency by these four indicators presents a confusing picture of relative efficiency across the three lending methodologies. Depending on the indicator used, village banking is either the least efficient or the most efficient methodology. By the administrative and salary expense ratios, VBIs are slightly less efficient than SGIs and both are substantially less efficient than ILIs. Judging by cost per borrower and staff productivity, on the other hand, VBIs are by far the most efficient of the three.

The explanation for these confusing findings has to do both with the indicators themselves and with important differences in lending methodologies. Since VBIs and SGIs have a much stronger poverty focus than ILIs, their average loan balances (US\$109 and US\$222 respectively) are a fraction of the average loan balance of the ILIs (US\$1,341). Consequently, their average loan portfolio, and thus the denominator of the administrative and salary expense ratios, will be proportionately smaller for a given number of borrowers, all else equal. *By this definition*, therefore, VBIs and SGIs are “less efficient” than ILIs.

To see how the administrative expense ratio understates the relative efficiency of village banking, consider the following. To reach the same administrative expense ratio as the ILIs, our nine VBIs would have to decrease total administrative expenses by 65 percent, or increase their average loan balance by 187 percent, or increase the number of clients by 188 percent. It is no wonder that VBIs appear inefficient using the administrative expense ratio as the standard for comparison.

Figure 3: Comparison of Institutional Efficiency Indicators across Lending Methodologies

Lending Methodology	Administrative Expense / Average Loan Portfolio (%)	Salary Expense / Average Loan Portfolio (%)	Cost per Borrower (US\$)	Staff Productivity (no.)
Individual	20.9	10.2	217	96
Solidarity Group	45.7	26.4	96	121
Village Banking	49.1	29.7	40	190
Nine VBIs	55.1	33.7	47	175
AGAPE	52.3	39.7	57	175
Compartamos	62.6	36.1	63	207
FINCA Kyrgyzstan ^a	89.5	57.2	67	78
FINCA Nicaragua	56.8	39.0	42	169
FINCA Uganda	85.4	47.8	47	221
CRECER	36.4	17.4	48	168
Kafo Jiginew (VB product)	32.9	14.0	16	242
Pro Mujer Bolivia	37.8	21.0	47	180
World Relief Honduras	42.0	30.9	35	134

Source: *The MicroBanking Bulletin*, September 2000.

^a 1998 figures.

The large discrepancies in cost per borrower and staff productivity can be explained by key methodological differences between village banking and the other two lending methodologies. Village bank loan officers work with groups of twelve to fifty borrowers and visit from one to three village banks per business day. By design this system allows each loan officer, on average, to serve a much larger number of clients, which in turn drives down the salary expense (and by extension total administrative expense) per borrower relative to the other two lending methodologies.

Consequently, just as the administrative and salary expense ratios understate the relative efficiency of village banking, cost per borrower and staff productivity overstate its relative efficiency. The standard efficiency indicators in Figure 3 are riddled with comparability problems that confound any attempt to singularly use them as standards of institutional efficiency across lending methodologies (or target markets, for that matter).

Part of the confusion surrounding efficiency indicators perhaps lies in two misperceptions. The first misperception is that all MFIs deliver more or less the same product—loans. If this were the case, it would make sense to hold all MFIs to the same standards of efficiency. In practice, however, village bankers are delivering a different product to a different market and often under different circumstances than lenders that are more focused on the middle or high-end markets.

The second misperception has to do with the definition of efficiency. Efficiency measures the ratio between inputs and outputs. The greater the level of output for a given level of input, the greater the level of efficiency. Implied, moreover, by the concept of efficiency are that 1) inputs (resources) are constrained and 2) outputs reflect outcomes valued by organizations. Village bankers (and poverty lenders in general) do not value loans *per se*, but loans to the very poor. For them, therefore, efficiency translates into the most *cost-effective* way to deliver *small loans* to the *very poor*.

Kafo Jiginew

Kafo Jiginew is a full-service credit union offering *Credit with Education* (the integration of financial services with health and nutrition education) as one of its product lines. *Credit with Education* comprises about 10 percent of Kafo's total loan portfolio. Kafo's strategy of grafting village banking onto an existing institution has contributed significantly to the efficiency of its village banking program because it splits the administrative costs of operating the program across a number of other products. Additionally, Kafo has a decentralized structure of retail outlets in rural areas providing the infrastructure needed for delivering financial services efficiently. This has proved important because Kafo is subject to usury laws that restrict the interest rate it can charge.

Kafo Jiginew takes pride in its identity as a peasant organization. Even with its relatively low salary expense, Kafo perceives the need to bring village banking salaries in line with the culture and identity of this poverty loan product. Thus Kafo will soon begin replacing its current field agents, who are high school graduates, with literate women having six to nine years of education and requiring much lower remuneration. (The model of a credit union providing a village banking loan product is discussed in more detail in the following article.)

Compartamos

Compartamos' management believes that the only way to make a significant dent in poverty is to achieve massive scale, and the best way to achieve massive scale is to be profitable. As a result, Compartamos has rapidly expanded from 17,500 borrowers and a loan portfolio of US\$552,000 in 1995 to 48,835 borrowers in 1999 with nearly US\$6.5 million outstanding. Compartamos has funded much of its growth through its own equity, which it has built largely by charging high interest rates for its loans. The fact that Compartamos operates in a monopoly environment has allowed it to pursue this strategy.

At the same time, however, Compartamos has a high administrative cost structure that is in part a function of its small average loan size. Still, management believes that its administrative cost structure is too high, and has implemented a number of initiatives to bring costs in line, to raise staff productivity, and to reach out to new markets. These initiatives include a new management information system to track portfolio quality and a new solidarity group loan product in urban areas. In conjunction with its new solidarity group loan product, it has designed a paperless loan processing system. Compartamos' management believes that as a result of these and other initiatives, it will be able to drive its administrative costs down to 45 percent of its average loan portfolio. In 1999, Compartamos became a regulated financial institution.

Efficiency comparisons made across lending methodologies (and target markets) often imply a lack of understanding of these straightforward principles. For example, Todd Farrington, in the February 2000 Issue of the *Bulletin*, argues that efficiency is a function of loan or portfolio size.⁵ The evidence for this assertion was the disparity in the administrative expense ratios between MFIs targeting the low-end clients with those targeting the middle to upper end of the market. The truth, however, is that a VBI with an average loan balance of US\$85 can be just as if not more efficient than an ILI with an average loan balance of US\$1,300. The key is whether the VBI is delivering its US\$85 loans in a cost-effective manner given its available resources, regardless of what the ILI is doing.⁶

How efficient are our nine VBIs relative to the full sample of VBIs and relative to each other? Relative to the full sample of VBIs, our nine institutions are less efficient on all four indicators. Compared to each other, they are characterized by their lack of consistency—efficient in some areas and inefficient in others. Only Kafo Jiginew and Pro Mujer rate consistently high, while only FINCA Kyrgyzstan rates consistently low. If one were to ask whether our nine VBIs were “efficient,” the appropriate response would be, “According to which indicator?”

The Return on Portfolio

The return on portfolio refers to an MFI's financial return on its average lending portfolio. The return on portfolio can be measured using at least two

⁵In his article “Efficiency in Microfinance Institutions,” Farrington wrote that, “below a certain portfolio size it is difficult for an MFI to be efficient” (p. 18), and that “in Latin America, institutions with average loans below US\$200 have difficulty achieving acceptable efficiency levels” (p. 19).

⁶Or, put another way, the key is whether the VBI is producing on or near its “production possibility frontier.”

indicators: the portfolio yield and the interest spread. The portfolio yield, a proxy for the effective interest rate, is equal to total interest income divided by the average loan portfolio. The interest spread is the difference between the portfolio yield and the administrative expense ratio. It tells us the extent to which an MFI is pricing its products to cover its administrative costs.

As seen in Figure 4, VBIs have earned a portfolio yield moderately higher than SGIs and substantially higher than ILIs. Faced with a high cost structure relative to the other two lending methodologies, VBIs appear to compensate by squeezing higher levels of productivity out of their employees—thereby driving down their average cost per borrower—and by charging high interest rates. Nonetheless, because ILIs have a lower administrative cost structure, they can charge lower interest rates and still earn a substantial spread over costs, while SGIs earned negative spreads. Due to a high portfolio yield, VBIs have earned a spread, though small, over their higher costs.

In contrast, our nine VBIs have earned a portfolio yield far in excess of those earned by the other three groups and an interest spread slightly less than the ILIs but considerably larger than the full sample of VBIs and SGIs. Compared to the full sample of VBIs, our nine VBIs appear to have charged even higher interest rates, both in absolute terms and relative to their administrative costs. This apparently has allowed them to achieve much higher levels of operational and financial self-sufficiency compared to the other VBIs, despite having slightly higher administrative cost structures.

Figure 4: Comparison of the Return on Portfolio across Lending Methodologies

Lending Methodology	Portfolio Yield (%)	Interest Spread (%)
Individual	36.5	15.6
Solidarity Group	41.2	-4.5
Village Banking	54.5	5.4
Nine VBIs	70.0	14.9
AGAPE	61.6	9.3
Compartamos	111.4	48.8
FINCA Kyrgyzstan ^a	107.7	18.8
FINCA Nicaragua	75.1	18.3
FINCA Uganda	84.4	-1.0
CRECER	42.0	5.6
Kafo Jiginew (VB product)	32.7	-0.2
Pro Mujer Bolivia	39.4	1.6
World Relief Honduras	75.3	33.3

Source: *The MicroBanking Bulletin*, September 2000.

^a 1998 figures.

Factors Driving Relative Self-sufficiency among Our Nine VBIs

Some insight into the factors driving the self-sufficiency of our nine VBIs can be found in Figure 5, which lists the nine institutions from the highest to the lowest on financial self-sufficiency and ranks them on nine performance indicators thought to be determinants of financial self-sufficiency.

Scanning across the rows in Figure 5, no pattern emerges. None of the institutions performed uniformly well or poorly. While somewhere there might exist a self-sufficient VBI that combines low costs, high productivity, and a high return on portfolio, it does not exist among our nine VBIs.

Additional insight to this question can be gained by running a series of bivariate correlations between financial self-sufficiency and the same nine indicators. As seen in the bottom row of Figure 5, three indicators have large and statistically significant correlation coefficients with financial self-sufficiency: portfolio yield, interest spread, and the number of borrowers. Of course, these are only simple correlations and do not imply causation; nonetheless, the strength of the correlations relative to those of the other indicators suggests a relationship with financial self-sufficiency that is relatively more robust. The conclusion, based on this small, handpicked sample, is that for financial self-sufficiency, both the interest rate and scale appear to matter most.

Implications for Best Practices

The (not surprising) implication for best practices is that to achieve financial self-sufficiency, VBIs

should charge high interest rates at an “adequate” spread over costs and scale up. More surprising are the weak correlations between financial self-sufficiency and the other indicators in Figure 5. All nine have taken different paths toward self-sufficiency, although each (with the exception of Kafo Jiginew) does appear to have compensated for relatively high administrative cost structures by charging high interest rates.

Although interest rate policies appear to have been integral to their success, it is necessary to question the long-term viability of this strategy. VBIs can charge high rates because there is an excess demand for loans. When competition and the supply of loans increase, the equilibrium market price will fall. (It is probably no coincidence that the portfolio yields for Pro Mujer and CRECER are among the lowest of the nine institutions. Bolivia is one of the more competitive microfinance markets in the world.) Moreover, consumer preferences and other determinants of market demand change over time. Therefore, it is probably not wise to base an institution’s long-term viability on the assumption that it can indefinitely charge monopolistic-type interest rates—although it is perhaps an effective strategy in the short to medium term.

This returns us to consideration of other factors when discussing best practices, particularly that of institutional efficiency. Despite the low correlations of efficiency variables with financial self-sufficiency among our nine VBIs, policies and innovations (such as increased use of information systems and other technology) that drive down costs, increase productivity, and enhance the attractiveness of products and services will be more important than interest rates over the long-run in determining a VBI’s financial viability. If the history of the commercial banking industry is any indication, VBIs have barely scratched the surface in these areas. Improvements in efficiency will also free VBIs to charge lower interest rates and still maintain an appropriate spread over costs (as the ILIs appear to have done).

This last point is especially important for poverty lenders concerned about both depth and breadth of outreach. Charging very high interest rates may reduce the demand for loans among the very poor whose enterprises do not yield a rate of return exceeding the interest rate (although perhaps still yielding a moderate to high rate of return) and among those segments of the low-income self-employed who have lower-cost borrowing alternatives. Once freed to charge lower interest rates, VBIs can reach downward, outward, and upward to all segments of their target markets.

Figure 5: Comparison of Factors Driving Self-sufficiency among Nine Village Banking Institutions

Institution	Financial Self-sufficiency (%)	Portfolio Yield (%)	Interest Spread (%)	Administrative Expense / Average Loan Portfolio (%)	Salary Expense / Average Loan Portfolio (%)	Cost per Borrower (US\$)	Staff Productivity (no.)	Depth (%)	Borrowers (000's)	Salary Structure (multiple of GNP/ capita)
1. Compartamos	143.7	111.4 (1)	48.8 (1)	62.6 (7)	36.1 (5)	63 (8)	207 (3)	3.4 (7)	48.8 (1)	1.9 (1)
2. FINCA Kyrgyzstan ^a	108.0	107.7 (2)	18.2 (4)	89.5 (9)	57.2 (9)	67 (9)	78 (9)	17.7 (3)	9.9 (8)	5.4 (7)
3. World Relief Honduras	107.1	75.3 (4)	33.3 (2)	42.0 (4)	30.9 (4)	35 (2)	134 (8)	11.5 (5)	18.7 (4)	4.2 (4)
4. Pro Mujer Bolivia	100.1	39.4 (8)	1.6 (7)	37.8 (3)	21.0 (3)	47 (4)	180 (4)	11.5 (5)	18.9 (3)	5.1 (6)
5. FINCA Nicaragua	99.0	75.1(5)	18.3 (3)	56.8 (6)	39.0 (6)	42 (3)	169 (6)	18.1 (2)	13.7 (6)	11.0 (8)
6. CRECER	92.3	42.0 (7)	5.6 (6)	36.4 (2)	17.4 (2)	48 (5)	168 (7)	16.4 (4)	14.6 (5)	4.3 (5)
7. AGAPE	88.5	61.6 (6)	9.3 (5)	52.3 (5)	39.7 (7)	57 (7)	175 (5)	3.2 (8)	4.9 (9)	2.2 (3)
8. FINCA Uganda	87.7	84.4 (3)	-1.0 (9)	85.4 (8)	47.8 (8)	49 (6)	221 (2)	19.4 (1)	20.8 (2)	16.1 (9)
9. Kafo Jiginew (VB product)	72.0	32.7 (9)	-0.2 (8)	32.9 (1)	14.0 (1)	16 (1)	242 (1)	6.5 (6)	11.1 (7)	2.0 (2)
Correlation Coefficient	--	.73*	.89*	.28	.31	.63	-.27	-.20	.81*	-.20

Source: *The MicroBanking Bulletin*, September 2000. Note: Figures in parentheses denote rank order by factor.

* Statistically significant at 5 percent level.

^a 1998 figures.

Performance Standards

After so many years and so much talk about best practices, we are still a ways from defining best practices for village banking institutions. There does appear to be broad consensus that best practice, at a minimum, translates into operational and financial self-sufficiency. Beyond that, however, we can offer little more than broad recommendations to keep costs low, improve efficiency, charge an adequate spread over costs, and scale up. It is argued here that we have been inhibited in our search by a conception of best practices that pays too little attention to crucial differences in institutional characteristics and that, as a result, attempts to apply standards that are not always relevant.

What is needed is to identify a set of peer group classifications along a continuum of institutional types and then develop performance standards relevant for each peer group, in addition to performance standards that apply more or less equally to all MFIs. Ideally this process will be accompanied by a complementary process of qualitative learning to provide necessary context behind the numbers. Used in isolation, the usefulness of performance indicators for informing best practices among village banking institutions is limited, but used in conjunction with peer groups

and with the contextual information, their usefulness can be significant. The work of the *Bulletin* in identifying peer groups and providing contextual information behind the numbers marks a significant step in moving this process forward.

All of the above being said, what insights do the nine VBIs examined for this article give us about specific performance standards for village banking institutions? This question is hard to answer given the limitations of the data set. Nonetheless, the sense from the data is that those VBIs that can push administrative expenses significantly below 40 percent of average loan portfolio, push the cost per borrower down into the US\$30s, increase staff productivity beyond 200, and earn an interest spread in the 15 to 20 percent range (and *particularly* those who achieve a combination of these) will be expanding the frontiers of best practices in village banking.

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A Business Model for Going Down Market: Combining Village Banking and Credit Unions

Kathleen Stack and Didier Thys

Few microfinance institutions consider going down market (serving poorer clients) as a good business opportunity. Instead, they broaden services to reach a better-off clientele, or they say financial viability must be compromised to reach the poorest, or they reason that microfinance cannot help the very poor, who need different types of social services. Even those who argue that breadth and depth of outreach are compatible (with a few notable exceptions) have yet to demonstrate that large numbers of the truly poor can be reached viably.

But what if there was a strategy that could reach vast numbers of the poorest *and* make good business sense? This paper presents a business model for profitably serving the poorest segments of the microfinance market, along with some encouraging preliminary results.

Recent Trends in Reaching the Poorest

The trend in the microfinance industry is toward commercialization to ensure long-term sustainability. Unfortunately, this trend is coupled with movement away from serving the very poor. This is because, in the search for financial viability, institutions are going up market. They have either: 1) increased average loan sizes by growing with their customers; and/or 2) developed new, large-loan products for new markets.

Using average loan size as a proxy for depth of outreach, microfinance success stories, such as BRI and BancoSol, are not serving particularly poor clients. The average loan size of each of these institutions is more than US\$500. In fact, BancoSol's average outstanding balance has been creeping up over the years so that as of 1998, it stood at US\$914.⁷

Some might say that these large, financially sustainable institutions are still reaching a significant number of poor borrowers. But a study of five Bolivian MFIs found that this is not so.⁸ Only 3 percent of BancoSol's borrowers—900 people—

were considered to be among the poorest and indigent, and the total number of very poor reached by all five institutions in the study was 2,600.

The Strategy

Freedom from Hunger, a US-based microfinance support organization, designed *Credit with Education* to serve poorer segments of the market sustainably. This integrated financial and educational product is intended to be financially viable while reducing the causes of chronic hunger and malnutrition in rural households. It combines: 1) group-based lending and savings services (village banking) for poor women with 2) low-cost, high-impact education sessions in nutrition, health and better business.

To achieve large-scale outreach with a financial product designed for very poor people, Freedom from Hunger has partnered with credit unions in several countries. We decided to collaborate with credit unions for the following reasons:

- *Outreach:* Credit unions supply more lending and savings services than any other type of financial institution with the exception of banks. They are widespread, particularly in rural areas, and often have regional and national credit union networks that can promote efficient product dissemination.
- *Mission and Ownership:* Credit unions were created to improve the welfare of their members and communities through financial services. As member-owned institutions, credit unions maintain a commitment to both social and financial goals.
- *Financing:* They have the capacity to finance new products from internally generated resources (savings). The savings-first approach of the credit unions is an attractive long-term, self-financing feature.
- *Multiple Products:* Credit unions offer multiple types of loan products. This product menu mitigates against the risk of portfolio concentration that occurs with MFIs that offer only one or two types of loans. Also, as a credit union client, a poor member can graduate from a group-based product to other credit union products when and as the need arises.

⁷The data are from a recent unpublished study on cooperatives and microfinance, Jeffrey Ashe et al. USAID, 1998.

⁸Navajas, Sergio, Mark Schreiner, Richard L. Meyer, Claudio Gonzalez-Vega and Jorge Rodriguez-Meza, "Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia", *World Development* 28(2): 333-346 (1999).

- *Economies of Scope*: Credit unions are in a good position to deliver a poverty-focused product sustainably because back office and overhead costs can be shared with other financial services.

To implement *Credit with Education*, credit unions agree to finance the loan portfolio with member savings. In exchange, Freedom from Hunger finances the technical assistance and start-up costs. Teams composed of field agents and a supervisor, employed either by the credit unions or a federation, form retail units to deliver *Credit with Education*. All services are provided by the same field agent to joint liability groups of clients in their communities. Loan cycles are 16 to 24 weeks with weekly, bi-weekly or monthly installment payments of loan principal, interest and savings to a group savings account at the credit union.

From Freedom from Hunger's perspective, this strategy is beginning to bear fruit. There are currently eight individual credit unions and six credit union federations offering the *Credit with Education* product. Credit union clients now represent 62 percent of Freedom from Hunger's total outreach, or over 85,000 women, with an average outstanding loan per borrower of US\$75.

Recent studies demonstrate the achievement of both depth of outreach and impact. In a poverty assessment carried out in two credit union federations in Mali, wealth ranking showed that 28 percent and 57 percent of *Credit with Education* clients fell into the bottom two wealth quartiles described as food insecure—persons experiencing either chronic or seasonal periods of hunger.⁹ This indicates that, in Mali in 1998, *Credit with Education* was reaching 10,461 very poor credit union clients.

Three-year impact studies carried out in Ghana and Bolivia provide evidence that the children of *Credit with Education* clients enjoyed significantly improved nutrition compared with a control group when quality education accompanied financial services. Improvements in women's income, health and nutrition practices, and empowerment were also demonstrated.¹⁰

⁹Preliminary results of wealth ranking exercise conducted in March 2000 by Freedom from Hunger.

¹⁰"Impact of *Credit With Education* on Mothers' and Their Young Children's Nutrition: Lower Pra Rural Bank *Credit with Education* Program in Ghana," Barbara McNelly and Christopher Dunford. Freedom from Hunger Research Paper No. 4, (March 1998); and "Impact of *Credit with Education* on Mothers and their Young Children's Nutrition: CRECER *Credit with Education* Program in Bolivia", Barbara McNelly and Christopher Dunford. Freedom from Hunger Research Paper No. 5, (December 1999).

From the perspective of cost effectiveness, it is much less expensive to work with credit union partners than to create new institutions or work with nascent MFIs. Freedom from Hunger spent US\$6.4 million in direct grants and technical assistance to create a capacity for reaching 30,000 women through two specialized MFIs—or US\$211 per borrower. Yet it only cost US\$700,000 to create a capacity for reaching 36,000 women with two credit union federations—or US\$20 per borrower. The credit unions also reached this level of outreach in half the time and with a greater level of financial self-sufficiency than the specialized MFIs.

But while the rationale for Freedom from Hunger to work with credit unions is strong, why would credit union managers adopt a poverty-focused product given their need to run profitable organizations? The social reasons certainly play a role in the decision-making process, but Freedom from Hunger could not make much headway if the social inclination was not also accompanied by a solid business rationale for going down market.

The Poor Are Good Business

Based on Freedom from Hunger's early experiences with the credit union/*Credit with Education* model, there are numerous business reasons for credit unions to offer a poverty-focused loan product.

Credit with Education allows credit unions to **penetrate new markets**. Most credit unions require clients to come to a primary service center to conduct their transactions, while *Credit with Education* is delivered through a mobile banking system. This decentralized model not only offers the opportunity to provide services to poor clients in isolated communities, but it also helps the credit union to test if there is sufficient demand to open offices in those areas. Conversely, in regions where a credit union is struggling to sustain primary service centers, mobile banking systems can be a low-cost alternative.

Risk mitigation and cash flow management have been two strong business reasons for adopting *Credit with Education*. Rural credit unions, like Kafo Jiginew in the southern Mali cotton belt, primarily lend for agricultural purposes. Concentration of portfolio in seasonal lending activities carries a high risk and results in cash flow shortages. *Credit with Education*, which represents 10 percent of Kafo Jiginew's portfolio, has helped alleviate these constraints. The very poor take short-term working capital loans for commercial activities. Short loan cycles and timely repayments placed regularly into credit union accounts promote cash flow smoothing.

By redirecting financial services to the rural poor, credit unions can **improve utilization and circulation of idle assets**. In some regions, credit unions have a limited capability to transform savings into loans and operating income. This is due to the structural nature of their other loan products. Without a poverty-focused product, they are oriented to markets with limited demand and often carry high transaction costs for the borrower.

When Freedom from Hunger began working with the Réseau des Caisses Populaires in Burkina Faso in 1993, the loan-to-savings ratio, or the savings transformation rate, was 22 percent. In 1998, the transformation rate was 150 percent.¹¹ This vast improvement was partly due to *Credit with Education*, which offered a product that fit the demands of the rapidly growing market niche of the rural poor. It allowed credit unions to transform surplus urban savings into loans for a rural market. These new clients generate regular income for the credit unions through interest payments on these redirected savings while achieving the social mission of the credit union to serve the community.

Working with the very poor provides opportunities to achieve important **efficiencies**. In many markets, there is still limited, if any, competition for rural microfinance providers. This lack of competition partly explains the willingness of the very poor to organize groups of 25 or 30 members to obtain services. Efficiency in terms of the ratio of borrowers to field agent is high, averaging 285 for credit unions in West Africa and the Philippines. The administrative expense per borrower for Kafo Jiginew's *Credit with Education* product was just US\$16 in 1999.

Staff costs can also be lowered while maintaining the same quality of services by hiring literate women from the community. Group-based poverty lending requires staff with the capacity primarily to build trust and strong relationships, as well as record and track simple financial transactions. In a recent staff assessment of Kafo Jiginew's *Credit with Education* product, women field agents selected from the groups' management committees performed as well or better than field agents from the city with a high school education. The average staff cost per borrower in the village promoter system is US\$5.96 compared with US\$8.20 for one that uses high school graduates.¹²

¹¹"Study Design to Assess the Institutional Impacts of *Credit with Education* on Credit Unions in Mali, West Africa," Freedom from Hunger, 1998.

¹²"*Evaluation du système de dotation du personnel de la ligne du produit du Crédit avec Education de Kafo Jiginew*," Freedom from Hunger, May 2000.

Extension of financial and educational services deep into rural communities promotes credit union **membership growth and diversification**. Women learn to use financial services successfully and many "graduate" to individual membership by opening their own savings accounts and taking larger loans. In Burkina Faso and Mali, some group members have been elected to boards of credit unions and/or hired as field staff, strengthening the participation of women in the credit union's management. The percentage of women members at Kafo Jiginew has increased from 1 percent to 20 percent since *Credit with Education* was introduced four years ago.

The most important business rationale for serving the very poor may be **portfolio quality**. Many credit unions have a history of poorly performing loans and high delinquency rates. This is often due to the business risk associated with the loan, the credit risk associated with the client, or the breakdown of selection and collection practices associated with the service delivery system. *Credit with Education* provides a reliable screening and delivery system to serve a low-risk market. Fear of social castigation and strong rural community interdependence make poor clients terrific loan repayers.

The Case of the Philippines

This business approach to deepening outreach is exemplified by the preliminary accomplishments of credit unions in the Philippines that now offer *Credit with Education* thanks to the Credit Union Empowering and Strengthening (CUES) Project of the World Council of Credit Unions (WOCCU).

The first "Savings and Credit with Education" (SCWE) loans, as they are known in the Philippines, were made in August 1998. From 1998 through the first quarter of 2000, the program grew from four cooperatives and less than 2,000 clients to eight cooperatives and over 13,000 clients. The SCWE product line for six of the eight cooperatives was operationally self-sufficient by that time.

In terms of product share, SCWE is now one of six or seven loan products offered by these eight cooperatives. At the end of 1999, SCWE accounted for 33 percent of the total clients and 8 percent of their outstanding portfolio.

WOCCU's strong business-minded approach for working with financial cooperatives set the context within which *Credit with Education* was integrated. By implementing a more accurate measurement for portfolio quality, for example, the CUES program helped to market the SCWE product. CUES

created an environment in which credit union managers were forced to confront the poor quality of their loan portfolios and the heavy costs of provisioning for the accumulated bad debt. They realized that at least one loan product, SCWE, had a portfolio at risk of zero percent. This product was also being marketed to new members who were not tainted by the previous loan practices of the institution and with whom a more disciplined set of expectations could be developed. This led the first four credit union managers to expand their support for SCWE and brought in a second "batch" of cooperatives whose managers cited low delinquency as the primary reason for their interest.

Figure 1 shows selected performance indicators for the eight cooperatives that offer SCWE, the four that do not offer the product, as well as data for all 12 cooperatives.¹³ A comparison between those cooperatives that do and do not offer SCWE (for 1998 and 1999) generally indicates that the poverty product is not a drag on overall financial performance. As the product matures, it will likely have an increasingly positive effect.

Figure 1: Profitability and Costs: CUES Cooperatives in the Philippines

	1996	1997	1998	1999
Operating Self-sufficiency (%)				
1. Cooperatives w/ SCWE (8)	109	108	116	126
2. Cooperatives w/o SCWE (4)	111	112	110	119
3. All CUES Cooperatives (12)	110	110	113	122
Portfolio Yield (%)				
1. Cooperatives w/ SCWE (8)	25.3	25.5	25.3	30.4
2. Cooperatives w/o SCWE (4)	26.8	30.4	28.9	34.1
3. All CUES Cooperatives (12)	25.8	27.1	26.5	31.6
Return on Assets (%)				
1. Cooperatives w/ SCWE (8)	2.4	3.4	3.3	4.4
2. Cooperatives w/o SCWE (4)	2.3	2.6	2.5	4.1
3. All CUES Cooperatives (12)	2.4	3.2	3.0	4.3
Operating Expenses / Average Total Assets (%)				
1. Cooperatives w/ SCWE (8)	10.6	10.7	9.1	9.7
2. Cooperatives w/o SCWE (4)	8.2	8.6	8.0	9.8
3. All CUES Cooperatives (12)	9.8	10.0	8.7	9.7

Source: Freedom from Hunger.

For the eight cooperatives using SCWE, operational self-sufficiency improved in both years when the product was in place. The cooperatives using SCWE had a lower portfolio yield than the average trend for all twelve cooperatives. The gap between the yield for cooperatives using SCWE and cooperatives not using SCWE increased sharply from 1996 to 1997, but decreased in 1998 and

stabilized in 1999 after the introduction of SCWE. This gap indicates that although the non-SCWE cooperatives earned a greater return on their portfolio to begin with and made more significant gains in improving their rate of return until 1997, that trend does not seem to hold following the introduction of the new product.

The return on assets ratio shows that the cooperatives using SCWE generally earned a better return than the non-SCWE cooperatives. The cooperatives using SCWE also lowered their operating expense ratio after introducing the poverty product.

All of these general improvements are the direct result of the improved overall management performance of the cooperatives, which was substantially supported by the management and technical assistance provided by CUES. What is interesting to note about this data is that those institutions integrating a loan product for poor women were by no means disadvantaged or slowed down in improving and growing their operations relative to those that did not.

Specifically promoting deep outreach through a credit-led, group-based lending product did not impede performance. It did not inhibit cooperatives from growing in terms of assets or savings. It did not increase external dependency on borrowed funds. It did not slow down the growth in the value of outstanding loans. It did not increase delinquency. It did not decrease operational self-sufficiency. In fact, it added an additional dimension to the cooperatives by opening up a new and very large market. There are ample reasons to believe extending financial services to the very poor may not be bad for credit union business. With time and larger scale efforts, it might even turn out to be pretty *good* business!

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¹³Note that the first SCWE loans were actually made in August of 1998. The years 1996 and 1997 reflect no SCWE-related activities.

COMMENTARY

Serving the Poorest, Sustainably

An Interview with David Gibbons, CASHPOR

About CASHPOR

MicroBanking Bulletin (MBB): How did CASHPOR get started, what is its mission, and what services does it provide?

David Gibbons (DG): CASHPOR was established by the Grameen Bank (GB) and 6 of its replicators in September 1991 as a vehicle to share experiences and to learn from each other. Over the years, two main activities have evolved: 1) provision of management training, surprise audits and technical assistance to its members (which now include 20 MFIs in 9 countries in Asia); and 2) establishing GB-type start-ups in places where they are very much needed and nobody has come forth locally. Some examples include CFTS Ltd. in Mirzapur, India and Project Naroman, which is just starting in East Timor.

CASHPOR wants to achieve a significant reduction of poverty throughout Asia by providing financial services to poor households. Our mission is to provide financial services to large numbers of poor women throughout Asia in a timely, honest, efficient and financially sustainable manner. As a result of a decision of the board, CASHPOR is currently concentrating on the Philippines and India, but we continue to assist members in 7 other countries. CASHPOR no longer takes in direct members, unless there is no national network of GB-type MFIs. National networks have been promoted in Philippines, India and Nepal. GB-type MFIs in those countries join through their national network, which CASHPOR assists directly.

MBB: What is the relationship between CASHPOR and the Grameen Bank?

DG: Grameen Bank is a founding member of CASHPOR. Periodically we call upon them to provide experienced resource persons to assist other members in need. All members have agreed not to charge professional fees when called upon to assist another CASHPOR member.

All CASHPOR members have adapted the GB approach to their own economic, social, political and cultural contexts. We share the same vision as the Grameen Bank, and like GB we deal exclusively with poor households. But in our operations, we

tend to give more emphasis to attaining and maintaining financial sustainability and to reaching the poorest households. I think Prof. Yunus would agree that Grameen was reluctant to charge a higher interest rate than the commercial banks in Bangladesh; and that Grameen doesn't reach enough of the poorest rural households.

It is interesting to see some of the adaptations that are emerging from CASHPOR members. One of our MFIs in India, for example, was experiencing portfolio quality problems so it developed an interest rebate. Each client who repaid on time for an entire quarter received a Rs. 10 refund, and if they paid on time for four quarters in a row, they received an additional Rs. 10, or Rs. 50 for the year. I was amazed at how well that worked in improving the repayment rate.

MBB: For the best CASHPOR members, what factors have contributed to their success?

DG: The keys to their success have been: 1) capable, honest, visionary leadership; 2) high priority for increasing their institutional capacity and keenness to adopt promising new microfinance management tools; 3) enough funding to continue to grow; and 4) CASHPOR's guidance and assistance. Conversely, our weaker members lack good leadership and/or are not sufficiently commercially oriented (see Figure 1).

MBB: What are the major changes that have taken place to CASHPOR's approach to microfinance during the past five years?

DG: The most important change was recognition that we could not realize our vision unless we gave more importance to attaining and maintaining financial self-sufficiency. To do this we had to improve our financial management, reporting and analysis.

Most of the CASHPOR CEOs came from an NGO background with a strong concern for social and economic development. Only later did they realize that, for microfinance to be done well, it has to be done with a commercial orientation, which meant that we had to upgrade the financial management capacity of our members. CGAP deserves a lot of credit for bringing this to our attention.

Figure 1: Selected Performance Indicators from the CASHPOR Network (Dec. 1999)

Organization	Country	Active Borrowers	Outstanding Portfolio (US\$)	Admin. Expenses / Average Loan Portfolio (%)	Operational Self-sufficiency (%)	Portfolio at Risk (%)
AIM *	Malaysia	39,310	20,669,149	n.a.	n.a.	1.2
GB Biratnagar **	Nepal	39,048	3,086,544	n.a.	n.a.	1.7
ARDPAS	China	35,546	2,503,630	n.a.	n.a.	4.1
SHARE	India	29,490	2,609,845	27.5	98.4	0.0
CARD	Philippines	28,531	3,740,792	30.1	103.0	0.0
CSD	Nepal	26,817	1,285,234	21.5	69.6	0.1
Nirdhan	Nepal	21,644	1,371,559	29.7	69.3	0.6
Dungganon	Philippines	20,316	1,411,372	46.9	101.8	1.4
TSPI (Kabuhayan)	Philippines	9,694	886,045	n.a.	n.a.	3.6
GB Dhangadhi *	Nepal	10,798	1,342,696	n.a.	n.a.	n.a.
TYM	Vietnam	10,058	823,939	18.8	100.8	0.1
ASA	India	6,738	286,631	45.3	60.9	0.5
FPC*	China	7,816	704,029	n.a.	n.a.	0.6
CEP Fund	Vietnam	6,701	468,794	n.a.	n.a.	3.2
ASHI	Philippines	6,627	468,263	57.6	48.1	3.3
YUM *	Malaysia	5,864	715,265	n.a.	n.a.	20.8
MKEJ *	Indonesia	5,762	55,347	n.a.	n.a.	0.4
CFTS	India	4,006	111,660	n.a.	n.a.	10.8
Nirdhan WB	India	3,006	120,466	n.a.	n.a.	24.0
BSS	India	98	3,157	n.a.	n.a.	95.0

Source: CASHPOR.

Portfolio at Risk is amount of loans outstanding with at least one payment overdue above 90 days.

* AIM figures are for end of May, 1999; ** GB, Biratnagar figures are for end of June, 1999.

We also recognized that we needed to improve the timeliness and quality of our reporting and increase the computerization of our MIS. This change was critical to improve the quality of our ratio analysis. Finally we have realized the need to improve our business planning and we have adopted CGAP's Microfin software for this purpose.

Microfinance in Asia

MBB: How is microfinance in Asia different from other parts of the world?

DG: For the most part, Asian MFIs (excluding BRI and a few others like it) focus on using microfinance as a tool for poverty reduction. I believe that in other regions, mainly Latin America, microfinance is focused mainly on promoting microenterprises. To the degree that microenterprises are not run by the poor, microfinance in those countries would not directly reach the poor and the poorest households. Our focus on the poor and the poorest (bottom half of the poor) results in smaller loan sizes, lower interest rates, better loan portfolio quality, and different loan activities.

This last issue is difficult for people who haven't worked in Asia to understand. In using USAID's AIMS tools for measuring impact, for example, we

have had to extensively customize them for the Asian context. The tools basically exclude agricultural activities from the definition of a microenterprise; yet among CASHPOR members, the majority of first loans are used for animal husbandry. In rural Asia, the primary route out of poverty is through agriculture.

The nature of poverty is different in Asia. Our clientele is fundamentally different from the microentrepreneurs served by most Latin American MFIs. An overwhelming proportion of our first borrowers are landless agricultural laborers. They live well below the poverty line. Over half of what little household income they have comes from wages earned by working on someone else's farm. To escape poverty, they need to work for themselves and gradually increase the amount of land that they operate as small farms. First loans are often for animal husbandry because borrowers want to choose an income generating activity that allows them to keep their other jobs. Then over time, the household can get access to agricultural land (through a combination of shareholding, lease and purchase), reduce its reliance on income from agricultural labor, and come out of poverty.

MBB: What are the challenges facing MFIs in Asia in their efforts to create sustainable institutions?

DG: The most important challenge is developing a financing strategy that would allow for optimum growth of outreach to the poor. None of our members have been able to attract sufficient funding to enable them to grow at optimum levels—and I don't just mean grant funding. Certainly there is a need for subsidized funds during the start-up phase, but once MFIs develop sufficient capacity, then they can move toward soft loans, and then eventually to loans at commercial rates.

Ultimately, the key constraint will be the MFI's ability to access equity funding, since that will determine how much institutions can leverage. Now that several CASHPOR members have achieved operational self-sufficiency, we are beginning to help them identify equity investors, both locally and internationally. While the expected return on investments in MFIs may not be sufficient to attract venture capitalists, well-run institutions can generate levels of performance that will attract socially responsible investors.

There is also a crucial need to create an appropriate regulatory environment in Asia, which will allow for the commercialization of microfinance. In this regard, the biggest issue is the minimum capital requirement to create regulated financial institutions, which is too stiff for NGOs to meet. We are making some headway on improving microfinance regulations in India, but it is needed elsewhere, especially China and Vietnam, where CASHPOR members could really take off if the regulatory environment was more accommodating.

But it isn't all about money. There is also the need for continual upgrading of management to have the capacity to absorb increasing amounts of funds. Many Asian MFIs need help improving other essential systems as well, like computerized MIS and planning with Microfin, so as to give management the tools they need.

MBB: The Asian peer groups in the *Bulletin* are dramatically more efficient than their counterparts in Latin America. How do Asian MFIs achieve such impressive efficiency ratios?

DG: The efficiency of Asian MFIs is based on their significantly lower personnel costs and significantly higher loan portfolio quality. One of the reasons for the higher repayment rates is precisely because they are serving a poorer market. While it may seem counterintuitive that poorer people are better risks, our experience has generally been that if you reach down far enough, you'll find a market that will become extremely faithful with its repayments. The poorest clients value the services more than their better-off peers, and they are extremely keen to

maintain access to their line of credit. As shown in Figure 1, most CASHPOR members have excellent loan portfolio quality problems. But when they do experience problems, it is usually with their more affluent clients.

On a related note, MFIs in Asia also have a lower cost of funds due to the widespread availability of subsidized funds. I am not placing a value judgment on the availability of subsidized money; it is just a reality in some Asian countries. Over time, I am afraid that it will distort the market. In the meantime, it is necessary to take a pragmatic approach. As long as these sources are available, such as 6.5 percent loans from NABARD in India when the market rate is 13 to 14 percent, we would be silly not take advantage of them. But we also need to prepare ourselves for the day when these sources dry up.

MBB: Another *Bulletin* observation is that Asian MFIs are generally less profitable than their Latin American counterparts because of low portfolio yields. What are the barriers to charging higher interest rates in Asia?

DG: The barriers to charging appropriate interest rates are mainly political and exist primarily in South Asia, China and Vietnam. The increasing importance of populist politics in these countries makes governments want to say they are limiting interest rates to the poor. The result of course is a limiting of their access to microfinance. Some of our MFIs are making headway, however, in showing to their governments that significant numbers of rural poor women are prepared to pay appropriate interest rates in order to get continuing access to microfinance. I feel we need a couple more years to demonstrate this with sufficient numbers; but I am confident the governments will be convinced by that time. The Microcredit Summit campaign is playing a vital role here.

Sustainability and the Poorest

MBB: Why do you believe it is necessary to target and exclusively serve the poor, instead of managing a diversified portfolio whereby larger loans can cross-subsidize the smallest loans?

DG: If I can reach and maintain institutional financial sustainability within a reasonable time (say 5 years) while reaching significant numbers of the poorest, the people with the greatest need for this opportunity, why should I waste my time and other resources on the non-poor? I have seen this happen with MFIs in the Philippines that have multiple product lines for different segments of the market. When push comes to shove, management

focuses its attention on the bigger loans because if they start going bad, the institution is in trouble.

Secondly, I am not aware of any cross-subsidizing MFIs that have reached large numbers, say more than 50,000, of the poor, not to mention the poorest households. The cross-subsidization argument often appears to be a ruse.

MBB: Is there is a trade-off between serving the poorest clients and achieving self-sufficiency? How deep can an MFI go and also be sustainable?

DG: To the bottom, but attainment of institutional financial sustainability will take longer - say up to 5 years. When I say the bottom, I am referring landless households in rural areas whose irregular monthly income is well below the poverty line. You can tell these people are on the bottom because the wife regularly works as a paid laborer. Most women won't participate in paid agricultural work unless they absolutely have to.

MBB: What are the most appropriate ways of attaining self-sufficiency for programs that are targeted at the very poor?

DG: There are four issues that spring to mind. First, MFIs need to maximize outreach to the poor and poorest so that economies of scale can be enjoyed to the fullest. Second, they should offer larger subsequent loans based on good loan performance. Third, they need to fine-tune their financial products to meet the real needs of the poor and poorest. And last, but certainly not least, they need to charge appropriate interest rates.

MBB: Besides small loan sizes, are there specific conditions involved in serving the poorest that hamper the attainment of self-sufficiency?

DG: Much more motivation work is required, as the poorest do not believe that microfinance is for them and they are afraid of getting into debt. It takes time to open their eyes to the opportunity being provided, and this increases total staff costs. Demonstration effect from neighboring poor and poorest households is essential to convince many others to participate. Thus it takes more time for them to form groups.

Savings Products for the Poor

MBB: How would you compare the relative development benefits of savings versus credit products?

DG: MFIs working with the poorest have to walk equally on both legs to succeed. Unfortunately, regulatory constraints make it difficult to provide

savings services in many countries. Many of our members are mobilizing deposits illegally, so they can't let savings amounts reach levels that would attract too much attention.

To overcome this problem, we are encouraging our members to establish a regulated financial institution that can legally offer savings services. CARD Bank, SHARE, and Nirdhan Utthan Bank have made this exciting leap. But the CASHPOR "transformation" model is different from the approach elsewhere because the NGO still has an important role to play. The NGO continues to be involved in group formation and after the first loan the NGO hands over borrowers to the bank. This continued link is necessary because CASHPOR members don't want to lose their social orientation. The integrated NGO/bank approach is designed to provide clients with a wider array of services, to increase the institution's outreach by leveraging equity capital, *and* to retain its commitment to the poorest.

MBB: Do you think MFIs can offer voluntary savings while requiring forced savings as collateral?

DG: This is a difficult question. My personal preference—although I doubt many of my CASHPOR colleagues would agree with me—would be to do away with forced savings and emphasize voluntary savings. But it isn't that easy. In the Grameen methodology, collective responsibility is very important. And voluntary savings and collective responsibility don't mix very well.

In the group, everyone knows how much each other saves. So someone who is having repayment problems will cast a covetous eye toward the voluntary savings of another—or the loan officer who is striving for perfect repayments may encourage this to occur. This possibility would discourage voluntary savings from taking place. At the same time, collective responsibility is a key element in reaching the poorest. Because of their irregular income flows, the only way the poorest clients feel comfortable accepting the risks of taking a loan is through collective responsibility. CARD is experimenting with confidential, individual, voluntary savings transactions immediately after their Center meetings. Let's see if it works.

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Six out of Seven Ain't Bad (Credit Unions, Continued)

Elisabeth Rhyne

Ya gotta love Dave Richardson's in-your-face article in the last *MicroBanking Bulletin* (Issue No. 4). Ya gotta love the way those credit union folks carry on like they're the ones who really invented microfinance. Trouble is, in many ways, they did.

Although I hesitate to endorse anything as religious sounding as doctrine, Dave's "Seven Doctrines of Success" are as good a summary of the credit union approach as you'll find. And he's right that the microfinance "industry" has been very slow to recognize most of those points. It still hasn't fully digested some of them. The credit unions have some strong messages for microfinance in several of Dave's doctrines, especially savings, efficiency, financial standards, and diversification of clientele. Microfinance practitioners should find ways to adopt some of the credit unions' approaches in these areas, otherwise their institutions may lack the staying power to survive when conditions change or competition heats up.

However, I would like to challenge one of the seven virtues, self-governance. Dave, who is normally a hard-nosed realist, becomes all soft and mushy when it comes to this one. He's right that microfinance has no perfect solution to ownership and governance. Each available model is subject to its own set of weaknesses, and self-governance is no exception.

- Self-governing financial societies, especially smaller ones, are subject to capture by influential or highly motivated members who direct policies toward their interests. Borrower domination led credit unions across the world to adopt anti-saver policies for years, thereby limiting their growth. Capture by a small group of borrowers has caused many a credit union simply to collapse from what in another type of financial institution would be regarded as insider lending.
- Self-governance among multiple small institutions is inefficient. While creating independent governing structures at the grassroots level does seem to be a useful approach for developing financial services in areas banks can't reach, it has turned out to be difficult, labor intensive, and costly to bring lots of tiny institutions to the point where they can be reliable suppliers of quality services. There seem to be economies of scale for management structures: one managerial

structure with many outlets may be more efficient than many separate superstructures.

- When credit unions grow to become major suppliers, the essence of self-governance begins to disappear, making credit unions little different from other types of financial institutions. For the clients of large-scale credit unions, being a member involves little more than paying an initial membership contribution and checking an annual ballot. I suspect that self-governance figures far below convenience, price, and products in the decision of most clients on whether to bank with a credit union or another institution. For large institutions, competent and professional management matters more than the particular type of ownership and governance.

For these reasons, I'd prefer to think of self-governance as one option in the overall microfinance toolkit, appropriate under certain circumstances, but not the only solution.

Why, after all, should there be a special link between self-governance and financial services? As societies modernize, corporate forms increasingly replace collective and participatory forms. All the worse for the 21st century, perhaps. But the move away from such forms is caused by market forces driving toward efficiency, and these are very strong forces, indeed. The defenders of participatory forms of action need to choose their battles carefully, searching for areas where collective participation and self-governance are worth going to the barricades for. The credit unions in their fervor may believe that financial services are a prime location for this battle to be fought. I remain agnostic.

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CASE STUDIES

In Their Own Words: FINCA Uganda

Michael J. McCord

From as early as 1995, when FINCA Uganda only had 1,200 clients, there was no question that its objective was to become a profitable microfinance institution serving the women's micro-business market. The only questions were *when* and *how profitable?* The two keys to achieving this goal were always seen as 1) volume and 2) cost control (including efficiency).

Volume

Recognizing that volume was a key, and that without capacity there could be no volume—at least not with the requisite high portfolio quality—much work was spent on building staff and creating a strong foundation for growth.

As seen in Figure 1, FINCA Uganda experienced better than 100 percent growth in the number of borrowers each year from 1996 through 1998. The number of staff grew at a slower rate than the number of clients, which improved productivity. However, the loan portfolio also grew more slowly, which suppressed income. The relatively slow portfolio growth was a direct result of the average loan outstanding actually falling rather significantly in 1998 and not fully recovering in 1999 (let alone growing). Thus, all the wheels were spinning, but the progress towards self-sufficiency was slow.

Figure 1: FINCA Uganda - Growth

	1995	1996	1997	1998	1999
Borrowers (no.)	1,289	3,324	8,473	17,228	20,769
Total Portfolio ('000 US\$)	107	210	539	850	1,246
Assets ('000 US\$)	321	404	1,031	1,485	2,066
Staff (no.)	14	25	61	98	94
Avg. Loan Balance (US\$)	83	63	64	49	60

Source: *The MicroBanking Bulletin*.

The limited increase in average loan balance was the result of several factors, but five in particular:

- 1) Rapid growth meant that the portfolio consisted of a large portion of new clients with smaller loans.
- 2) As much as 50 percent of clients chose loans smaller than the maximum available to them due to limited business activity.

- 3) Relatively high dropout rates caused significant work in replacing clients and further increased the percentage of new clients (and their small loans) in the portfolio.
- 4) We decided to maintain the initial loan size at the 1995 level, while offering faster growth after the first cycle. However, faster growth opportunities were not implemented until May 1999.
- 5) FINCA maintains a commitment to serving the poor.

Additionally, in the midst of increasing competition in Ugandan microfinance, it was necessary to make several adjustments to the loan product to maintain its marketability. For various reasons, these adjustments were not made quickly enough, which retarded growth for much of the 1998/99 fiscal year.

Several long awaited improvements were implemented beginning in May 1999, which have led to dramatic positive results for fiscal 1999/2000 (ends 31st August). Product improvements include a group and client rating system, a significantly lower savings requirement (allowing client loans to "grow" faster), and other flexibilities that have improved market acceptance.

In addition, Microcare, a health care financing scheme, was accessed to provide a mechanism for clients to buy a full range of health care services through hospitals. This scheme provides FINCA Uganda with a competitive advantage among MFIs, by offering clients this risk management product to complement existing services such as voluntary savings and group accident policy (with death coverage for the client and her family members). Given that any new product in the microfinance industry provides exclusivity for only six to twelve months, FINCA Uganda is actively working on its next round of adjustments and innovations.

Efficiency

FINCA Uganda was slow to address efficiency issues in the midst of its rapid growth (see Figure 2). It was difficult to balance the need for efficiency with the volumes of new (less productive) employees required for growth, especially when much of that growth was into new areas.

Until mid-1997, FINCA Uganda primarily followed a strategy of geographically concentric growth. This involved moving consistently further from the center in a controlled manner with the intention of reasonable market saturation, rather than jumping from city to city. This approach was reasonably efficient and showed positive results.

Figure 2: FINCA Uganda - Efficiency

	1995	1996	1997	1998	1999
Total Admin. Expenses / Avg. Loan Portfolio (%)	92.5	68.1	71.9	81.6	85.4
Salary Expenses / Avg. Loan Portfolio (%)	44.3	27.2	39.0	49.0	47.8
Average Salary (multiple of GNP/ capita)	10.5	5.6	7.2	9.5	17.2
Staff Productivity (no.)	92	133	139	176	221

Source: *The MicroBanking Bulletin*.

To comply with donor requirements for geographic growth, in 1997/98 the concentric strategy was shelved and two branch offices were opened in outlying areas with limited growth potential. The startup of a new branch is expensive, and although the objective was to break even in 18 months, growth was slower than projected, extending the breakeven period and resulting in reduced overall efficiency for the institution.

Additionally, during this time (1997/98) new senior level staff were brought on to manage current growth and to prepare for future growth. This extra layer of management also added to the "inefficiencies", though it was intended to prepare better for the future.

We also experienced significant wage inflation in an effort to retain staff in an increasingly competitive market. This environment pushed, and continues to push, salaries in the Ugandan microfinance industry. This situation is unlikely to change, though FINCA Uganda has introduced incentive schemes to create a better relationship between earnings of staff and earnings of the company.

Productivity, as measured by borrowers per staff member, has significantly improved through reduced reporting requirements, expanded field time, and higher productivity targets for field staff. Initially this effort was slow because the systems and procedures needed adjustment to assist field staff in reducing their time with their groups.

Among the company's annual objectives for fiscal 1999/2000 were a reduction of total administrative expenses to portfolio to below 50 percent, and increase borrowers per field staff to at least 400. To help accomplish these targets, the Credit Director was provided a significant incentive, paid and reassessed on a quarterly basis, for achieving

increments of these objectives, while maintaining a top quality portfolio.

FINCA Uganda is also trying to improve its back office efficiency. Until May 1999, the information system consisted of part manual, part Excel spreadsheet accounting, loan tracking and reporting system. It was replaced by an electronic integrated accounting, loan tracking, and reporting system in early 2000. Once stability is reached with the new system, it is likely to improve efficiency significantly.

Figure 3: FINCA Uganda – Profitability, Yield and Sustainability

	1995	1996	1997	1998	1999
ARO (%)	-20.2	-10.4	-13.9	-11.4	-7.0
ROE (%)	-21.8	-10.9	-14.5	-11.6	-8.1
Portfolio Yield (%)	53.1	58.5	53.5	68.9	84.4
Real Yield (%)	41.0	47.9	43.4	60.8	73.3
Operating Self-sufficiency (%)	55	84	73	82	95
Financial Self-sufficiency (%)	51	71	67	77	88

Source: *The MicroBanking Bulletin*.

An additional mechanism to improve structural efficiency (while improving yield) was implemented in May 1999. Previously, loans carried a 3 percent per month nominal rate, with a 1 percent affiliation fee, a fee for stationery, and a voluntary 1 percent fee for a group accident policy. These fees, collected at disbursement meetings, created significant front and back office inefficiencies. Starting in May 1999, these fees were rolled into a new nominal interest rate of 4 percent per month. This reduced transactional inefficiencies, and provided a small addition to earnings, which was not fully experienced until October 1999, although one can see partial results in Figure 3.

Clearly it has taken too long for FINCA Uganda to settle into consistent sustainability, both operational and financial. However, the company is now positioned with a solid foundation—through capable staff and management, a more flexible product, and an entrepreneurial executive—to reach and surpass that elusive goal. 1997 and 1998 were important investment and learning years. Figure 3 shows significant improvement in 1999, with a hidden springboard for the achievement of full financial self-sufficiency in the very near future.

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In Their Own Words: Pro Mujer, Bolivia

Nancy Natilson

1999 was a challenging year for many Bolivian microfinance institutions, including Pro Mujer. The stellar performance of Pro Mujer Bolivia in 1998 was *not* as stellar in 1999. Pro Mujer Bolivia reached operational and financial sustainability of, respectively, 148 and 119 percent in 1998, proving to itself and others that village banking programs can be impressively sustainable. In 1999, however, these ratios were reduced to 110 and 100 percent, respectively—still sustainable, but only at a breakeven level (Figure 1).

Figure 1: Sustainability and Profitability of Pro Mujer (1997-1999)

	1997	1998	1999
AROA (%)	-4.4	6.0	0.0
AROE (%)	-5.0	6.8	0.0
Operating Self-sufficiency (%)	90	148	110
Financial Self-sufficiency (%)	87	119	100

Source: *The MicroBanking Bulletin*.

What accounts for these increased pressures on Pro Mujer's bottom line, and how are we confronting these challenges?

Growth Issues

Although the number of borrowers has grown steadily over the last couple of years (17 percent in 1998 and 13 percent in 1999), our portfolio decreased 6 percent in 1998 and remained flat in 1999 (see Figure 2). This combination of trends is due to a substantial reduction in average loan size. Reasons for this phenomenon are many, including: (a) economic crisis, (b) increased competition, (c) low client retention rates, and (d) continued commitment to serve the very poor.

Figure 2: Outreach of Pro Mujer (1997-1999)

	1997	1998	1999
Borrowers (no.)	14,226	16,669	18,919
Total Portfolio ('000US\$)	2,336	2,200	2,197
Staff (no.)	68	89	105
Avg. Loan Balance (US\$)	164	132	116
Depth (%)	16.9	13.1	11.5

Source: *The MicroBanking Bulletin*.

Bolivia has been experiencing an economic crisis since 1998. In these conditions, the poorest segments of the population – which is Pro Mujer's target market – are the most vulnerable. While our

clients are struggling to maintain quality of life, increased debt is not necessarily the answer.

Bolivia is one of the world's most competitive microfinance markets with over-indebtedness from oversupply. Traditional financial institutions that have entered the microfinance sector are using methodologies unfamiliar to them and causing market distortions. Pro Mujer applauds the results of competition that have lowered interest rates and have forced MFI's to become more efficient. But, the other side of this competition story is increased delinquency. Pro Mujer has had some portfolio quality problems, but it is difficult to know how our experience compares to other Bolivian MFIs since data on write-offs and refinanced loans are not often shared.

Client retention remains a challenge. To this end, Pro Mujer analyzes client desertion and uses the information to make changes to communal bank methodology and to pilot new products. Some of these improvements include increasing the efficiency of group meetings, raising the maximum loan size, and revising the saving requirements.

We are also piloting individual loans designed to retain our clients whose credit needs have grown beyond what communal bank loans can offer. Our initial experiences with this product are interesting. We were surprised to discover that many of our experienced clients who qualified for individual loans were reluctant to leave their communal banks and the required saving program, both of which they consider supportive and vital to their success as microentrepreneurs.

Finally, Pro Mujer is proud of its commitment to serving the very poor. Reduction in average loan size bothers us only in that it negatively affects our productivity ratios and challenges our efforts to be sustainable.

Pro Mujer challenges the assumption among village banking practitioners that repeat clients will automatically want larger loans. If their microenterprises are not growing (which is often the case), we do not encourage our clients to increase their loan size so that Pro Mujer's institutional sustainability can improve. Our target market is clients whose primary access to credit has been expensive moneylenders and who do not have collateral to offer as a guarantee. The communal bank methodology offers them a good introduction to credit; we remain committed to providing pre-

credit training and quality service to this market segment. Therefore, we have only made our newly-introduced individual loans available to clients who have progressed through our communal banks, so as not to be tempted to go “up-market” and leave the very poor behind.

Efficiency Issues

Comparing Pro Mujer’s 1999 institutional efficiency indicators with eight other leading village banking institutions, we proudly rank on the edge of the most efficient third (see Woller’s article above). But we are constantly striving to improve our efficiency by spending less and becoming more productive.

Administrative costs as a percentage of average loan portfolio rose from 1998 to 1999, as have costs per borrower. Notwithstanding the fact that Pro Mujer is an integrated program and hence our administrative costs are inflated (even though we attempt to segregate the direct costs of non-credit programs from the costs of the credit program), efforts are being made to reduce costs at all levels in order to compensate for the lack of portfolio growth. Also, costs were unusually high in 1999 due to development of a new management information system, whose benefits will be realized in the years to come.

Figure 3: Efficiency and Productivity for Pro Mujer (1997-1999)

	1997	1998	1999
Total Administrative Costs / Avg. Loan Portfolio (%)	35.1	30.4	37.8
Salary Expenses / Avg. Loan Portfolio (%)	22.5	19.2	21.0
Cost per Borrower (US\$)	50	45	47
Average Salary (multiple of GNP/ capita)	5.7	4.8	4.4
Staff Productivity (no.)	209	187	180
Other Admin Costs / Avg. Loan Portfolio(%)	10.0	7.8	9.4

Source: *The MicroBanking Bulletin*.

Productivity, as measured by the ratio of borrowers to total staff, has declined as well, but productivity per loan officer shows a slight improvement in 1999 over the previous year. The profitability margins are being squeezed because the average loan size is smaller and costs are rising. Another challenge we face is the declining average number of borrowers in each village bank, which is linked to the retention rate mentioned earlier, as well as to competition and over-indebtedness.

Strategic Directions

As Pro Mujer in Bolivia positions itself for the future, we have chosen a path that does not conform to industry trends.

We remain as committed to an integrated approach, combining microfinance with communal bank training, business development services (both training and technical assistance), health and human development training, and the provision of basic health services.

We firmly believe that microfinance is only part of the solution to alleviating poverty; Pro Mujer’s mission clearly addresses the economic and social needs of poor women. We are committed to supporting focal centers in Bolivia, which have become community centers for our clients and their families. Although this approach incurs substantial costs and deviates from the “traditional” village banking methodology of minimal infrastructure, it provides a venue for invaluable training and health services.

There are implications for organizational structure in our strategic decisions. Although we voluntarily submit our financial information to the Superintendency of Banks in Bolivia, Pro Mujer has decided not to become a regulated financial institution because we believe that our mission is best served by being a foundation. Nevertheless, we are investigating strategic alliances that would make new funding options available to us.

Finally, Pro Mujer’s sustainability must be achieved in harmony with our clients’ sustainability. We intend to pass on efficiency savings to our clients, once we are sustainable on a more permanent basis. Pro Mujer does not believe that institutional sustainability is an end in itself, as sometimes seems the case when discussing best practices; instead, it is a means to enable our clients to achieve sustainability in their lives, so they can be more fulfilled as individuals and as members of their families and communities.

In summary, Pro Mujer Bolivia is experiencing increased challenges to maintain and improve its sustainability. Some of the reasons are due to external factors beyond our control like competition and oversupply of microcredit. But many of the reasons result from conscious decisions to serve our target market in ways we believe best meets our clients’ needs.

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BURO, Tangail, Bangladesh: Reaching the Poor with Savings and Credit

Geetha Nagarajan

Bangladesh Unemployed Rehabilitation Organization (BURO) in Tangail (BT) serves over 67,000 low-end clients and provides them with diverse types of credit and voluntary savings products in a sustainable way. Since its inception in 1991, it has been a pioneer in offering deposit services. BT's experiences are especially impressive since several other MFIs in Bangladesh have failed or scaled down deposit services due to high costs of operation.

Through the critical input from external advisors and extensive feedback from customer focus groups, BT has developed six types of loans and three savings products, summarized in Figure 1. The distinct features of BT's products include flexibility and variety, and unbundling of loans from savings products. To be a member of BT, one does not have to borrow; saving will suffice.

Outreach

Since 1995, BT has grown significantly in size, client coverage, and products offered, while focusing its attention at the low-end of the market. Until 1998, BT followed a horizontal growth strategy by moving into new areas to increase outreach. In the face of increasing competition, however, BT then resorted to deepening its coverage of existing markets (Figure 2). New products were developed to meet the demand for financial services.

The floods in 1998, indeed, put BT's products, especially flexible savings to test. While several centers suffered from loan delinquencies, overall the organization survived the disaster in fairly good shape. In fact, after a brief period of decline, the average savings balance increased dramatically.

Almost all of BT's depositors save less than US\$1 a week, which suggests that BT is serving households with very limited disposable income.

Figure 1: Summary of BT's Savings and Credit Products

Savings	
General Savings	This open access savings facility allows members to deposit more than the expected 10 taka (20 cents) every week and to access their savings any number of times without penalty. There is no ceiling on the amount of deposits or withdrawals. Annual interest rate is 7.5 percent.
Contractual Savings	With these time deposits, members and associate members agree to save a fixed amount every week or month for a fixed period of time – 3, 5 or 10 years. The annual compound interest rates vary from 9 to 14% based on the length of the contract. Early withdrawals incur a penalty and failure to deposit three consecutive installments will result in transfer of funds to general savings.
One-time Fixed Deposits	These are certificates of deposit for a large amount (minimum US\$100) deposited at the beginning of the contract period for a fixed term up to 5 years. These deposits earn 9 to 12 percent interest per annum, based on the length of the contract.
Loans	
General Loan	This product is available to all members and is repayable in fifty consecutive equal installments. The loan disbursed ranges from US\$20 to US\$1,200.
Supplementary Loan	These are available to general loan borrowers, six months after paying their dues, for an amount up to half of the original general loan.
Line of Credit	A line of credit is available to long-term clients with established businesses. The current ceiling is US\$2,000 for a period of two to three years, renewable each year.
Sanitation Loan	This is for building sanitary facilities or for drilling tube wells. The ceiling is US\$50.
Business or Project Loan	This new product is offered to members who can use larger loans to create jobs in the community. Loan sizes vary from US\$2,000 to US\$5,000 for a period of two years.
Disaster Loan	This special loan facility is available during disasters for members who have lost their businesses and are unable to repay loan installments. Current ceiling is US\$40 repayable in two years.
All loans are charged an annual interest rate of 20 percent except the disaster loan at 5 percent. Except for line of credit and business loans, a member can have up to two loans at a time. However, disaster loans are available to every member regardless of the type and number of loans outstanding at the time of disaster. All are collateral free but group based loans.	

Figure 2: Outreach of BURO, Tangail

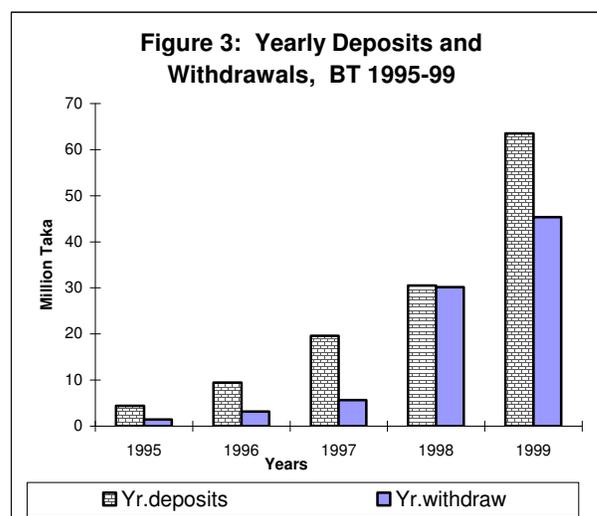
	1995	1996	1997	1998	1999
No. of Branches	20	30	40	41	41
No. of Staff	198	312	424	448	513
No. of Borrowers ('000)	11.8	12.7	25.7	55.7	62.4
No. of Savers ('000)	0	0	45.0	71.9	71.8
Outstanding Portfolio ('000 US\$)	504	707	1,446	3,606	3,339
Avg. Loan Balance (US\$)	31	47	50	65	57
Depth (%)	13	18	14	18	16
Total Savings Balance* ('000 US\$)	0	0	295.5	562.8	885.5
Avg. Savings Balance* (US\$)	0	0	6.6	7.8	12.3
No. of Loan Products	3	4	5	6	6
No. of Savings Products*	1	1	2	3	3

* These represent all deposits that have open access by allowing unlimited deposit and withdrawal.

By offering flexibility, BT has increased average savings balances, although not at first. When BT transitioned to completely liquid accounts in early 1998, it experienced a heavy withdrawal of savings as customers tested whether they really could access their money. In addition, the worst floods occurred in mid-1998 increasing the deposits' outflow. After the initial frenzy of withdrawals, however, balances soon began to increase through increased volume of deposits and reduced volume of withdrawals. The net growth in yearly deposits between 1998 and 1999 was 108 percent (see Figure 3) and the average savings balance increased by more than 50 percent. This trend, though short, suggests a demand for, and depositor confidence in, the savings instruments offered by BT.

It is to be noted that while growth in the average savings balance was accompanied by an increase in number of depositors in 1997-98, it occurred through larger deposits in 1998-99. Besides conducting an educational marketing campaign, BT also increased deposits by creating a category of "associate members" who want to save and not access loans, and by opening a "savings only" branch in an urban area.

Another indication that BT serves particularly poor people is the small loan balances maintained by the borrowers. In 1999, average loan balance relative to GNP per capita was 16 percent. About 55 percent of the active borrowers carried a loan balance of less than US\$100, accounting for 42 percent of portfolio outstanding. Approximately 92 percent of BT's clients live below the poverty line (earning less than US\$1 per day).



Profitability and Sustainability

The outreach strategy since 1996, comprised of a massive expansion amidst competition and new product launches, has impacted BT's financial performance.

Figure 4: Profitability and Sustainability of BT, 1995-1999, and Peers (in percent)

	1995	1996	1997	1998	1999	Peers: South Asia
Operating Income	27.0	31.9	23.1	25.5	23.4	14.9
Operating Expenses	36.1	30.3	33.1	27.2	25.6	20.7
AROA	-9.1	1.6	-9.9	-1.6	-2.2	-5.6
Portfolio Yield	41.7	43.7	34.4	29.4	31.5	21.6
Operating Self-sufficiency	82.5	110.1	72.0	103.8	114.8	92.5
Financial Self-sufficiency	74.8	105.2	69.7	94.0	91.6	70.7

While operating expenses relative to average total assets steadily declined from 36 percent in 1995 to 26 percent in 1999, operating income relative to average total assets fell from 27 percent in 1995 to 23 percent in 1999. This decline was caused primarily by a drop in portfolio yield. In response to competition, BT lowered its annual interest rate in 1997 on several loan products from 25 to 20 percent. As a result, portfolio yield declined from 42 percent in 1995 to 32 percent in 1999.

BT also experienced an increase in delinquency in early 1999 due to the 1998 floods. Portfolio at risk over 90 days was 2.2 percent in 1999 compared with less than 1 percent in previous years. In response to portfolio quality problems, BT tightened

lending requirements and consequently disbursed fewer loans in 1999 than in 1998. BT also implemented a grading system for branches and centers based on their loan repayment performance. Branches and centers with poor portfolio quality were penalized by reduced access to future loans. A few centers were permanently closed.

Subsidized funding helped to finance BT's expansion. It constituted about 16 and 26 percent of loan portfolio in 1998 and 1999, respectively, and close to 42 percent of the total liabilities in both years, pushing adjustment costs higher. As a result, the FSS ratio in 1999 lagged behind that of 1998, despite continued improvement in operating self-sufficiency.

Efficiency

Over the past five years, BT has increased its number of clients by nearly six fold, and has introduced 3 new loan and 2 new savings products. Product experimentation combined with fast growth generally does not favor an increase in efficiency. Nonetheless, Figure 5 indicates that BT has improved its efficiency: administrative costs relative to average loan portfolio declined from 47 percent in 1995 to 25 percent in 1999, while cost per borrower fell from US\$25 to US\$14.

Figure 5: Efficiency of BURO, Tangail

	1995	1996	1997	1998	1999
Administrative Expenses / Avg. Loan Portfolio (%)	47.4	36.4	44.6	28.3	25.0
Avg. Loan / GNP per Capita (%)	13	18	14	18	16
Staff Productivity (no.)					
a. Loans	59	41	61	124	122
b. Savings	--	--	--	30	72
Avg. Salary (multiple of GNP/ capita)	1.6	1.7	1.8	2.2	3.1
Cost per Borrower (US\$)	24.7	17.8	29.6	17.4	14.3

Efficiency was enhanced considerably by the increase in staff productivity, despite the fact that field staff handle both loans and deposit mobilization. Equipping field staff with motorbikes and bicycles improved staff productivity, especially in reaching clients in remote areas. To avoid misuse of vehicles and to minimize maintenance costs, BT made a vehicle loan to the staff and provides a fixed allowance for upkeep.

To improve efficiency, BT has also had to overcome an increase in its salary structure. Management believed that higher wages were necessary to retain trained staff, as well as to attract qualified personnel to handle the specialized requirements of

obtaining savings. This strategy paid off through increased deposits, reduced employee turnover, and success in recruiting qualified personnel to staff the expanding training, internal audit and MIS units.

BT has undertaken several additional steps to improve efficiency that have not paid off yet. Training expenses are being reduced by requiring new field workers to be apprentices for two weeks in the field before beginning training at the head office. By moving forward the timing of the apprenticeship, BT hopes to cut the cost of training recruits who then resign after exposure to the field.

The organization recently introduced business loans and time deposits that can cross-subsidize the smaller loans and deposits. Despite BT's thorough product development process, these products have not yet had the desired effect. The demand for time deposits has been sluggish, since few clients could deposit large amounts for a long period of time. Only a few business loans have been issued because it is difficult to locate poor clients with good projects that merit large loans.

To further improve efficiency, BT is experimenting with increased branch automation through computerization. This approach, however, is a double-edged sword, since increased expenses due to equipment costs and the expensive employees required to operate the computers may offset productivity gains. Inconsistent power supply is another drawback.

Lessons from BT

BT's experience shows that it is possible to serve the poor in a sustainable way by offering a variety of credit and savings products. Challenges, however, remain for BT that may influence the future path of MFIs attempting to serve the poor. The BT case especially presents an interesting dilemma for MFIs planning on offering voluntary deposit services.

While demand for flexible savings products may exist, it has been difficult to appropriately price the savings products due to challenges in evaluating their costs.

Accounting for the time spent on mobilizing savings by the field staff, who constituted about 75 percent of the total staff in 1999, the *Bulletin* estimates that lending productivity would increase from 225 to 325 clients per field staff if they were freed from mobilizing savings. This would bring BT's total staff productivity to 235 clients per employee. This level of productivity may help to offset the costs of

providing smaller loans. And by not offering savings, BT might be able to lower staff salaries.

On the other hand, the estimated gains in staff productivity on the credit side cannot be separated from the costs of alternative ways of raising funds for lending. The increase in costs due to deposit mobilization may indeed be compensated for by a lower cost of funds for its loan operations. Savings constitute about 27 percent of the total loan portfolio (and 55 percent of the liabilities) at BT. If BT were to mobilize these resources from commercial sources, then interest costs may increase by about 3.2 percent, pushing operating costs higher by at least another one percent.

It is also important to mention that the maintenance of liquid reserves to meet potential savings withdrawals creates an additional cost, since it reduces the funds available for loans that can generate income. But the costs can likely be offset if the average savings balance grows above the reserve requirement.

It is also probable, although not yet documented, that BT enhances customer loyalty, and all the accompanying cost savings, by offering open-access savings.

Certainly this analysis is hypothetical and requires a much more careful look to determine the costs and benefits of providing voluntary savings. The microfinance industry currently lags behind in its understanding of ways to evaluate the costs and benefits of savings products. It is imperative for BT, and for the broader microfinance community, to examine the unit costs of savings on a product basis to evaluate gains to efficiency and profitability.

Geetha Nagarajan is a member of the Bulletin's editorial staff. This article is based on her due diligence visit in February 2000 and information submitted to the Bulletin by BURO, Tangail. The MicroBanking Bulletin thanks BT for granting permission to publish its financial results.

BASIX, India: Reaching Rural Clients with Credit

Geetha Nagarajan

BASIX, a non-bank financial institution that started in 1997, illustrates the challenges of a young MFI in pursuit of rural outreach in India where the formal financial sector actively provides subsidized credit.

Outreach Strategy

BASIX is not trying to serve the poorest of the poor directly: loans less than US\$100 represent only six percent of the outstanding portfolio. Its outreach strategy is based on the assumption that larger loans to non-poor in rural areas will facilitate the creation of employment for the poor. BASIX serves a broad target market of over 12,600 clients in rural areas with an average loan balance of US\$208, which is 55 percent of GNP per capita (see Figure 1).

Figure 1: Outreach of BASIX

	1997-98	1998-99	1999-00
No. of branches	5	8	10
No. of staff	36	74	79
No. of active borrowers	1,127	9,044	12,626
Loan portfolio outstanding ('000 US\$)	456	1,422	2,592
Average loan balance (US\$)	404	157	208
Depth (%)	109	42	56
Loan outstanding for agriculture (% to total)	--	59	50

BASIX serves a heterogeneous clientele who demand a range of credit products, including agriculture loans. To deliver services to this market efficiently, BASIX recognized that diverse channels were necessary. As a result, it has developed a variety of group and individual loan products for a range of purposes, as summarized in Figure 2. Loans for agricultural activities account for half of the portfolio, while non-farm loans account for 35 percent.

These products are delivered through a variety of different channels, including self-help groups, intermediaries such as trader organizations, agro-processing firms and NGOs, BASIX loan officers and customer service agents paid on commissions.

Profitability and Sustainability

Using commercial sources of funds (87 percent of assets in March 2000), BASIX expanded rapidly in

three years, both in terms of the number of clients and the menu of products. But it has paid the price for zealous growth in its financial performance.

Figure 2: Loan Products Offered by BASIX

Product	Average Loan Disbursed (US\$)	Annual Interest Rate (%)	Avg. Term (month)
Farm Loans			
Crop loans through self-help groups (indirect group loans)	283	21	9
Crop loans to intermediaries for on-lending (indirect individual loan)	7,236	24	12
Agricultural investment (direct individual loan)	500	24	18
Agri-allied activities (direct individual loan)	274	24	18
Non-farm loans (direct, individual loans)			
Microenterprises	290	24	12
Growth enterprises	707	24	36
Small enterprises	8,724	24	15
Housing loans to repeat clients	--	18	36
General purpose loans (no end-use restrictions)			
Self-help groups	2,767	15 to 21	12
Individual loans to repeat clients	276	24	12

As of March 2000, BASIX has yet to consolidate its financial position and become sustainable (see Figure 3). Indeed, the performance has been volatile. Financial self-sufficiency dropped from 97 percent in 1998-99 to 65 percent in 1999-00. Between 1998-99 and 1999-00, the operating income declined from 24 to 21 percent while operating expenses increased from 25 to 32 percent.

Figure 3: Financial Performance of BASIX

	1998-99	1999-00
Adjusted return on assets (%)	-0.8	-11.3
Operational self-sufficiency (%)	105	77
Financial self-sufficiency (%)	97	65
Operating income / Avg. total assets (%)	24.3	20.7
Portfolio yield (%)	29.6	24.0
Operating expenses / Avg. total assets (%)	25.1	31.9

The large concentration of the portfolio in agricultural loans significantly affected the organization's income. Portfolio yield declined from 30 percent in 1998-99 to 24 percent in 1999-00 partly because portfolio at risk over 90 days climbed from 0.6 percent to 6.5 percent during the same period. Rebates for on-time repayments intended to improve portfolio quality further reduced the yield.

BASIX attributes its portfolio quality problems to the following: (i) prolonged drought affecting repayment on farm loans; (ii) reduced efforts to recover loans due to expansion and development of human resources in new areas; and (iii) late implementation of a good MIS system to track loan delinquencies. Furthermore, the Government of India required all financial institutions to reduce their collection efforts until the drought was over.

Interest Rate Policy

To increase portfolio yield, BASIX has now revised its interest rate policy. Nominal interest rates per annum range from 15 to 24 percent according to cost of funds, operating costs, risks and competition. For example, the rate for self-help groups was reduced from 20 to 15 percent since a line of credit was negotiated in 1998 with the National Bank for Agriculture and Rural Development, at 10.5 percent. In addition, competition from the formal sector for self-help groups with a cheaper rate compelled BASIX to reduce its margin. On the other hand, BASIX was able to raise rates for other products from 21 to 24 percent to cover costs.

To reduce the long gestation period in realizing income from farm loans, BASIX now requires that they be repaid in two installments. Indeed, many agricultural clients have non-farm income-generating activities that allow them to pay farm loans in installments. If this change had not been implemented, the portfolio at risk in March 2000 would have been much higher.

Efficiency

The complexity of the organization's product menu necessitated a higher salary structure. BASIX recruited several high-cost employees to support its new product development. As BASIX translates its initial learning into standard procedures, it estimates that loan officer productivity will increase from 250 to 400 clients.

BASIX has kept its administrative expense ratio low despite high expansion costs and an increase in staff salaries, by maintaining large loan balances and by enhancing staff productivity (Figure 4).

Loan officers now carry a portable loan file that contains a short summary on each of their clients that is updated weekly for quick tracking and processing of loans. Computerization of borrower records at the branch level is expected to further improve efficiency.

Figure 4: Efficiency of BASIX

	1997	1998	1999
Administrative expenses / Average loan portfolio (%)	14	19	16
Depth (%)	109	42	56
Staff productivity (no.)	31	123	160
Average Salary (multiple of GNP/ capita)	1.0	2.7	4.5
Cost per borrower (US\$)	27	34	30

Challenges

Thus far, the organization has attracted adequate funds to finance its growth and experimentation. With external funding becoming tighter and costlier, however, BASIX may resort to alternative sources of funding such as deposit mobilization from the public. This may further increase the challenges for a young MFI.

While cross-subsidization may be possible, increased competition and interest rate restrictions on farm loans may reduce margins and compel BASIX to withdraw some products. By using intermediaries to deliver some loans, BASIX may be missing opportunities to build long-term relationships with clients. There is also a challenge in selecting and training self-help groups to become efficient conduits. Increasingly, commercial banks, subsidized NGOs, and government programs are attracting self-help groups by providing loans at cheaper rates. Competition may challenge the retention and cohesion of BASIX groups.

The organization regularly assesses customer satisfaction, which has shown that "ease of access" is its strength. As it grows, BASIX can achieve viability only by building on its strengths, learning from past experiments with products and delivery channels, and continuing to attract commercial sources of funds.

Geetha Nagarajan is a member of Bulletin Editorial Staff. This article is based on her due diligence visit in March 2000 and information submitted to the Bulletin by BASIX. The MicroBanking Bulletin thanks BASIX for granting permission to publish its financial results.

BULLETIN HIGHLIGHTS AND TABLES

Bulletin Highlights

Craig F. Churchill

The *Bulletin* database provides an exciting opportunity to answer some of the challenging questions facing the microfinance industry. In keeping with the theme of this issue, this Highlights section will explore the potential trade-off between target market and self-sufficiency by looking closely at the characteristics of financially self-sufficient microfinance institutions.

As shown in Figure 1, the number of financially self-sufficient (FSS)¹⁴ MFIs has increased over time, which reflects both the maturation of the industry as well as our increasing success in encouraging organizations to participate in the *Bulletin*.

Figure 1: Bulletin Participants over Time

Issue	#1 Oct 1997	#2 July 1998	#3 July 1999	#4 Feb 2000	#5 Sept 2000
# of All MFIs	28	72	86	104	114
# of FSS MFIs	21	34	40	60	65
% FSS	75	47	47	58	57

Between the first and second issues, the *Bulletin* waived the requirement that participating institutions have a FSS ratio of at least 75 percent in an effort to broaden and deepen its coverage. That opened the floodgates for a large increase in new participants, many of which were smaller, newer, and not sustainable. Some of these organizations have improved over time, so that now three out of every five participants are financially self-sufficient. Of the financially self-sufficient MFIs, 24 institutions have a FSS ratio of 110 percent or higher, which roughly translates into an AROA above 4 percent.

Characteristics of Financially self-Sufficient MFIs

A closer look at the set of FSS MFIs reveals considerable variety. As shown in Figure 2, with the exception of the very young programs in MENA/Central Asia, each peer group has at least one FSS MFI, and 8 of the 14 groups have a majority that is financially self-sufficient. (For more

details about the *Bulletin* peer groups, see “An Introduction to Peer Groups and Tables” following the Highlights section.)

Figure 2: Self-sufficiency by Peer Group

Peer Group	# of FSS MFIs	# of non- FSS MFIs
1. Latin America Large	10	1
2. Latin America Medium Broad	9	4
3. Latin America Medium Low-end	11	2
4. Latin America Small Low-end	1	4
5. Latin America Credit Unions	10	1
6. Asia Large	3	2
7. Asia-Pacific	5	0
8. South Asian	3	6
9. Africa Small	1	8
10. Africa Medium	2	4
11. Africa/MENA	4	2
12. MENA/Central Asia	0	6
13. Eastern Europe Broad	2	6
14. Eastern Europe High-end	4	3
Total	65	49

Figure 3 provides the characteristics of the top ten performing *Bulletin* MFIs ranked by their financial self-sufficiency ratio.

Figure 3: Characteristics of the Top Ten MFIs based on Financial Self-sufficiency Ratio

Region	Target Market	Methodology	Size
1. LA	Broad	Individual	Medium
2. LA	High	Individual	Large
3. Africa	Broad	Individual	Medium
4. LA	Low	Individual	Medium
5. Asia	Low	Solidarity	Large
6. LA	Low	Village	Medium
7. Asia	Broad	Solidarity	Large
8. LA	Broad	Solidarity	Medium
9. MENA	Broad	Individual	Large
10. LA	Broad	Individual	Large

With the exception of small programs and organizations in Eastern Europe, all regions, target markets, methodologies and sizes of institutions are represented on the Top Ten list. Although the top four institutions all use an individual lending

¹⁴The definitions for Bulletin ratios can be found in “The Index of Ratios and Tables” on page 39.

methodology, they are serving three different target markets. In fact, three of the Top Ten institutions serve the low-end market, which means that their average loan balance is either below \$150 or below 20 percent of GNP per capita. Furthermore, the Top Ten list includes NGOs, regulated financial institutions and credit unions. Obviously there is not one road to financial self-sufficiency.

As shown in Figure 4, FSS MFIs are generally medium sized, located in Latin America, serve a broad target market, and use individual lending methodology. Nevertheless, the common characteristics of FSS MFIs highlighted in Figure 4 are prevalent partly because there are more institutions with those characteristics represented in the *Bulletin* database.

Figure 4: Characteristics of Financially Self-sufficient MFIs (FSS MFIs)

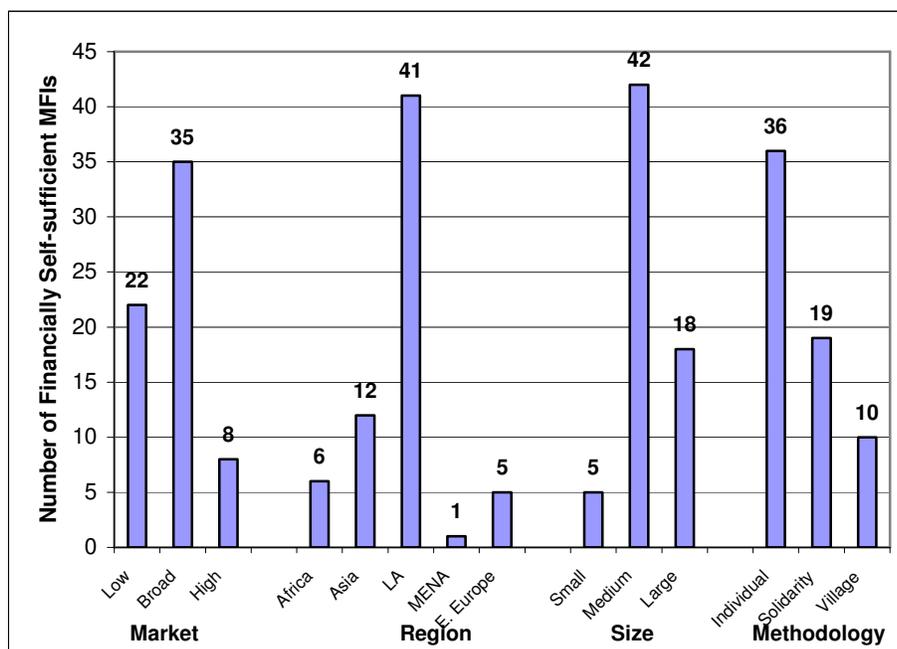


Figure 5: Comparison of FSS and Non-FSS Characteristics

Characteristic	# of FSS MFIs	# of non-FSS MFIs	% FSS to Total MFIs
Age			
Mature (>6 years)	48	18	73
Young (3 to 6 years)	8	16	33
New (< 3 years)	9	15	38
Region			
Africa	6	13	32
Asia	12	10	55
Eastern Europe	5	9	36
Latin America	41	12	77
Middle East North Africa	1	5	17
Scale of Operations			
Large (portfolio > US\$ 8 million)	18	4	82
Medium (portfolio between US\$ 1 million and US\$ 8 million)	42	25	63
Small (portfolio < \$1 million)	5	20	20
Methodology			
Individual	36	16	69
Solidarity (groups of 3-9 borrowers)	19	21	48
Village (groups with ≥ 10 borrowers)	10	12	45
Target Market			
Low-end (depth < 20% OR average loan balance < US\$ 150)	22	28	44
Broad (depth between 20% and 149%)	35	17	67
High-end (depth ≥ 150%)	8	4	67

Figure 5 highlights the diversity among FSS MFIs. It shows, for example, that while FSS MFIs from Latin America vastly outnumber sustainable programs in Asia (41 to 12), there is a much smaller gap in the percentage of FSS MFIs to total MFIs in those regions (77 percent to 55 percent).

Two findings stand out from a simplistic analysis of Figure 5. First, older MFIs have a distinct advantage over their younger counterparts. Second, small MFIs have a real disadvantage in their efforts to achieve financial self-sufficiency. It is also interesting to note that nearly half of the programs using group methodologies (solidarity and village) or serving low-end market are sustainable.

Performance Volatility

Many institutions experience wide swings in their financial self-sufficiency levels. If we had published the Top Ten list in the last issue of the *Bulletin*, only 5 of those listed in the prior issue would also appear on this year's list. The *Bulletin* database currently consists of 52 participants (not just FSS MFIs) for which we have both 1998 and 1999 data. Of the 52, 22 experienced an increase in the FSS ratio of

more than 10 percentage points, 14 decreased by more than 10 points, and 16 basically stayed the same (+/- 10 points).

As shown by Figure 6, newer institutions tend to experience more volatility than older MFIs, but they have not cornered the market on fluctuations. More mature institutions operating in unstable macroeconomic conditions or competitive markets also experience big swings in their FSS ratio.

How Low Can They Go?

Now to the crux of the matter: is there a trade-off between financial self-sufficiency and depth of outreach? Figure 7 lists financially self-sufficient MFIs ranked by their depth of outreach (average outstanding loan / GNP per capita) and average outstanding loan balance.

The data in Figure 7 suggest that it is possible to provide very small loans and be financially self-sufficient—at least in Latin America and parts of Asia. With one exception, MFIs in Africa and Eastern Europe have achieved financial self-sufficiency by serving a broad or high-end target market.

Figure 6: Percent Change in Financial Self-sufficiency from 1998 to 1999

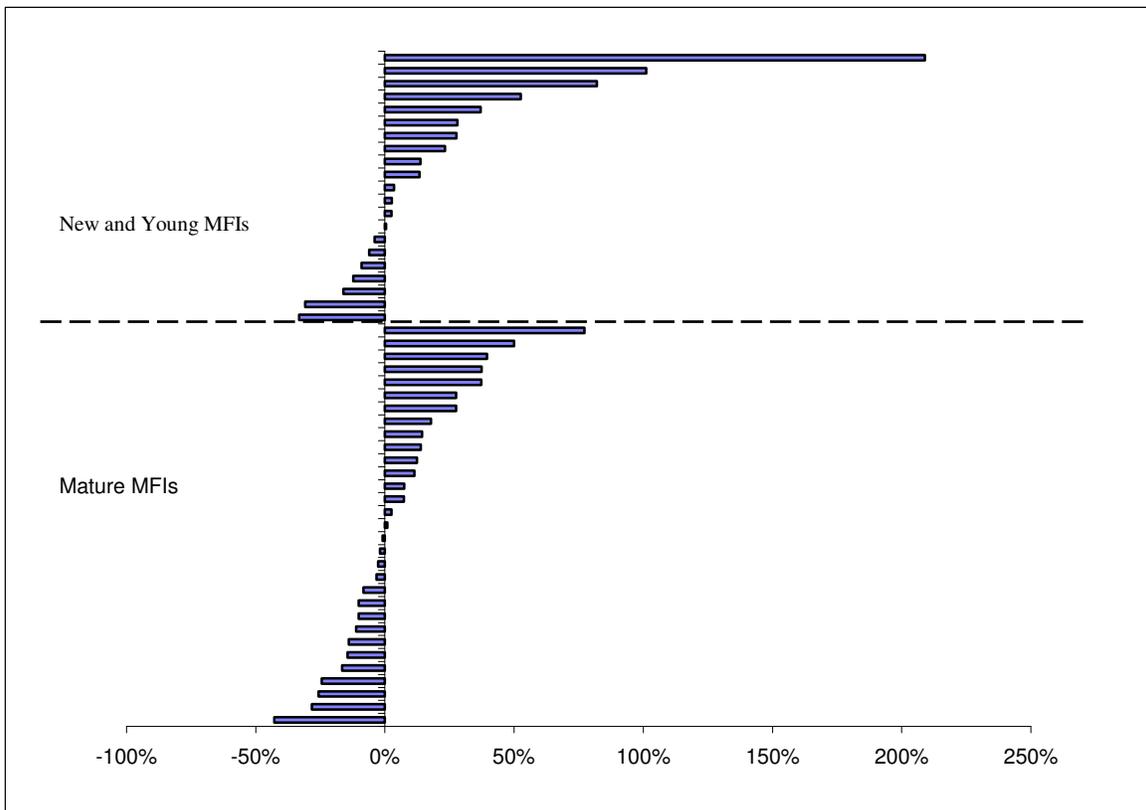


Figure 7: Financially Self-sufficient MFIs with the Smallest Loan Sizes

Ranked by Depth Indicator					Ranked by Average Loan Balance				
Organization	Region	Methodology	Scale of Ops.	Depth (%)	Organization	Region	Methodology	Scale of Ops.	Avg. Loan Bal. (US\$)
1. Compartamos	LA	Village	Medium	3.3	1. EMT	Asia	Solidarity	Medium	33
2. CEAPE/ PE	LA	Solidarity	Medium	7.4	2. FINCA Malawi	Africa	Village	Small	37
3. Pro Mujer Bolivia	LA	Village	Medium	11.5	3. BRAC	Asia	Solidarity	Large	53
4. WR Honduras	LA	Village	Medium	11.5	4. BURO, Tangail	Asia	Solidarity	Medium	57
5. FMM Popayán	LA	Individual	Medium	12.0	5. ASA	Asia	Solidarity	Large	66
6. EMT	Asia	Solidarity	Medium	12.7	6. FINCA Nicaragua	LA	Village	Medium	74
7. Enlace	LA	Solidarity	Medium	12.8	7. WR Honduras	LA	Village	Medium	85
8. Hublag	Asia	Solidarity	Small	12.9	8. Pro Mujer Bolivia	LA	Village	Medium	116
9. RSPI	Asia	Solidarity	Small	13.9	9. Compartamos	LA	Village	Medium	129
10. CMM Medellín	LA	Individual	Medium	14.4	10. AKRSP	Asia	Village	Medium	143

How Low-end MFIs Achieve Financial Self-sufficiency

An exploration of performance indicators by target market reveals how the financially self-sufficient MFIs serving the poorest clients accomplished their remarkable feat. Figure 8 shows that the administrative expense ratio for low-end programs is approximately twice as high as that of MFIs serving other target markets. However, a look at the salary structure and the cost per borrower reveals that sustainable, low-end MFIs keep a lid on expenses, so that their high administrative expense ratio is primarily a function of low loan sizes.

Figure 8: Efficiency Indicators of FSS MFIs by Target Market^a

	Admin Exp. / Avg. LP ^b (%)	Average Salary (multiple of GNP/capita)	Cost per Borrower (US\$)	Portfolio Yield (%)	Productivity of Staff (No.)
Low-end (n=20)	35.9	3.9	53	53.4	170
Broad (n=33)	19.5	5.2	104	37.7	106
High-end (n=6)	16.3	9.1	294	29.5	55

^a Data above were calculated by dropping top and bottom percentiles in each group.

Besides keeping costs down, to compensate for their small loan sizes, financially self-sufficient, low-end MFIs also charge much higher interest rates and have higher productivity ratios. While these compensating efforts do not result in the same levels of financial performance as MFIs serving broad and high-end clientele (i.e., low-end programs have slightly lower FSS and AROA ratios), the results of the low-end FSS MFIs are quite extraordinary given the enormous disparities

in average loan size and depth of outreach. As shown in Figure 9, low-end MFIs have average loan balances that are only 6 percent of those of high-end programs, and their depth indicator is only 4 percent that of high-end programs, showing a much higher depth of outreach.

Low-end FSS MFIs also target women more effectively than sustainable programs that provide larger loans. Eighty-three percent of the clients of low-end FSS MFIs are women, compared to 50 percent for broad MFIs and 32 percent for high-end institutions.

Figure 9: Financial Performance of FSS MFIs by Target Market^a

	Avg. Loan Balance (US\$)	Depth (%)	OSS (%)	FSS (%)	AROA (%)
Low-end (n=20)	164	14	129	106	1.6
Broad (n=33)	751	67	125	111	2.5
High-end (n=6)	2,629	340	141	117	2.3

^a Data above were calculated by dropping top and bottom percentiles in each group.

Regional Analysis of Depth

Success in profitability serving the low-end market varies significantly by region. An analysis of the entire *Bulletin* database (not just the financially self-sufficient subset), summarized in Figure 10, provides some indication of key regional differences. The first finding is that there are not any participating MFIs from Eastern Europe that serve the low-end market.

In Latin America, participating low-end MFIs achieve almost the same levels of self-sufficiency on average as institutions serving a broad market. This accomplishment appears to be largely the result of a 19-point spread between portfolio yield and the administrative expense ratio.

On average, low-end MFIs in Africa are really struggling. Unlike other regions, the low-end institutions in Africa have higher costs per borrower and a higher salary structure than MFIs serving a broad market. Although they try to make up for their high costs with increased productivity and higher yields, the astronomical administrative expense ratio of 76 percent is too much to bear. To be fair, the low-end African institutions are the smallest (average loan portfolio of US\$1.1 million) of the subsets listed in Figure 10 and, except for the

Eastern European programs, have been in operation for the least amount of time (average 4.3 years).

The low-end Asian MFIs are heterogeneous. Just over half are financially self-sufficient, including some that are very profitable. At the other extreme are programs that, despite low costs and high productivity, are unprofitable primarily because they are not generating a sufficient portfolio yield. In fact, only in Asia do the MFIs with the smallest loan sizes charge the lowest interest rates.

Change in Depth and FSS over Time

The average age of sustainable, low-end MFIs is 11 years, which is notably higher than the programs serving broad markets (8.6 years) and almost twice the age of high-end programs (5.8 years). It is often assumed that MFIs experience a gradual increase in average loan size over time. But the fact that these MFIs are on average 11 years old and are still serving the low-end market suggests that loan balances do not necessarily have to creep up as MFIs mature. Indeed, it is probable that these experienced MFIs become more adept in serving new clients who demand small loan sizes and hence maintain a small average loan balance.

Figure 10: Performance Indicators by Region and Target Market^a

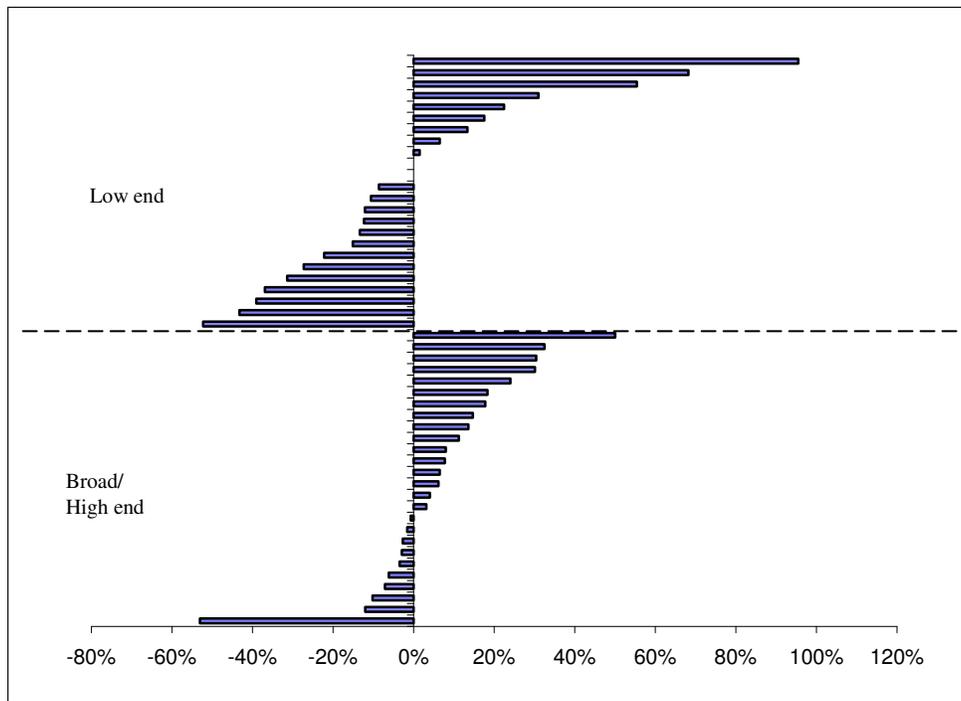
	Average Loan Balance (US\$)	Depth (%)	FSS (%)	Portfolio Yield (%)	Admin Expense/Avg. Loan Portfolio (%)	Cost per Borrower (US\$)	Average Salary (multiple of GNP/capita)	Productivity of Staff (No.)
Latin America								
Broad (n=32)	956	63	103	40	22	141	4.9	100
Low (n=19)	250	11	97	64	45	87	2.5	131
Africa^b								
Broad (n=8)	332	67	88	30	30	67	8.2	96
Low (n=15)	125	21	63	49	76	72	9.0	153
Asia^c								
Broad (n=4)	258	40	109	39	16	37	3.6	147
Low (n=15)	83	18	82	32	32	28	3.1	197
Eastern Europe								
High (n=6)	2,866	250	88	29	21	460	8.6	48
Broad (n=8)	1,277	76	87	31	25	245	6.1	74

^a Data above were calculated by dropping top and bottom percentiles in each group.

^b All MFIs in MENA are included in Africa.

^c All MFIs in CA are included in Asia.

Figure 11: Percent Change in Average Loan Balance for 50 MFIs (1998 to 1999)



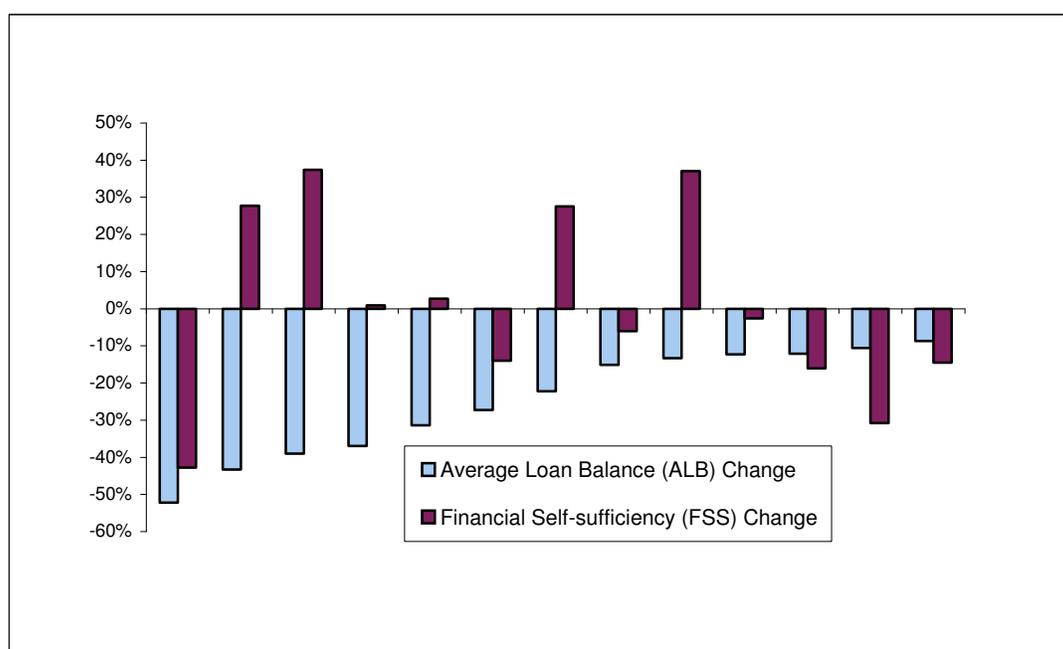
To look at this issue in more detail, we refer again to the set of MFIs with both 1998 and 1999 information (MFIs which are not all financially self-sufficient). Of the 50 institutions with loan balance data for both years, roughly half (23) experienced a decrease in average loan balance from 1998 to 1999 and the other half (25) experienced an increase (2 stayed the same). Their percent change is depicted in Figure 11.

A closer look at the characteristics of these institutions reveals that a larger number of MFIs serving broad or high-end markets increased their average loan balance from 1998 to 1999. Also, except for one MFI, the MFIs that experienced the largest *decreases* in their average loan balances were all serving the low-end market. One possible explanation is that perhaps the low-end MFIs were

growing faster, which means that their portfolios consisted of a large percentage of new clients with smaller loans. This explanation only works for a couple of low-end MFIs, and in general there does not appear to be a strong correlation between change in average loan balance and the change in the number of clients.

While it might be assumed that a decline in average loan balance will negatively affect self-sufficiency, this is not necessarily the case. Figure 12 shows the change in FSS for low-end MFIs that increased their depth of outreach. Out of the 13 programs that fall within this category, 6 increased their FSS ratio from 1998 to 1999. This issue deserves further analysis, but it reinforces the idea that there is not necessarily a trade-off between depth of outreach and profitability.

Figure 12: Percent Change in Financial Self-sufficiency for Low-end Programs with Declining Average Loan Balances (1998 to 1999)



Total Outreach

On an unrelated note, the *Bulletin* has received several requests for total outreach by participating MFIs. Figure 13 summarizes some main characteristics of *Bulletin* participants organized into peer groups. Since our database consists only of 114 institutions, and there are several thousand organizations providing microfinance, these numbers do not indicate the size of the market. In fact, one of the largest MFIs in the world, the

Grameen Bank, does not participate in the *Bulletin*, so there are at least another 2.5 million clients that are missing from these totals.

Perhaps the most interesting observation is that five Asian MFIs—ASA, BRAC, BRI, BAAC and Bank Dagang Bali—account for 89 percent of the borrowers and outstanding portfolio.

Figure 13: Total Outreach of Bulletin MFIs by Peer Group

Peer Group	Number of Borrowers	Outstanding Loan Portfolio (\$)	Total Assets (\$)	Number of Voluntary Savers	Total Voluntary Deposits (\$)
1. LA Large	312,043	304,473,502	375,583,369	78,685	123,487,698
2. LA Medium Broad	88,286	41,969,977	59,514,550	12,047	4,858,435
3. LA Medium Low-end	170,857	31,192,284	44,095,964	0	0
4. LA Small Low-end	14,761	2,126,482	3,115,225	0	0
5. LA Credit Unions	59,203	44,025,192	67,061,499	268,908	38,351,240
6. Asia Large	11,004,567	4,773,596,634	8,071,536,010	24,916,688	5,381,822,578
7. Asia-Pacific	135,419	19,390,124	24,352,476	5,881	9,058
8. South Asian	261,722	18,753,452	32,607,076	444,797	1,723,538
9. Africa Small	80,899	7,085,562	13,462,370	14,431	647,147
10. Africa Medium	142,781	21,837,009	32,966,902	171,722	12,485,389
11. Africa/MENA	58,437	46,760,601	94,429,058	209,308	28,387,456
12. MENA/Central Asia	37,766	5,233,867	11,220,128	0	0
13. E. Europe Broad	21,190	24,784,255	28,314,020	0	0
14. E. Europe High-end	7,844	22,533,261	30,118,157	142	175,478
Total	12,395,775	5,363,762,206	8,888,376,807	26,122,659	5,591,948,017

An Introduction to the Peer Groups and Tables

Setting up the Peer Groups

The MicroBanking Standards Project is designed to create performance benchmarks against which managers and directors of microfinance institutions can compare their own performance.

The microfinance industry consists of a wide range of institutions, with very different characteristics. For the reference points to be useful, an MFI needs to be compared to similar institutions.

The MicroBanking Bulletin addresses this issue with its peer group framework. Peer groups are sets of programs that have similar characteristics—similar enough that their managers find utility in comparing their results with those of other organizations in their peer group. They are based on three indicators:

- 1) **Region:** With regulatory environments, interest rate policies, and macroeconomic conditions varying widely around the world, microfinance differs by region.
- 2) **Scale of Operations:** Microfinance institutions change and develop as the scale of their operations grows. We classify MFIs as small, medium or large according to the size of their portfolio, so that MFIs are compared with others at a similar stage of growth and outreach.
- 3) **Target Market:** We classify institutions into three categories—low-end, broad, and high-end—according to the range of clients that they serve. The target market is measured by the ratio of their average outstanding loan per borrower to GNP per capita.

The quantitative criteria used to determine each institution's peer group are summarized in Figure 1 below. For each peer group, we provide average characteristics and a wide range of performance ratios (see Tables 1 to 4 on pages 40 to 46). These numbers represent performance benchmarks or standards for MFIs based on their region, scale,

and target market. For MFIs interested in comparisons by other characteristics, Tables A and B (pages 48 to 51) include selected ratios by age, scale, lending methodology, level of retail financial intermediation, and target market.

New Peer Groups

This issue of *The MicroBanking Bulletin* includes one new peer group and a redefinition of another. The Eastern European peer group has now been separated into two, Broad and High-end, which significantly improves the homogeneity of these groups. In the last issue of the *Bulletin*, we tried to add a fourth characteristic to our peer group definitions: financial intermediary. However, only one region (Latin America) had enough intermediaries to justify a separate peer group, and nearly all of those MFIs were credit unions. So, for the purposes of clarity, the peer group Latin American Intermediaries is now called Latin American Credit Unions.

Peer Group Composition and Data Quality

The members of each peer group are listed in Figure 2 on the following page and more detailed information about each institution can be found in Appendix II. Since the *Bulletin* relies primarily on self-reported data, we have rated the quality of that information based on the degree to which we have independent verification of its reliability. The data quality rating is NOT a rating of the institution's performance.

Statistical Issues

In the statistical tables that follow, the averages for each peer group are calculated on the basis of the values between the 2nd and 99th percentiles, which usually means that the top and bottom values for each indicator are dropped. For the entire sample of MFIs, the top and bottom deciles were excluded. These exclusions were done to reduce the effect of outliers. For more details, see Appendix I.

Figure 1: Peer Group Criteria

1. Region	Latin America	Asia	Africa	Africa/ MENA	MENA/ Central Asia	Eastern Europe
2. Scale of Operations	Small		Medium		Large	
Total Loan Portfolio (US\$)	< 1,000,000		1,000,000 to 7,999,999		≥ 8,000,000	
3. Target Market	Low-end		Broad		High-end	
Average Loan Balance / GNP per capita	< 20% OR Avg. Loan Balance < US\$150		20% to 149%		≥ 150%	

Figure 2: A Guide to the Peer Groups

PEER GROUP	N	DATA QUALITY RATING (No. of MFIs with each rating)			PARTICIPATING INSTITUTIONS*
		AAA	A	B	
1. LA Large Size: Large Target: Broad/High-end	11	5	5	1	Agrocapital, BancoADEMI, BancoSol, Calpiá, CM Arequipa, FIE, Finamérica, FWWB Cali, Los Andes, Mibanco, PRODEM
2. LA Medium Broad Size: Medium Target: Broad	13	3	6	4	ACODEP, ACTUAR, ADOPEM, ADRI, Banco la Pequeña Empresa, CHISPA, EMPRENDER , Enlace, FAMA, FONDECO, FUNADEH, ProEmpresa, Sartawi
3. LA Medium Low-end Size: Medium Target: Low-end	13	2	5	6	CAM, CEAPE Pernambuco, CMM Medellín , Compartamos, Contigo, Crecer, FED, FINCA Honduras, FINCA Nicaragua, FMM Popayán, Portosol , ProMujer Bolivia, WR Honduras
4. LA Small Size: Small Target: Low-end	5	2	1	2	AGAPE, Banco do Povo de Juiz de Fora, FINCA Ecuador, FINCA México, Vivacred
5. LA Credit Unions Size: All Target: Broad	11	11	0	0	15 de Abril, 23 de Julio, ACREDICOM, Chuimequená, COOSAJÓ, ECOSABA, Moyután, Oscus, Sagrario, Tonantel, Tulcán
6. Asian Large Size: Large Target: Low-end/Broad	5	3	2	0	ASA, BAAC, Bank Dagang Bali, BRAC, BRI
7. Asia-Pacific Size: All Target: Low-end/Broad	5	0	5	0	ACLEDA, EMT, Hublag, RSPI, TSPI
8. South Asian Size: Small/Medium Target: Low-end/Broad	9	3	5	1	AKRSP, BASIX, BURO Tangail, CDS, FWWB India, KASHF , Nirdhan , SEEDS, SHARE
9. African Small Size: Small Target: Low-end	9	2	4	3	FAULU , FINCA Malawi, FINCA Uganda, Foccas, RFF, SAT, SEF, UWFT, WAGES
10. African Medium Size: Medium Target: Low-end	6	1	4	1	Kafo Jiginew, Nyésigiso , PAMÉCAS , PRIDE Vita (Guinea), PRIDE Tanzania, PRIDE Uganda
11. Africa/MENA Size: Large/Medium Target: Broad/High-end	6	2	1	3	ABA, ACEP, CERUDEB, Citi S&L, PADME, UNRWA
12. MENA/CA Size: Small/Medium Target: Low-end	6	1	4	1	Al Amana, Al Majmoua, Constanta, FATEN , FINCA Kyrgyzstan, Microfund for Women
13. Eastern Europe High-end Size: All Target: High-end	7	0	7	0	AMK , FEFAD, MEB, Moznosti, Network Leasing Corporation, SUNRISE , WVB
14. Eastern Europe Broad Size: All Target: Broad	8	0	4	4	BOSPO , Fundusz Mikro, Inicjatywa Mikro, LOK , MC-SEA , Mikrofin , Nachala, NOA
All MFIs	114	35	53	26	

† The *MicroBanking Bulletin* uses the following ratings system to classify information received from MFIs:

- AAA The information is supported by an in-depth financial analysis conducted by an independent entity in the last three years
- A The MBB questionnaire plus audited financial statements, annual reports and other independent evaluations
- B The MBB questionnaire or audited financial statements without additional documentation

LA = Latin America MENA = Middle East/North Africa CA = Central Asia

* The institutions in **italics and bold** are new to the *Bulletin*. A short description of all institutions can be found in Appendix II.

Index of Ratios and Tables

INDICATORS AND RATIOS	DEFINITIONS		TABLE
OUTREACH AND INSTITUTIONAL INDICATORS			
TOTAL ASSETS	Total assets	(US\$)	1,A
NUMBER OFFICES	Head office and branch offices	(number)	1,A
NUMBER STAFF	Head office and branch staff	(number)	1
AGE OF INSTITUTION	Years functioning as a MFI	(years)	1
NO OF PRESENT BORROWERS	Borrowers with outstanding loans	(number)	1,A
PERCENT WOMEN BORROWERS	Women borrowers to total borrowers	(%)	1,A
MACROECONOMIC INDICATORS			
GNP PER CAPITA (CURRENT PRICES)	GNP per capita	(US\$)	4
GDP GROWTH RATE	Annual average, 1990-1998	(%)	4
INFLATION RATE	Inflation rate	(%)	4
DEPOSIT RATE	Deposit rate	(%)	4
FINANCIAL DEEPENING	M3 / GDP	(%)	4
PROFITABILITY			
UNADJUSTED RETURN ON ASSETS	Unadjusted net operating income / average total assets	(%)	2
ADJUSTED RETURN ON ASSETS (AROA)	Adjusted net operating income / average total assets	(%)	2,B
ADJUSTED RETURN ON EQUITY (AROE)	Adjusted net operating income / average equity	(%)	2
OPERATIONAL SELF-SUFFICIENCY (OSS)	Unadjusted operating income / unadjusted operating expense	(%)	2,B
FINANCIAL SELF-SUFFICIENCY (FSS)	Adjusted operating income / adjusted operating expense	(%)	2,B
PROFIT MARGIN	Adjusted net operating income / adjusted operating income	(%)	2
INCOME & EXPENSES			
OPERATING INCOME	Adjusted operating income / average total assets	(%)	2
OPERATING EXPENSE RATIO	Adjusted operating expenses (administrative, interest, adjustment and loan loss provision expenses) / average total assets	(%)	3
NET INTEREST MARGIN	Adjusted net interest margin (operating income less interest and fee expense, inflation expense, subsidy expense and exchange rate expense) / average total assets	(%)	2
INTEREST EXPENSE	Adjusted interest and fee expense, exchange rate expense / average total assets	(%)	3
ADJUSTMENT EXPENSE	Inflation and subsidy adjustment expense / average total assets	(%)	3
LOAN LOSS PROVISION EXPENSE	Adjusted loan loss provision expense / average total assets	(%)	3
SALARY EXPENSE – ASSETS	Adjusted staff salary and benefits expense / average total assets	(%)	3
SALARY EXPENSE – PORTFOLIO	Adjusted staff salary and benefits expense / average loan portfolio	(%)	3,B
OTHER ADMINISTRATIVE EXPENSE – ASSETS	Adjusted administrative expenses other than staff salary and benefits / average total assets	(%)	3
TOTAL ADMINISTRATIVE EXPENSE	Adjusted total administrative expense (personnel, office supplies, depreciation, rent, utilities, transportation, and others) / average loan portfolio	(%)	3,B
PORTFOLIO YIELD	Adjusted total interest and fee income from loan portfolio / average loan portfolio	(%)	2,B
REAL INTEREST YIELD	(Portfolio yield – inflation rate) / (1+inflation rate)	(%)	2
AVERAGE SALARY	Adjusted average staff salary / GNP per capita	(multiple of GNP per capita)	3,B
COST PER BORROWER	Adjusted total administrative expenses / average number of borrowers	(US\$)	3,B
STAFF PRODUCTIVITY	Present borrowers per staff member	(number)	3,B
PORTFOLIO INDICATORS			
PORTFOLIO AT RISK > 90 DAYS	Outstanding balance of loans overdue > 90 days / total loan portfolio	(%)	3,B
TOTAL LOAN PORTFOLIO	Portfolio outstanding	(US\$)	1,A
AVG. LOAN BALANCE	Total loan portfolio / present borrowers	(US\$)	1,A
DEPTH	Average loan balance / GNP per capita	(%)	1,3,B
CAPITAL AND LIABILITY STRUCTURE			
“MARKET” BASED FUNDING	All liabilities with “market” cost / average loan portfolio	(%)	1,A
CAPITAL / ASSETS	Adjusted total equity / adjusted total assets	(%)	1,A

Note: The tables listed by number are for the Peer Group comparisons. Those listed by letter are for the Additional Analyses, which compare MFIs based on the following five categories: Age, Lending Methodology, Level of Financial Intermediation, Target Market, and Scale of Operations.

TABLE 1. INSTITUTIONAL CHARACTERISTICS AND OUTREACH INDICATORS

PEER GROUP		AGE	OFFICES	STAFF	TOTAL ASSETS	CAPITAL / ASSETS
		(years)	(no.)	(no.)	(US\$)	total capital / total assets (%)
ALL MFIs	avg	7	11	88	5,681,315	51.6
	stdv	4	8	64	5,809,443	22.9
	N	88	86	89	92	92
Fully Sustainable MFIs	avg	9*	50*	336*	14,514,649*	46.7
	stdv	5	154	1,181	27,006,912	22.7
	N	53	57	60	63	63
1. LA Large Target: Broad/ High-end Agrocapital, Banco ADEMI, BancoSol, Calpiá, CM Arequipa, FIE, Finamérica, FWWB Cali, Los Andes, Mibanco, PRODEM	avg	11*	19*	206*	29,559,763*	27.2*
	stdv	3	13	88	11,101,790	15.1
	N	9	9	9	9	9
2. LA Medium Broad ACODEP, ACTUAR, ADOPEM, ADRI, Banco Pequena Empresa, CHISPA, EMPRENDER, Enlace, FAMA, FONDECO, FUNADEH, ProEmpresa, Sartawi	avg	8	9	76	4,352,691	45.1
	stdv	4	5	54	2,072,391	18.9
	N	11	11	11	11	11
3. LA Medium Low-end CAM, CEAPE Pernambuco, CMM Medellín, Compartamos, CONTIGO, CRECER, FED, FINCA HO, FINCA NI, FMM Popayan, Portosol, ProMujer, World Relief HO	avg	10	7	75	3,302,021	67.3*
	stdv	3	5	42	1,276,273	15.9
	N	11	11	11	11	11
4. LA Small Target: Low-End AGAPE, Banco do Povo de Juiz de Fora, FINCA Ecuador, FINCA México, Vivacred	avg	5	1*	26	569,688	59.5
	stdv	4	1	7	21,784	24.9
	N	3	3	3	3	3
5. LA Credit Unions Size: All Target: Broad 15 de Abril, 23 de Julio, ACREDICOM, Chuimequená, COOSAJO, ECOSABA, Moyutan, Oscus, Sagrario, Tonantel, Tulcán	avg	----	4*	54	5,974,420	37.1
	stdv	----	2	19	2,139,870	8.7
	N	----	9	9	9	9
6. Asian Large Target: Low-end/ Broad ASA, BAAC, Bank Dagang Bali, BRAC, BRI	avg	25*	1,021*	8,775*	1,082,504,622*	17.3*
	stdv	4	480	4,205	1,646,058,228	16.1
	N	3	3	3	3	3
7. Asia-Pacific Size: All Target: Low-End/Broad ACLEDA, EMT, Hublag, RSPI, TSPI	avg	10	14	137	2,490,015	58.6
	stdv	2	6	78	1,544,946	10.7
	N	3	3	3	3	3
8. South Asian Size: Small/Medium Target: Low-End/Broad AKRSP, BASIX, Buro Tangail, CDS, FWWB India, KASHF, Nirdhan, SEEDS, SHARE	avg	8	20*	132	3,413,312	59.8
	stdv	5	17	137	2,487,937	19.3
	N	7	7	7	7	7
9. African Small Target: Low-End FAULU, FINCA Malawi, FINCA Uganda, FOCCAS, RFF, SAT, SEF, UWFT, WAGES	avg	5	8	57	1,413,772	70.7*
	stdv	1	6	21	366,326	20.6
	N	7	7	7	7	7
10. African Medium Target: Low-End Kafo Jiginew, Nyésigiso, PAMÉCAS, PRIDE Tanzania, PRIDE Uganda, PRIDE Vita	avg	6	31*	102	5,177,794	34.2
	stdv	3	14	25	2,496,809	13.5
	N	4	4	4	4	4
11. Africa/MENA Size: Large/Med. Target: Broad/High-end ABA, ACEP, CERUDEB, Citi S&L, PADME, UNRWA	avg	7	9	118	15,172,381*	51.8
	stdv	2	5	82	10,695,939	29.4
	N	4	4	4	4	4
12. MENA/CA Size: Small/Medium Target: Low-End Al Amana, Al Majmoua, Constanta, FATEN, FINCA Kyrgyzstan, Microfund for Women	avg	3*	11	64	1,865,050	98.1*
	stdv	2	6	33	479,805	1.8
	N	4	4	4	4	4
13. Eastern Europe High-end Size: All AMK, FEFAD, MEB, Moznosti, Network Leasing Corporation, SUNRISE, WVB	avg	3*	4*	30*	4,098,846	42.2
	stdv	1	1	12	1,495,401	26.8
	N	5	5	5	5	5
14. Eastern Europe Broad Size: All BOSPO, Fundusz Mikro, Inicjatywa Mikro, LOK, MC-SEA, MIKROFIN, Nachala, NOA	avg	2*	8	25*	2,616,054	62.5
	stdv	1	5	8	1,117,429	33.3
	N	6	6	6	6	6

Note: Standard deviations and sample sizes are listed below the peer group averages. The averages are calculated on the basis of the values between the ninth and second deciles for all MFIs and between second and the 99th percentiles for each peer group; therefore, sample sizes vary across indicators. Group averages different from average for all MFIs at 5 percent significance level are marked with an asterisk (*). Additional statistical information is available at www.calmeadow.com. Abbreviations: LA= Latin America; MENA=Middle East/North Africa; CA=Central Asia.

"MARKET" BASED FUNDING	TOTAL LOAN PORTFOLIO	PRESENT BORROWERS	AVG. LOAN BALANCE	DEPTH	% WOMEN BORROWERS
"market" priced liabilities / avg loan portfolio (%)	(US\$)	(no.)	loan portfolio / present borrowers (US\$)	avg. loan balance/ GNP per capita (%)	women borrowers / total borrowers (no.)
31.3	3,881,619	10,574	581	48	60.5
34.6	3,974,994	9,132	535	37	20.7
92	92	90	90	90	72
65.0*	11,050,522*	73,920	803*	80*	56.3
58.4	22,036,367	341,448	854	109	22.8
54	63	61	61	61	49
81.6*	23,728,939*	26,050*	1,107*	75*	52.1
25.1	9,491,877	10,879	740	46	10
9	9	9	9	9	7
48.8	3,090,453	6,404	859	60	45.8*
21.5	1,174,271	5,609	953	30	15.1
11	11	11	11	11	10
22.0	2,167,713	11,093	232*	12*	79.5*
23.7	910,300	6,310	183	5	19
11	11	11	11	11	10
0.0	393,679	3,145	295	7	87.5
0.0	65,936	1,991	359	7	5
3	3	3	3	3	2
91.7*	3,804,955	4,884	990*	63	42.3*
19.9	1,363,368	2,660	500	31	3.1
9	9	9	9	9	9
126.0*	352,532,708*	2,046,752*	394	29	58.9
118.4	430,311,722	835,243	402	9	48.0
3	3	3	3	3	2
18.5	1,730,343	25,087*	168	15	83.0
17.7	969,448	27,610	16	3	7.2
3	3	3	3	3	3
15.3	1,859,430	22,413*	82*	22	79.0*
14.0	1,565,927	20,253	38	9	26.5
7	7	7	7	7	7
8.5	791,069*	8,161	108*	25	91.8*
12.8	198,009	3,613	30	13	10.7
7	7	7	7	7	7
57.8	3,274,217	22,942*	144	48	58.0
53.7	1,485,344	9,699	21	17	7.8
4	4	4	4	4	3
69.5*	8,153,933*	8,840	778	127*	44.6
87.6	4,003,912	3,584	291	98	19.4
4	4	4	4	4	4
0.0	958,843	5,284	153	12*	97.5*
0.0	296,888	2,150	69	4	5.0
4	4	4	4	4	4
3.7	3,308,772	1,067*	2,932*	343*	34.5*
4.1	938,526	338	457	205	3.0
5	5	5	5	5	4
8.3	2,305,720	1,995*	1,277*	76	44.2
14.0	933,350	994	276	33	5.0
6	6	6	6	6	6

TABLE 2. OVERALL FINANCIAL PERFORMANCE AND OPERATING INCOME

PEER GROUP		UNADJUSTED	ADJUSTED	ADJUSTED
		RETURN ON ASSETS	RETURN ON ASSETS	RETURN ON EQUITY
		net operating income / avg. total assets (%)	adj. net operating income / avg. total assets (%)	adj. net operating income / avg. equity (%)
ALL MFIs	avg	1.5	-3.2	-5.1
	stdv	5.8	5.9	13.4
	N	92	92	91
Fully Sustainable MFIs	avg	6.2*	2.5*	7.6*
	stdv	5.3	4.8	13.9
	N	63	63	62
1. LA Large <i>Target: Broad/ High-end</i>	avg	3.6	2.6*	13.9*
Agrocapital, Banco ADEMI, BancoSol, Calpiá, CM Arequipa, FIE, Finamérica, FWWB Cali, Los Andes, Mibanco, PRODEM	stdv	3.5	2.0	13.2
	N	9	9	9
2. LA Medium Broad	avg	1.9	-2.3	-15.0
ACODEP, ACTUAR, ADOPEM, ADRI, Banco Pequena Empresa, CHISPA, EMPRENDER, Enlace, FAMA, FONDECO, FUNADEH, ProEmpresa, Sartawi	stdv	7.6	6.8	46.4
	N	11	11	11
3. LA Medium Low-end	avg	7.7*	0.8*	1.4
CAM, CEAPE Pernambuco, CMM Medellín, Compartamos, CONTIGO, CRECER, FED, FINCA HO, FINCA NI, FMM Popayan, Portosol, ProMujer, World Relief HO	stdv	7.8	8.3	12.0
	N	11	11	11
4. LA Small <i>Target: Low-End</i>	avg	1.2	-9.2	-21.0*
AGAPE, Banco do Povo de Juiz de Fora, FINCA Ecuador, FINCA México, Vivacred	stdv	2.4	5.3	15.7
	N	3	3	3
5. LA Credit Unions <i>Size: All Target: Broad</i>	avg	7.4*	1.5*	5.8*
15 de Abril, 23 de Julio, ACREDICOM, Chuimequená, COOSAJO, ECOSABA, Moyutan, Oscus, Sagrario, Tonantel, Tulcán	stdv	4.1	2.2	7.1
	N	9	9	9
6. Asian Large <i>Target: Low-end/ Broad</i>	avg	3.8	1.1	-6.7
ASA, BAAC, Bank Dagang Bali, BRAC, BRI	stdv	3.8	4.1	35.5
	N	3	3	3
7. Asia-Pacific <i>Size: All Target: Low-End/Broad</i>	avg	5.0	1.3	1.5
ACLEDA, EMT, Hublag, RSPI, TSPI	stdv	3.0	3.6	4.6
	N	3	3	3
8. South Asian <i>Size: Small/Medium Target: Low-End/Broad</i>	avg	-1.2	-5.6	-7.7
AKRSP, BASIX, Buro Tangail, CDS, FWWB India, KASHF, Nirdhan, SEEDS, SHARE	stdv	3.6	4.2	8.6
	N	7	7	7
9. African Small <i>Target: Low-End</i>	avg	-10.4*	-14.4*	-19.3*
FAULU, FINCA Malawi, FINCA Uganda, FOCCAS, RFF, SAT, SEF, UWFT, WAGES	stdv	8.8	8.9	9.7
	N	7	7	7
10. African Medium <i>Target: Low-End</i>	avg	-11.3*	-13.0*	-27.4*
Kafo Jiginew, Nyésigiso, PAMÉCAS, PRIDE Tanzania, PRIDE Uganda, PRIDE Vita	stdv	12.7	14.4	14.8
	N	4	4	4
11. Africa/MENA <i>Size: Large/Med. Target: Broad/High-end</i>	avg	3.3	1.0	7.9
ABA, ACEP, CERUDEB, Citi S&L, PADME, UNRWA	stdv	4.7	6.9	8.7
	N	4	4	4
12. MENA/CA <i>Size: Small/Medium Target: Low-End</i>	avg	-12.3*	-17.0*	-20.6*
Al Amana, Al Majmoua, Constanta, FATEN, FINCA Kyrgyzstan, Microfund for Women	stdv	6.5	4.2	3.2
	N	4	4	4
13. Eastern Europe High-end <i>Size: All</i>	avg	1.5	-2.2	-4.2
AMK, FEFAD, MEB, Moznosti, Network Leasing Corporation, SUNRISE, WVB	stdv	4.0	2.6	4.0
	N	5	5	5
14. Eastern Europe Broad <i>Size: All</i>	avg	0.9	-3.8	-8.7
BOSPO, Fundusz Mikro, Inicjatywa Mikro, LOK, MC-SEA, MIKROFIN, Nachala, NOA	stdv	1.6	1.1	6.4
	N	6	6	6

Note: Standard deviations and sample sizes are listed below the peer group averages. The averages are calculated on the basis of the values between the ninth and second deciles for all MFIs, and between second and the 99th percentiles for each peer group; therefore, sample sizes vary across indicators. Group averages different from average for all MFIs at 5 percent significance level are marked with an asterisk (*). Additional statistical information is available at www.calmeadow.com. Abbreviations: LA= Latin America; MENA=Middle East/North Africa; CA=Central Asia.

OPERATIONAL SELF-SUFFICIENCY	FINANCIAL SELF-SUFFICIENCY	OPERATING INCOME	PROFIT MARGIN	NET INTEREST MARGIN	PORTFOLIO YIELD	REAL YIELD
operating income / interest, loan loss and administrative expense (%)	adj. operating income / interest, adjustment, loan loss and administrative exp. (%)	adj. operating income / avg. total assets (%)	adj. net operating income / adj. operating income (%)	adj. net interest margin / avg. total assets (%)	interest income from portfolio / avg. loan portfolio (%)	(portfolio yield – inflation rate) / (1 + inflation rate) (%)
106.6 21.6 92	91.8 17.4 92	29.3 9.5 92	-13.5 25.1 92	19.5 7.6 92	39.9 12.7 92	28.7 11.7 92
129.7* 31.4 63	112.4* 24.0 63	32.5 12.1 63	8.1* 14.2 63	22.1 9.8 63	42.4 18.4 63	29.6 15.9 63
112.3 10.4 9	108.4* 6.3 9	30.7 4.5 9	7.5* 5.5 9	20.2 2.4 9	37.1 7.8 9	28.8 3.8 9
106.4 22.2 11	94.7 16.0 11	40.4* 9.8 11	-9.0 22.7 11	27.5* 8.1 11	51.7* 14.8 11	35.7 12.0 11
123.1* 22.9 11	102.4 16.7 11	41.8* 5.9 11	0.1 15.5 11	29.1* 4.8 11	59.6* 21.0 11	45.2* 8.2 11
103.4 6.4 3	84.8 6.4 3	47.3* 5.8 3	-18.4 9.4 3	29.4* 1.1 3	66.6* 10.9 3	47.6* 6.4 3
134.6* 14.2 9	109.9* 10.6 9	27.7 8.6 9	8.2* 9.2 9	10.9* 2.0 9	30.7* 9.0 9	7.3* 12.9 9
121.7 21.9 3	105.0 17.5 3	23.1 4.0 3	2.9 17.2 3	8.9* 4.6 3	24.4* 1.1 3	11.7* 5.5 3
116.9 7.9 3	103.7 10.2 3	33.6 5.9 3	2.9 9.4 3	27.5 7.3 3	46.2 2.1 3	38.5 5.6 3
92.5 22.3 7	70.7* 20.9 7	14.9* 5.5 7	-54.5* 52.6 7	8.6* 5.1 7	21.6* 8.5 7	10.8* 7.1 7
73.0* 16.6 7	66.3* 15.0 7	32.2 12.7 7	-57.4* 33.7 7	25.1 11.1 7	60.9* 13.6 7	46.6* 9.8 7
75.6* 18.6 4	73.9* 19.0 4	21.8 7.2 4	-43.3* 42.4 4	19.7 9.6 4	35.2 12.2 4	31.3 7.7 4
134.1* 41.9 4	119.6* 43.4 4	20.3 5.3 4	7.9 32.5 4	13.8 6.8 4	28.7 7.7 4	22.3 2.1 4
57.2* 11.7 4	51.2* 8.1 4	18.1* 4.9 4	-99.2* 33.8 4	15.2 5.1 4	39.5 5.6 4	30.8 5.8 4
105.7 20.1 5	89.1 12.0 5	19.8* 4.8 5	-14.1 17.3 5	12.2* 4.0 5	27.5* 4.7 5	12.6* 1.9 5
103.5 6.1 6	87.2 3.2 6	27.4 3.3 6	-14.8 4.2 6	20.1 2.5 6	30.9 2.9 6	19.2* 4.3 6

TABLE 3. OPERATING EXPENSES AND PORTFOLIO MANAGEMENT INDICATORS

PEER GROUP		OPERATING EXPENSE	INTEREST EXPENSE	ADJ. EXP.	LOAN LOSS PROV. EXP.	SALARY EXP./TA
		interest, adj., loan loss & admin. exp./ avg. total assets (%)	interest exp. / avg. total assets (%)	adj. exp. / avg. total assets (%)	loan loss provision exp. / avg. total assets (%)	staff exp. / avg. total assets (%)
ALL MFIs	avg	33.1	4.5	3.8	2.3	11.2
	stdv	11.2	3.5	2.7	1.4	6.0
	N	92	90	92	92	92
Fully Sustainable MFIs	avg	30.5	6.2*	3.7	2.3	9.4
	stdv	12.6	4.8	3.9	1.6	5.7
	N	63	63	63	63	63
1. LA Large <i>Target: Broad/ High-end</i>	avg	28.9	8.9*	0.8*	3.2	7.4
Agrocapital, Banco ADEMI, BancoSol, Calpiá, CM Arequipa, FIE, Finamérica, FWWB Cali, Los Andes, Mibanco, PRODEM	stdv	6.9	4.2	0.7	1.3	2.8
	N	9	9	9	9	9
2. LA Medium Broad	avg	42.0*	7.4*	3.6	4.6*	12.6
ACODEP, ACTUAR, ADOPEM, ADRI, Banco Pequena Empresa, CHISPA, EMPRENDER, Enlace, FAMA, FONDECO, FUNADEH, ProEmpresa, Sartawi	stdv	9.8	4.7	2.2	2.7	4.7
	N	11	11	11	11	11
3. LA Medium Low-end	avg	42.5*	4.7	7.4*	2.5	15.1*
CAM, CEAPE Pernambuco, CMM Medellín, Compartamos, CONTIGO, CRECER, FED, FINCA HO, FINCA NI, FMM Popayan, Portosol, ProMujer, World Relief HO	stdv	8.3	3.2	3.3	1.4	6.2
	N	11	11	11	11	11
4. LA Small <i>Target: Low-End</i>	avg	59.4*	5.2	9.2*	3.3	26.0*
AGAPE, Banco do Povo de Juiz de Fora, FINCA Ecuador, FINCA México, Vivacred	stdv	6.7	4.7	1.9	0.4	5.6
	N	3	3	3	3	3
5. LA Credit Unions <i>Size: All Target: Broad</i>	avg	25.8	9.6*	5.1	1.3*	4.7*
15 de Abril, 23 de Julio, ACREDICOM, Chuimequená, COOSAJO, ECOSABA, Moyutan, Oscus, Sagrario, Tonantel, Tulcán	stdv	11.2	2.0	6.3	0.6	1.4
	N	9	9	9	9	9
6. Asian Large <i>Target: Low-end/ Broad</i>	avg	21.4	9.6*	2.9	2.0	3.4*
ASA, BAAC, Bank Dagang Bali, BRAC, BRI	stdv	4.3	8.1	1.6	1.0	2.7
	N	3	3	3	3	3
7. Asia-Pacific <i>Size: All Target: Low-End/Broad</i>	avg	31.4	2.9	2.7	3.7	12.1
ACLEDA, EMT, Hublag, RSPI, TSPI	stdv	2.1	0.3	0.7	0.8	0.7
	N	3	3	3	3	3
8. South Asian <i>Size: Small/Medium Target: Low-End/Broad</i>	avg	20.7*	2.1	4.3	1.2*	5.9*
AKRSP, BASIX, Buro Tangail, CDS, FWWB India, KASHF, Nirdhan, SEEDS, SHARE	stdv	6.3	1.6	1.6	0.9	3.8
	N	7	7	7	7	7
9. African Small <i>Target: Low-End</i>	avg	48.6*	1.9	4.5	1.9	20.7*
FAULU, FINCA Malawi, FINCA Uganda, FOCCAS, RFF, SAT, SEF, UWFT, WAGES	stdv	14.0	1.9	2.1	1.5	8.1
	N	7	7	7	7	7
10. African Medium <i>Target: Low-End</i>	avg	35.7	1.6	1.2	1.6	15.6
Kafo Jiginew, Nyésigiso, PAMÉCAS, PRIDE Tanzania, PRIDE Uganda, PRIDE Vita	stdv	19.5	0.6	1.5	0.2	11.2
	N	4	4	4	4	4
11. Africa/MENA <i>Size: Large/Med. Target: Broad/High-end</i>	avg	16.2*	1.7	0.6*	1.6	6.5
ABA, ACEP, CERUDEB, Citi S&L, PADME, UNRWA	stdv	6.6	1.6	0.7	1.4	1.7
	N	4	4	4	4	4
12. MENA/CA <i>Size: Small/Medium Target: Low-End</i>	avg	39.7	0.0*	2.5	1.1	21.0*
Al Amana, Al Majmoua, Constanta, FATEN, FINCA Kyrgyzstan, Microfund for Women	stdv	15.0	0.1	1.2	1.0	8.3
	N	4	4	4	4	4
13. Eastern Europe High-end <i>Size: All</i>	avg	21.4*	2.0	4.3	2.3	7.0
AMK, FEFAD, MEB, Moznosti, Network Leasing Corporation, SUNRISE, WVB	stdv	5.6	1.9	2.4	1.0	3.2
	N	5	5	5	5	5
14. Eastern Europe Broad <i>Size: All</i>	avg	30.4	2.0	5.4	2.6	13.4
BOSPO, Fundusz Mikro, Inicjatywa Mikro, LOK, MC-SEA, MIKROFIN, Nachala, NOA	stdv	4.0	1.8	1.5	1.7	2.1
	N	6	6	6	6	6

Note: Standard deviations and sample sizes are listed below the peer group averages. The averages are calculated on the basis of the values between the ninth and second deciles for all MFIs, and between second and the 99th percentiles for each peer group; therefore, sample sizes vary across indicators. Group averages different from average for all MFIs at 5 percent significance level are marked with an asterisk (*). Additional statistical information is available at www.calmeadow.com. Abbreviations: LA= Latin America; MENA=Middle East/North Africa; CA=Central Asia.

OTHER ADMIN. EXP. / TA	ADMIN EXP. / LP	SALARY EXP. / LP	PORTFOLIO AT RISK	DEPTH	AVERAGE SALARY	STAFF PRODUCTIVITY	COST PER BORROWER
other admin. exp. / avg. total assets (%)	total admin. exp. / avg. loan portfolio (%)	staff exp. / avg. loan portfolio (%)	outstanding balance overdue > 90 days / total loan portfolio (%)	avg. loan balance / GNP per capita (%)	avg. staff salary / GNP per capita (multiple of GNP/ capita)	present borrowers / number of staff (no.)	total admin. exp / avg. number of borrowers (US\$)
8.9	31.0	17.2	2.0	48.3	5.1	111	150
3.8	16.8	10.7	1.4	37.0	3.1	49	184
92	92	92	77	90	89	89	90
8.2	24.9*	13.4*	2.3	79.7*	5.5	127	122
4.8	14.2	8.7	1.6	108.5	4.1	84	117
63	63	63	54	61	60	60	48
7.5	17.6*	9.0*	2.3	74.7*	6.2	124	183
2.5	3.3	3.5	1.1	46.0	3.0	32	93
9	9	9	9	9	9	9	9
11.7*	32.8	17.0	3.5*	60.1	5.6	72*	166
5.2	10.4	6.0	1.7	30.4	3.5	41	137
11	11	11	10	11	11	11	7
10.8	38.5	22.1	2.1	12.4*	2.7*	140	51
1.9	9.0	8.2	1.9	4.7	1.6	48	14
11	11	11	10	11	11	11	9
12.1	57.5*	39.9*	0.7	7.4	1.9	98	144
2.3	13.5	12.0	0.9	6.8	0.1	49	127
3	3	3	2	3	3	3	3
4.5*	13.8*	6.9*	2.2	63.3	2.8*	79	88
1.5	4.7	2.1	0.8	31.1	0.7	19	16
9	9	9	9	9	9	9	4
1.5*	9.3*	6.1	0.7	29.0	2.9	221*	12
0.3	3.9	3.8	0.3	9.4	1.4	105	9
3	3	3	2	3	3	3	3
9.2	33.3	17.2	4.2*	14.8	3.4	108	53
0.9	2.9	1.7	2.0	2.6	2.2	55	4
3	3	3	3	3	3	3	3
5.7*	20.0	10.3	1.1	22.1	2.9	229*	19
2.8	8.5	7.0	1.3	9.1	1.0	235	10
7	7	7	6	7	7	7	7
19.0*	84.2*	45.6*	1.4	25.0	10.3*	153*	71
6.4	15.8	16.5	1.6	13.0	4.7	57	39
7	7	7	7	7	7	7	7
15.1*	48.0	24.8	1.1	47.6	13.1*	178*	53
6.3	24.8	16.4	1.4	17.0	9.0	115	27
4	4	4	4	4	4	4	2
4.1*	17.0	10.9	2.1	126.7*	9.8*	87	123
2.4	8.9	6.6	1.6	97.9	3.4	28	102
4	4	4	4	4	4	4	4
10.8	66.4*	43.1*	0.6	11.9*	3.6	86	56
1.4	8.5	1.8	0.8	3.5	1.2	12	16
4	4	4	3	4	4	4	3
6.4	19.2	9.5	0.4*	342.7*	7.8	44*	400*
2.1	5.9	3.4	0.4	205.2	2.8	19	274
5	5	5	5	5	5	5	5
8.3	25.1	15.7	0.8*	76.1	6.1	74	245
1.4	2.7	2.7	0.9	33.2	3.3	19	87
6	6	6	6	6	6	6	5

TABLE 4. MACROECONOMIC INDICATORS

PEER GROUP		GNP PER CAPITA	GDP GROWTH RATE, ANNUAL AVG. 1990-98	INFLATION RATE	DEPOSIT RATE	FINANCIAL DEEPENING (M3 / GDP)
		(US\$)	(%)	(%)	(%)	(%)
ALL MFIs	avg	1,247	4.2	8.2	14.2	36.0
	stdv	755	1.0	4.8	6.8	12.2
	N	92	82	92	91	75
Fully Sustainable MFIs	avg	1,366	4.1	11.0	16.5	37.9
	stdv	1,046	1.4	14.0	12.1	15.5
	N	65	61	65	64	55
1. LA Large <i>Target: Broad/ High-end</i>	avg	1,666	4.8	5.9	16.1	38.6
Agrocapital, Banco ADEMI, BancoSol, Calpiá, CM Arequipa, FIE, Finamérica, FWWB Cali, Los Andes, Mibanco, PRODEM	stdv	677	0.8	6.1	6.4	10.4
	N	11	11	11	11	11
2. LA Medium Broad	avg	1,896*	4.2	11.6	17.0	39.0
ACODEP, ACTUAR, ADOPEM, ADRI, Banco Pequena Empresa, CHISPA, EMPRENDER, Enlace, FAMA, FONDECO, FUNADEH, ProEmpresa, Sartawi	stdv	2,012	1.0	13.2	10.5	12.0
	N	13	13	13	13	13
3. LA Medium Low-end	avg	2,332*	3.9	10.9	19.9*	38.3
CAM, CEAPE Pernambuco, CMM Medellín, Compartamos, CONTIGO, CRECER, FED, FINCA HO, FINCA NI, FMM Popayan, Portosol, ProMujer, World Relief HO	stdv	1,661	1.4	13.5	11.9	12.3
	N	13	13	13	13	13
4. LA Small <i>Target: Low-End</i>	avg	3,400*	3.2*	13.8*	28.0*	29.2
AGAPE, Banco do Povo de Juiz de Fora, FINCA Ecuador, FINCA México, Vivacred	stdv	1,354	0.6	13.7	10.3	3.3
	N	5	5	5	5	5
5. LA Credit Unions <i>Size: All Target: Broad</i>	avg	1,553	3.6*	25.7*	26.0*	38.7
15 de Abril, 23 de Julio, ACREDICOM, Chuimequená, COOSAJO, ECOSABA, Moyutan, Oscus, Sagrario, Tonantel, Tulcán	stdv	31	0.6	25.4	22.0	0.0
	N	11	11	11	11	5
6. Asian Large <i>Target: Low-end/ Broad</i>	avg	1,056	6.5*	19.9*	19.1	53.5*
ASA, BAAC, Bank Dagang Bali, BRAC, BRI	stdv	993	0.9	21.9	13.1	24.5
	N	5	5	5	5	5
7. Asia-Pacific <i>Size: All Target: Low-End/Broad</i>	avg	794	4.0	6.5	9.4	43.3
ACLEDA, EMT, Hublag, RSPI, TSPI	stdv	491	1.0	2.5	2.5	29.2
	N	5	5	5	5	5
8. South Asian <i>Size: Small/Medium Target: Low-End/Broad</i>	avg	422*	5.6*	9.5	11.0	46.7*
AKRSP, BASIX, Buro Tangail, CDS, FWFB India, KASHF, Nirdhan, SEEDS, SHARE	stdv	162	0.7	2.6	3.4	7.5
	N	9	8	9	9	8
9. African Small <i>Target: Low-End</i>	avg	957	4.8	10.9	15.3	22.3*
FAULU, FINCA Malawi, FINCA Uganda, FOCCAS, RFF, SAT, SEF, UWFT, WAGES	stdv	1,278	2.7	13.3	10.5	16.4
	N	9	9	9	9	9
10. African Medium <i>Target: Low-End</i>	avg	353*	4.3	2.7*	6.9*	18.1*
Kafo Jiginew, Nyésigiso, PAMÉCAS, PRIDE Tanzania, PRIDE Uganda, PRIDE Vita	stdv	146	1.7	3.7	4.0	6.1
	N	6	6	6	6	6
11. Africa/MENA <i>Size: Large/Med. Target: Broad/High-end</i>	avg	742	4.6	5.5	8.9	26.9
ABA, ACEP, CERUDEB, Citi S&L, PADME, UNRWA	stdv	540	1.7	4.9	7.5	30.2
	N	6	5	6	6	5
12. MENA/CA <i>Size: Small/Medium Target: Low-End</i>	avg	1,443	-2.0*	11.0	25.9*	107.0*
Al Amana, Al Majmoua, Constanta, FATEN, FINCA Kyrgyzstan, Microfund for Women	stdv	1,004	10.5	12.7	23.9	41.5
	N	6	5	6	5	3
13. Eastern Europe High-end <i>Size: All</i>	avg	978	1.8*	11.9	13.9	36.8
AMK, FEFAD, MEB, Moznosti, Network Leasing Corporation, SUNRISE, WVB	stdv	279	0.1	6.9	1.5	31.1
	N	7	2	7	6	2
14. Eastern Europe Broad <i>Size: All</i>	avg	2,221*	0.8*	9.0	10.5	34.4
BOSPO, Fundusz Mikro, Inicjatywa Mikro, LOK, MC-SEA, MIKROFIN, Nachala, NOA	stdv	1,529	3.4	7.0	4.4	1.1
	N	8	4	8	8	2

Note: Standard deviations and sample sizes are listed below the peer group averages. The averages are calculated using all observations for all MFIs and on the basis of the values between the second and the 99th percentiles for each peer group; therefore, sample sizes vary across indicators. Group averages different from average for all MFIs at 5 percent significance level are marked with an asterisk (*). Additional statistical information is available at www.calmeadow.com. Abbreviations: LA= Latin America; MENA=Middle East/North Africa; CA=Central Asia.

Additional Analysis Tables

Tables A and B provide data on selected performance indicators for groups of institutions based on the following five characteristics:

- 1) **Age of the MFI:** Microfinance institutions develop as they mature. The *Bulletin* classifies MFIs into three categories (new, young, and mature) based on the difference between the year they started their microfinance operations and the year for which the institutions have submitted data.
- 2) **Scale of operation:** MFIs are classified as small, medium and large according to the size of their loan portfolio to facilitate comparisons of institutions with similar outreach.
- 3) **Lending Methodology:** Performance may vary by the methodology used by the institution to deliver loan products. The *Bulletin* classifies MFIs based on the *primary* methodology they used as determined by the number of loans outstanding.
- 4) **Level of Financial Intermediation:** This classification is based on the ratio of total voluntary time and passbook deposits to total assets. This ratio indicates the MFI's ability to

mobilize retail savings and fund its loan portfolio through deposits.

- 5) **Target Market:** The *Bulletin* classifies institutions into three categories—low-end, broad, and high-end—according to the range of clients they serve based on average loan outstanding.

The quantitative criteria used to categorize these characteristics are summarized in the table below. A list of institutions that fall into these categories is located immediately following Table B.

These Additional Analysis Tables provide another means of creating performance benchmarks besides the peer groups. Two of these characteristics—scale of operation and target market—are also factors in determining peer group composition. The purpose of the Additional Analysis Tables is to look at these characteristics singularly, rather than within context of the peer groups.

The inclusion of these additional tables is the result of feedback we have received from readers of previous issues of the *Bulletin*. We would greatly appreciate additional suggestions on how we can make these tables more useful in the future.

Age of the MFI	New: 1 to 2 years Young: 3 to 6 years Mature: over 6 years
Scale of operations	Large: portfolio > US\$ 8 million Medium: portfolio US\$ 1 to 8 million Small: portfolio < US\$ 1 million
Lending Methodology	Individual Solidarity Group: group of 3 to 9 borrowers Village Banking: groups with ≥ 10 borrowers
Level of Retail Financial Intermediation	Financial Intermediary: passbook and time deposits ≥ 20 percent of total assets Other: passbook and time deposits < 20 percent of total assets
Target Market	Low-end: depth < 20% OR average loan size < US\$150 Broad: depth between 20% and 149% High-end: depth ≥ 150%

TABLE A: INSTITUTIONAL CHARACTERISTICS AND OUTREACH INDICATORS

CRITERIA			TOTAL ASSETS	CAPITAL / ASSETS	"MARKET" BASED FUNDING
			(US\$)	total capital / total assets (%)	all liabilities with "market" cost / avg loan portfolio (%)
AGE	New (1 - 2 years)	avg	2,356,811*	55.8	13.1*
		stdv	1,260,124	30.3	19.1
		N	22	22	22
	Young (3 - 6 years)	avg	4,622,207	57.0	29.0
		stdv	4,726,330	32.8	70.3
		N	22	22	22
	Mature (> 6 years)	avg	61,781,141	48.4	57.1*
		stdv	372,003,749	24.4	47.6
		N	64	64	64
SCALE OF OPERATIONS	Large (Portfolio > US\$ 8 million)	avg	190,543,109*	32.0*	88.5*
		stdv	658,415,764	21.1	72.9
		N	20	20	20
	Medium (Portfolio US\$ 1 to 8 million)	avg	4,276,559	54.3	37.4
		stdv	2,391,563	25.1	39.5
		N	65	65	65
	Small (Portfolio < US\$ 1 million)	avg	1,226,378*	61.8	14.3*
		stdv	755,236	30.6	26.8
		N	23	23	23
METHOD- OLOGY	Individual	avg	70,133,026	43.4	60.0*
		stdv	420,616,841	26.0	60.6
		N	50	50	50
	Solidarity Groups (groups of 3 to 9 borrowers)	avg	10,792,057*	51.7	33.6
		stdv	20,727,044	25.7	38.8
		N	38	38	38
	Village Banking (groups with ≥ 10 borrowers)	avg	2,571,521*	72.7*	12.8*
		stdv	1,892,150	22.9	19.3
		N	20	20	20
RETAIL FINANCIAL INTER- MEDIARY	Financial Intermediaries (passbook and time deposits ≥ 20% of total assets)	avg	139,042,446*	23.6*	126.2*
		stdv	593,003,373	16.5	64.3
		N	25	25	25
	Other (passbook and time deposits < 20% of total assets)	avg	5,890,092	60.3*	20.4*
		stdv	10,683,267	25.6	24.7
		N	85	85	85
TARGET GROUP	Low-end (depth < 20% OR avg. loan balance < US\$ 150)	avg	5,102,014	63.4*	21.8
		stdv	12,552,299	26.7	31.5
		N	48	48	48
	Broad (depth between 20% and 149%)	avg	69,897,939	43.3*	59.6*
		stdv	420,629,069	24.6	46.7
		N	50	50	50
	High-end (depth ≥ 150%)	avg	14,190,423*	37.6	41.2
		stdv	15,930,427	26.1	77.3
		N	10	10	10

Note: Standard deviations and sample sizes are listed below the group averages. The averages are calculated on the basis of the values between the second and the 99th percentiles for each group; therefore, sample sizes vary across indicators. Group averages different from average for all MFIs at 5 percent significance level are marked with an asterisk (*). Additional statistical information is available at www.calmeadow.com.

BRANCH OFFICES	% WOMEN BORROWERS	TOTAL LOAN PORTFOLIO	PRESENT BORROWERS	AVG. LOAN BALANCE
(no.)	(%)	(US\$)	(no.)	total loan portfolio / no. present clients (US\$)
7*	56.1	1,830,619*	3,123*	263
7	24.4	1,060,564	3,259	286
22	17	22	22	11
11	74.8*	3,065,045	9,839	188*
9	26.9	3,606,613	7,298	144
22	20	22	22	19
100*	61.2	24,273,835	113,788*	331*
364	24.9	106,900,749	461,188	269
62	58	64	63	49
172*	49.8	72,728,502*	328,385*	539
398	21.7	185,215,265	788,818	297
20	16	20	20	13
12	59.2	2,966,943	11,406	298*
17	24.1	1,531,921	13,477	233
62	58	65	64	45
7*	84.2*	623,572*	5,235*	112*
7	21.2	252,366	3,933	55
23	21	23	23	21
41	44.4*	23,852,227	57,255	1,341*
219	14.2	119,291,547	348,873	1,068
50	41	50	50	50
34*	72.4*	8,137,669*	45,171	222*
99	22.5	17,339,930	174,107	180
38	34	38	38	33
35	86.7*	1,672,098*	13,879	109*
117	23.1	1,440,229	11,584	55
18	20	20	20	20
79*	45.6*	46,881,657*	114,547*	891*
308	11.5	167,898,436	491,801	690
25	22	25	25	25
35	69.0*	4,350,521	24,939	707
129	26.7	8,730,900	118,148	955
82	74	85	84	84
56*	84.3*	3,578,968	39,040	156*
172	20.3	10,565,846	156,958	147
45	41	48	47	47
44	50.4*	24,756,209	61,133	481
218	17.7	119,498,358	348,471	251
50	47	50	50	32
11	33.6*	8,930,351*	4,221*	2,741*
10	3.6	9,137,688	4,536	1,121
10	7	10	10	10

TABLE B: FINANCIAL PERFORMANCE AND EFFICIENCY INDICATORS

CRITERIA			ADJUSTED RETURN ON ASSETS	OPERATIONAL SELF- SUFFICIENCY	FINANCIAL SELF- SUFFICIENCY	PORTFOLIO YIELD
			adj. net operating income / avg. total assets (%)	operating income / interest, loan loss & admin expense (%)	adj. operating income / interest, adjustment, loan loss & admin expense (%)	interest income from portfolio / avg. loan portfolio (%)
AGE	New (1 - 2 years)	avg	-8.4*	89.5*	77.7*	35.8
		stdv	9.2	26.5	20.2	10.0
		N	22	22	22	22
	Young (3 - 6 years)	avg	-7.3*	94.2*	81.0*	45.2
		stdv	8.8	28.4	21.3	21.2
		N	22	22	22	22
	Mature (> 6 years)	avg	-0.6*	120.7*	102.9*	42.6
		stdv	8.0	35.6	29.5	19.9
		N	64	64	64	64
SCALE OF OPERATIONS	Large (Portfolio > US\$ 8 million)	avg	2.6*	126.5*	114.3*	34.2
		stdv	4.2	36.4	25.1	11.6
		N	20	20	20	20
	Medium (Portfolio US\$ 1 to 8 million)	avg	-3.3	111.4	93.9	41.7
		stdv	9.6	32.5	25.4	20.0
		N	65	65	65	65
	Small (Portfolio < US\$ 1 million)	avg	-10.4*	85.2*	71.5*	48.1*
		stdv	8.4	24.6	18.8	17.9
		N	23	23	23	23
METHOD- OLOGY	Individual	avg	-0.3*	121.8*	104.8*	36.5
		stdv	6.8	33.7	29.9	15.3
		N	50	50	50	50
	Solidarity Groups (groups of 3 to 9 borrowers)	avg	-7.7*	92.6*	81.9*	41.2
		stdv	11.6	31.1	26.2	13.2
		N	38	38	38	38
	Village Banking (groups with ≥ 10 borrowers)	avg	-5.7	103.4	85.7	54.5*
		stdv	7.0	27.5	18.7	26.5
		N	20	20	20	20
RETAIL FINANCIAL INTER- MEDIARY	Financial Intermediaries (passbook and time deposits ≥ 20% of total assets)	avg	0.0*	114.8	104.3*	34.5
		stdv	5.0	26.4	23.4	11.6
		N	25	25	25	25
	Other (passbook and time deposits < 20% of total assets)	avg	-5.3	106.6	89.2	44.1
		stdv	10.6	37.5	28.0	21.2
		N	85	85	85	85
TARGET GROUP	Low-end (depth < 20% OR avg. loan Balance < US\$150)	avg	-7.6*	99.6	82.4*	50.8*
		stdv	11.2	37.7	26.4	24.1
		N	48	48	48	48
	Broad (depth between 20% and 149%)	avg	-1.1*	113.6	99.7*	36.6
		stdv	6.3	25.4	22.0	12.1
		N	50	50	50	50
	High-end (depth ≥ 150%)	avg	-0.1	121.2	103.7	27.7*
		stdv	4.9	42.2	32.8	5.3
		N	10	10	10	10

Note: Standard deviations and sample sizes are listed below the group averages. The averages are calculated on the basis of the values between the second and the 99th percentiles for each group; therefore, sample sizes vary across indicators. Group averages different from average for all MFIs at 5 percent significance level are marked with an asterisk (*). Additional statistical information is available at www.calmeadow.com.

ADMIN EXPENSE/ LP	SALARY EXPENSE/ LP	PORTFOLIO AT RISK	DEPTH	AVERAGE SALARY	STAFF PRODUCTIVITY	COST PER BORROWER
total admin exp. / avg. loan portfolio (%)	staff exp. / avg. loan portfolio (%)	outstanding balance overdue > 90 days / total loan portfolio (%)	avg. loan balance/ GNP per capita (%)	avg. staff salary / GNP per capita (multiple of GNP/ capita)	present borrowers / no. of staff (no.)	total admin. exp. / avg. no. of borrowers (US\$)
40.3*	22.6	1.0*	93.1*	6.2	79*	290*
29.1	18.6	1.5	90.1	3.8	45	248
22	22	22	22	22	22	17
44.7*	24.9*	1.6	57.1	7.1*	122	114
25.3	15.2	1.7	76.8	5.4	55	108
22	22	19	22	22	22	21
28.1	15.6	2.7*	49.8	4.8	142*	88*
20.3	13.0	2.4	50.7	4.0	119	78
64	64	57	63	62	62	49
16.7*	8.9*	2.0	95.6*	6.1	132	142
8.8	5.5	1.1	91.5	4.6	69	118
20	20	18	20	20	20	19
31.3	17.3	2.3	72.8*	5.9	118	153
18.3	11.4	2.9	102.7	4.7	88	187
65	65	59	64	63	63	47
59.1*	34.1*	2.1	20.8*	4.4	116	87
34.0	21.6	2.0	15.3	3.9	66	86
23	23	21	23	23	23	21
20.9*	10.2*	2.2	108.9*	4.8	96	217
11.7	6.5	2.0	122.4	4.0	73	205
50	50	49	50	50	50	39
45.7*	26.4*	2.2	37.9	6.7*	121	96
32.7	20.4	2.3	32.0	5.5	68	68
38	38	33	38	37	37	31
49.1*	29.7*	1.6	16.3*	5.5	190*	40*
24.0	14.9	1.6	12.3	3.6	144	20
20	20	16	20	20	20	17
19.3*	9.3*	2.2	75.7*	5.1	116	118
13.7	6.4	1.1	56.8	4.4	84	90
25	25	23	25	25	25	17
39.4*	22.5*	2.2	62.6	5.8	126	142
27.7	17.6	2.8	99.7	4.8	101	169
85	85	76	84	84	84	71
51.3*	29.7*	2.1	16.0*	4.8	162*	63*
30.8	19.9	2.7	9.8	4.8	119	60
48	48	40	47	47	47	40
22.9*	12.2*	2.5	65.4*	5.8	105	142
12.4	7.4	1.9	32.2	4.3	64	107
50	50	48	50	50	50	38
17.1*	9.0*	0.7*	307.1*	7.9*	47*	374*
8.3	6.2	0.7	147.4	3.8	21	216
10	10	10	10	10	10	9

Composition of Additional Analysis Groupings

AGE

New (1 - 2 years)	AlAmana AMK Banco do Povo BanPeqEmpresa	BASIX BOSPO CONSTANTA FEFAD	KASHF LOK MC-SEA MEB	MFW MIKROFIN Moznosti Nachala	NOA PAMÉCAS Portosol PRIDE-Uganda	SAT SUNRISE Vivacred WVB	
Young (3 - 6 years)	ACLEDA Agrocapital Al Majmoua CEAPE/PE	CERUDEB CitiS&L Enlace FATEN	FAULU FINCA Ecuador FINCA Kyrgyzstan FINCA Malawi	Fundusz Mikro FOCCAS FONDECO Inicjatywa Mikro	Nirdhan Network Leasing Corp. PADME PRIDE-Tanzania	ProMujer Bolivia RFF SHARE WAGES	
Mature (> 6 years)	15 de Abril 23 de Julio ABA ACEP ACODEP ACREDICOM ACTUAR ADOPEM ADRI AGAPE	AKRSP ASA BAAC BanADEMI BancoSol BDB BRAC BRI BURO, Tangail CALPIÁ	CAM CDS CHISPA Chuimequená CM Arequipa CMMMED Compartamos CONTIGO COOSAJO CRECER	ECOSABA EMPRENDER EMT FAMA FED FIE Finamérica FINCA Honduras FINCA Mexico FINCA Nicaragua	FINCA Uganda FMMPop FUNADEH FWWBCali FWWBIndia Hublag Kafo Jiginew LosAndes Mibanco MOYUTAN	Nyésigiso Oscus PRIDE Vita PRODEM ProEmpresa RSPI Sagrario Sartawi SEEDS SEF	TONANTEL TSPI Tulcán UNRWA UWFT WR Honduras

SCALE OF OPERATIONS

Large (Portfolio > US\$ 8 million)	ABA\ ACEP ACLEDA Agrocapital	ASA BAAC BanADEMI BancoSol	BDB BRAC BRI CALPIÁ	CERUDEB CM Arequipa COOSAJO FIE	Finamérica Fundusz Mikro FWWBCali LosAndes	Mibanco PRODEM	
Medium (Portfolio US\$ 1 to 8 million)	15 de Abril 23 de Julio ACODEP ACREDICOM ACTUAR ADOPEM ADRI AKRSP AlAmana AMK	BanPeqEmpresa BASIX BOSPO BURO, Tangail CAM CEAPE/PE CHISPA Chuimequená CMMMED Compartamos	CONTIGO CRECER ECOSABA EMPRENDER EMT Enlace FAMA FATEN FED FEFAD	FINCA Honduras FINCA Kyrgyzstan FINCA Nicaragua FINCA Uganda FMMPop FONDECO FUNADEH Kafo Jiginew LOK MC-SEA	MEB MIKROFIN Moznosti Nachala Network Leasing Corp. NOA Nyésigiso Oscus PADME PAMÉCAS	Portosol PRIDE-Tanzania PRIDE-Uganda PRIDE Vita ProEmpresa ProMujer Bolivia Sagrario Sartawi SEEDS SHARE	SUNRISE TONANTEL TSPI Tulcán UNRWA WRHonduras WVB
Small (Portfolio < US\$ 1 million)	AGAPE Al Majmoua Banco do Povo CDS	CitiS&L CONSTANTA FAULU FINCA Ecuador	FINCA Malawi FINCA Mexico FOCCAS FWWBIndia	Hublag Inicjatywa Mikro KASHF MFW	MOYUTAN Nirdhan RFF RSPI	SAT SEF UWFT Vivacred	WAGES

LENDING METHODOLOGY

Individual	15 de Abril 23 de Julio ABA ACEP ACODEP ACREDICOM ADRI Agrocapital	AMK BAAC BanADEMI Banco do Povo BanPeqEmpresa BDB BRI CALPIÁ	CDS CERUDEB Chuimequená CM Arequipa CMMMED COOSAJO ECOSABA EMPRENDER	FED FEFAD FIE FMMPop FONDECO FWWBCali Hublag Inicjatywa Mikro	Kafo Jiginew LOK LosAndes MC-SEA MEB MOYUTAN Moznosti Nachala	Network Leasing Corp. NOA Oscus PADME Portosol ProEmpresa Sagrario SAT	SUNRISE TONANTEL Tulcán Vivacred
Solidarity Groups (groups of 3 to 9 borrowers)	ACLEDA ACTUAR ADOPEM AlAmana ASA BancoSol	BASIX BOSPO BRAC BURO, Tangail CEAPE/PE CHISPA	CONSTANTA CONTIGO EMT Enlace FAMA FATEN	FAULU Finamérica Fundusz Mikro FONDECO KASHF Mibanco	MIKROFIN Nirdhan Nyésigiso PAMÉCAS PRIDE-Tanzania PRIDE-Uganda	PRIDE Vita PRODEM RFF RSPI SEF SHARE	TSPI UNRWA UWFT WVB
Village Banking (groups with ≥ 10 borrowers)	AGAPE AKRSP Al Majmoua CAM	CitiS&L Compartamos CRECER FINCA Ecuador	FINCA Honduras FINCA Kyrgyzstan FINCA Malawi FINCA Mexico	FINCA Nicaragua FINCA Uganda FOCCAS FWWBIndia	MFW ProMujer Bolivia Sartawi SEEDS	WAGES WRHonduras	

Composition of Additional Analysis Groupings, ctd.

RETAIL FINANCIAL INTERMEDIATION

Retail Financial Intermediary (passbook and time deposits ≥ 20% of total assets)	15 de Abril 23 de Julio ACREDICOM BAAC BanADEMI	Bancosol BDB BRI BURO, Tangail CERUDEB	Chuimequená CitiS&L CM Arequipa COOSAJÓ ECOSABA	Enlace FIE Finamérica Kafo Jiginew LosAndes	MOYUTAN Nyésigiso Oscus PAMÉCAS Sagrario	TONANTEL Tulcán UWFT	
Other (passbook and time deposits < 20% of total assets)	ABA ACEP ACLEDA ACODEP ACTUAR ADOPEM ADRI AGAPE Agrocapital AKRSP AlAmana AlMajmoua AMK	ASA Banco do Povo BanPeqEmpresa BASIX BOSPO BRAC CALPIÁ CAM CDS CEAPE/PE CHISPA CMMMED Compartamos	CONSTANTA CONTIGO CRECER EMPREDER EMT FAMA FATEN FAULU FED FEFAD FINCA Ecuador FINCA Honduras FINCA Kyrgyzstan	FINCA Malawi FINCA Mexico FINCA Nicaragua FINCA Uganda Fundusz Mikro FMMPop FOCCAS FONDECO FUNADEH FWWB Cali FWWB India Hublag Inicjatywa Mikro	KASHF LOK MC-SEA MEB MFW Mibanco MIKROFIN Moznosti Nachala Nirdhan Network Leasing Corp. NOA PADME	Portosol PRIDE-Tanzania PRIDE-Uganda PRIDE Vita PRODEM ProEmpresa ProMujer Bolivia RFF RSPI Sartawi SAT SEEDS SEF	SHARE SUNRISE TSPI UNRWA Vivacred WAGES WRHonduras WVB

TARGET MARKET

Low-end (depth < 20% OR avg. loan balance < US\$150)	ACTUAR AGAPE AKRSP AlAmana AlMajmoua ASA BRAC BURO, Tangail	CAM CDS CEAPE/PE CMMMED Compartamos CONSTANTA CONTIGO CRECER	EMT Enlace FATEN FED FINCA Ecuador FINCA Kyrgyzstan FINCA Malawi FINCA Mexico	FINCA Nicaragua FINCA Uganda FMMPop FOCCAS FWWB India Hublag KASHF MFW	Mibanco Nirdhan PAMÉCAS Portosol PRIDE-Tanzania PRIDE-Uganda ProMujer Bolivia RFF	RSPI SAT SEEDS SEF SHARE TSPI UWFT Vivacred	WAGES WR Honduras
Broad (depth between 20% and 149%)	15 de Abril 23 de Julio ABA ACLEDA ACODEP ACREDICOM ADOPEM ADRI	BAAC Banco do Povo BancoSol BanPeqEmpresa BASIX BOSPO BRI CALPIÁ	CHISPA Chuimequená CitiS&L CM Arequipa COOSAJÓ ECOSABA EMPREDER FAMA	FAULU FIE Finamérica FINCA Honduras Fundusz Mikro FONDECO FUNADEH FWWB Cali	Inicjatywa Mikro Kafo Jiginew LOK LosAndes MC-SEA MIKROFIN MOYUTAN Nachala	NOA Nyésigiso Oscus PADME PRIDE Vita PRODEM ProEmpresa Sagrario	Sartawi TONANTEL Tulcán UNRWA
High-end (depth ≥ 150%)	ACEP Agrocapital AMK BanADEMI	BDB CERUDEB FEFAD MEB	Moznosti Network Leasing Corp. SUNRISE WVB				

APPENDICES

Appendix I: Notes to Statistical Section

The MicroBanking Standards Project, of which *The MicroBanking Bulletin* is a major output, is open to all MFIs that are willing to disclose financial data that meet a simple quality test. Participating MFIs typically have three characteristics: 1) they are willing to be transparent by submitting their performance data to an independent agency; 2) they display a strong social orientation by providing financial services to low-income persons; and 3) they are able to answer all the questions needed for our analysis.

The one hundred and fourteen institutions that provided data for this issue represent a large proportion of the world's leading microfinance institutions. They have provided data generally by completing a detailed questionnaire, supplemented in most cases by additional information. All participating MFIs receive a customized report comparing their results with those of the peer groups.

Data Quality Issues

The *Bulletin* classifies information from participating institutions according to the degree to which we have independent verification of its reliability. AAA-rated information has been independently generated through a detailed financial analysis by an independent third party, such as a CAMEL evaluation, a CGAP appraisal, or assessments by reputed rating agencies. A-rated information is backed by accompanying documentation, such as audited financial statements, annual reports, and independent program evaluations that provide a reasonable degree of confidence for our adjustments. B-rated information is from MFIs that have limited themselves to completing our questionnaire. These ratings signify confidence levels on the reliability of the information; they are NOT intended as a rating of the financial performance of the MFIs.

The criteria used in constructing the Statistical Tables are important for understanding and interpreting the information presented. Given the voluntary nature and origin of the data, CALMEADOW, the Editorial Board, and CGAP cannot accept responsibility for the validity of the results

presented, or for consequences resulting from their use. We employ a system to make tentative distinctions about the quality of data presented to us and include only information for which we have a reasonable level of comfort. However, we cannot exclude the possibility of a program misrepresenting its results.

The most delicate areas of potential distortion are: (1) unreported subsidies and (2) misrepresented loan portfolio quality. There can also be inaccuracies in reporting the costs of financial services in multipurpose institutions that also provide non-financial services, in part because of difficulties in assigning overhead costs. These risks are highest for younger institutions, and for institutions with a record of optimistic disclosure. If we have grounds for caution about the reliability of an MFI's disclosure, we will not include its information in a peer group unless it has been externally validated by a third-party.

Adjustments to Financial Data

The *Bulletin* adjusts the financial data it receives to ensure comparable results. The financial statements of each organization are converted to the standard chart of accounts used by the *Bulletin*. This chart of accounts is simpler than that used by most MFIs, so the conversion consists mainly of consolidation into fewer, more general accounts. Then three adjustments are applied to produce a common treatment for the effect of: a) inflation, b) subsidies, and c) loan loss provisioning and write-off. In the statistical tables the reader can compare adjusted and unadjusted results.

Inflation

The *Bulletin* reports the net effect of inflation by calculating increases in expenses and incomes due to inflation. Inflation causes a decrease in the real value of equity. This "cost of funds" is obtained by multiplying the prior year-end equity balance by the current-year inflation rate.¹⁵ Fixed asset accounts, on the other hand, are revalued upward by the

¹⁵Inflation data are obtained from line 64x of the International Financial Statistics, International Monetary Fund, various years.

current year's inflation rate, which results in inflation adjustment income, offsetting to some degree the expense generated by adjusting equity.¹⁶ On the balance sheet, this inflation adjustment results in a reordering of equity accounts: profits are redistributed between real profit and the nominal profits required to maintain the real value of equity.

MFIs that borrow from banks or mobilize savings have an actual interest expense, which is an operating cost. In comparison, similar MFIs that lend only their equity have no interest expense and therefore have lower operating costs. If an MFI focuses on sustainability and the maintenance of its capital/asset ratio, it must increase the size of its equity in nominal terms to continue to make the same value of loans in real (inflation-adjusted) terms. Inflation increases the cost of tangible items over time, so that a borrower needs more money to purchase them. MFIs that want to maintain their support to clients must therefore offer larger loans. Employees' salaries go up with inflation, so the average loan balance and portfolio must increase to compensate, assuming no increase in interest margin. Therefore, a program that funds its loans with its equity must maintain the real value of that equity, and pass along the cost of doing so to the client. This expectation implies MFIs should "pay" interest rates that include the inflation-adjustment expense as a cost of funds, even if this cost is not actually paid to anyone outside the institution.

Some countries with high or volatile levels of inflation require businesses to use inflation-based accounting on their audited financial statements. We use this same technique in the *Bulletin*. Of course, we understand that in countries where high or volatile inflation is a new experience, MFIs may find it difficult to pass on the full cost of inflation to clients. We are not recommending policy; rather, we are trying to provide a common analytical framework that compares real financial performance meaningfully.

Subsidies

We adjust participating organizations' financial statements for the effect of subsidies by representing the MFI as it would look on an unsubsidized basis. We do not intend to suggest whether MFIs should or should not be subsidized. Rather, this adjustment permits the *Bulletin* to see how each MFI would look without subsidies for comparative purposes. Most of the participating MFIs indicate a desire to grow beyond the

¹⁶In fact, an institution that holds fixed assets equal to its equity avoids the cost of inflation that affects MFIs, which hold much of their equity in financial form.

limitations imposed by subsidized funding. The subsidy adjustment permits an MFI to judge whether it is on track toward such an outcome. A focus on sustainable expansion suggests that subsidies should be used to enhance financial returns. The subsidy adjustment simply indicates the extent to which the subsidy is being passed on to clients through lower interest rates or whether it is building the MFI's capital base for further expansion.

The *Bulletin* adjusts for three types of subsidies: (1) a cost-of-funds subsidy from loans at below-market rates, (2) current-year cash donations to fund portfolio and cover expenses, and (3) in-kind subsidies, such as rent-free office space or the services of personnel who are not paid by the MFI and thus not reflected on its income statement. Additionally, for multipurpose institutions, *The MicroBanking Bulletin* attempts to isolate the performance of the financial services program, removing the effect of any cross subsidization.

The cost-of-funds adjustment reflects the impact of soft loans on the financial performance of the institution. The *Bulletin* calculates the difference between what the MFI actually paid in interest on its subsidized liabilities and the deposit rate for each country.¹⁷ This difference represents the value of the subsidy, which we treat as an additional financial expense. We apply this subsidy to those loans to the MFI that are priced at less than 75 percent of prevailing market (deposit) rates. The decreased profit is offset by generating an "accumulated subsidy adjustment" account on the balance sheet.

If the MFI passes on the interest rate subsidy to its clients through a lower final rate of interest, this adjustment may result in an operating loss. If the MFI does not pass on this subsidy, but instead uses it to increase its equity base, the adjustment indicates the amount of the institution's profits that were attributable to the subsidy rather than operations.

Loan Loss Provisioning

Finally, we apply standardized policies for loan loss provisioning and write-off. MFIs vary tremendously

¹⁷Data for shadow interest rates are obtained from line 60I of the International Financial Statistics, IMF, various years. The deposit rate is used because it is a published benchmark in most countries. Sound arguments can be made for use of different shadow interest rates. NGOs that wish to borrow from banks would face interest significantly higher than the deposit rate. A licensed MFI, on the other hand, might mobilize savings at a lower financial cost than the deposit rate, but reserve requirements and administrative costs would drive up the actual cost of such liabilities.

in accounting for loan delinquency. Some count the entire loan balance as overdue the day a payment is missed. Others do not consider a loan delinquent until its full term has expired. Some MFIs write off bad debt within one year of the initial delinquency, while others never write off bad loans, thus carrying forward a hard-core default that they have little chance of ever recovering.

We classify as "at risk" any loan with a payment over 90 days late. We provision 50 percent of the outstanding balance for loans between 90 and 180 days late, and 100 percent for loans over 180 days late. Wherever we have adequate information, we

adjust to assure that all loans are fully written off within one year of their becoming delinquent. (Note: We apply these provisioning and write-off policies for ease of use and uniformity. We do not recommend that all MFIs use exactly the same policies.) In most cases, these adjustments are not very precise. Nevertheless, most participating MFIs have high-quality loan portfolios, so loan loss provision expense is not an important contributor to their overall cost structure. If we felt that a program did not fairly represent its general level of delinquency, and we were unable to adjust it accordingly, we would simply exclude it from the peer group.

Financial Statement Adjustments and their Effects

Adjustment	Effect on Financial Statements	Type of Institution Most Affected by Adjustment
Inflation adjustment of equity	Increases financial expense accounts on profit and loss statement, to some degree offset by inflation income account for revaluation of fixed assets. Generates inflation adjustment account in equity section of balance sheet with net balance of inflation adjustments.	NGOs funded more by equity than by liabilities will be hard hit, especially in high-inflation countries.
Reclassification of certain long term liabilities into equity, and subsequent inflation adjustment	Decreases concessionary loan account and increases equity account; increases inflation adjustment on profit and loss statement and balance sheet.	NGOs that have long-term low-interest "loans" from international agencies that function more as donations than loans.
Subsidy adjustment: Interest savings on subsidized liabilities involving at least a 25 percent discount in relation to market based loans to the same institution or, in the absence of such loans, the deposit rate	Increases financial expense on profit and loss statement. Increases subsidy adjustment account on balance sheet.	Banks or NGOs that use large lines of credit from governments or international agencies at highly subsidized rates.
Subsidy adjustment: Current-year cash donations to cover operating expenses	Reduces operating income on profit and loss statement (if the MFI records donations as operating income). Increases subsidy adjustment account on balance sheet.	NGOs during their start-up phase. This adjustment is relatively less important for mature institutions included in this edition.
Subsidy adjustment: In kind donation of goods or services (e.g., line staff paid for by technical assistance providers)	Increases expense on profit and loss statement, increases subsidy adjustment account on balance sheet.	NGOs during their start-up phase. Less important for mature institutions included in this edition.
Loan loss provision and write-off adjustment: Applying policies which may be more aggressive than the MFI employs on its own books	Increases loan loss provision expense on profit and loss statement. On balance sheet, increases in loan loss reserve and/or write-offs are accounted for by equal reductions in loan loss reserve and portfolio.	MFIs that allow bad loans to accumulate within their portfolio. This common problem tends to have a limited effect on leading MFIs because their loan losses are low, even after adjustment.

Statistical Issues

The *Bulletin* reports the means and standard deviations of the performance indicators for each peer group. At this stage, peer groups are still small and the observations in each peer group show a high variation. Outliers distort the results of some of the peer group averages. Consequently, the reader should be cautious about the interpretive power of these data. Over time, as more MFIs provide data, we will be in a better position to generate deeper and more sophisticated types of analyses of the data at our disposal, and will have a higher degree of comfort with the statistical significance of the differences between the means of the distinct peer groups.

To ensure that the averages reported represent the group as accurately as possible, we have excluded outliers for each of the indicators. Statistics for the category *All MFIs* were calculated by deleting observations in the first and last deciles for each indicator. In other words, the values between the 11th and 89th percentiles were used for the analysis. For the *FSS sample* and *peer group* calculations, the first and last percentile observations were excluded for each indicator except macroeconomic indicators. The averages are calculated on the basis of the values between the 2nd and the 99th percentiles for each group. In effect, for each indicator we rank the MFIs in the group and eliminate the top and bottom values. In

most cases, this exclusion eliminates two observations for each peer group: the institution with the highest and the lowest value on each indicator. In cases where indicators contain observations with tied values for highest and lowest values, more than two observations are deleted. For this reason, we have reported the sample size for each group and indicator on the tables. Where the sample size is reduced to $n=1$, we have not reported the result so as to maintain confidentiality. This method helps to prevent outliers from dominating group results, and smoothes the data by minimizing data dispersion.

We have carried out statistical tests to determine the impact of outliers where they exist, and to quantify the results in terms of how well they represent the peer groups. Where large differences exist between the means of different peer groups or groups sorted by selection criteria, we have verified their statistical significance using t-tests. These tests compare the mean of the group to the mean of all MFIs in the sample, taking into account factors like the number of observations and the dispersion of the sample. The test statistic is then compared to a standard critical level (using 5 percent as the significance level) to decide whether the difference between the group and the sample as a whole is statistically significant. In other words, they allow us to decide whether the difference we see is robust, by considering it in the context of how cohesive and how large the group is.

Appendix II: Description of Participating MFIs

ACRONYM	NAME, LOCATION	DATE	DATA QUALITY RATING	DESCRIPTION OF MICROFINANCE PROGRAM
15 de Abril	Cooperativa 15 de Abril, Ecuador	06/99	AAA	15 de Abril is a credit union in Ecuador that has participated in WOCCU's technical assistance program since in 1995. 15 de Abril offers both credit and voluntary savings services to members.
23 de Julio	Cooperativa 23 de Julio, Ecuador	06/99	AAA	23 de Julio participates in WOCCU's technical assistance program in Ecuador. It is a credit union offering credit and savings services to members.
ABA	Alexandria Business Association, Egypt	12/99	AAA	ABA provides credit to small and microenterprises using an individual lending methodology. It is an NGO founded in 1988 and based primarily in urban areas. The credit program began in 1990.
ACEP	Agence de Crédit pour l'Entreprise Privée, Senegal	12/99	B	ACEP began as an NGO in a provincial town in 1987 and has expanded to operate in other urban areas in Senegal. It has converted to a credit union.
ACLEDA	Association of Cambodian Local Economic Development Agencies, Cambodia	12/99	AAA	ACLEDA was started in 1993 as an NGO. It provides small and micro loans to enterprises and trains entrepreneurs in small business management. Both group and individual loans are made.
ACODEP	Asociación de Consultores para el Desarrollo de la Pequeña, Mediana y Microempresa, Nicaragua	12/98	B	Founded in 1989, ACODEP serves small and microenterprises primarily in Managua and other urban areas of Nicaragua. It is currently negotiating a voluntary supervision agreement with the Superintendent of Banks in Nicaragua.
ACREDICOM	ACREDICOM, Guatemala	09/99	AAA	ACREDICOM is a member of the FENACOAC credit union system in Guatemala, and participated in WOCCU's technical assistance program. It primarily lends for agriculture and to a lesser extent microenterprise activities, and mobilizes savings from members.
ACTUAR	Corporación Acción por el Tolima - ACTUAR Famiempresas, Colombia	12/99	B	ACTUAR Tolima was founded in 1986. It is an NGO offering loans to microenterprises in Tolima and surrounding areas, and is affiliated with ACCION International and Cooperativa Emprender in Colombia.
ADOPEM	Asociación Dominicana para el Desarrollo de la Mujer, Dominican Republic	12/99	A	ADOPEM, an affiliate of Women's World Banking, is an NGO dedicated to credit for women microentrepreneurs. It has been in operation since 1982.
ADRI	Asociación para el Desarrollo Rural Integrado, Costa Rica	08/99	A	ADRI is an NGO offering loans to small and microenterprises in Costa Rica. Founded in 1986, it also offers training and business development services to its clients.
AGAPE	Asociación General para Asesorar Pequeñas Empresas, Colombia	12/99	A	Founded in 1975, AGAPE operates principally in Barranquilla, offering microcredit through a mixture of methodologies including village banking, solidarity groups and individual loans. It is an affiliate of Opportunity International.
Agrocap	Fundación Agrocapital, Bolivia	12/99	AAA	Fundación Agrocapital focuses its services on agriculture and agro-industry, working mainly in rural and small urban areas of Bolivia. It is an NGO founded in 1992, and offers a mixture of microloans and longer term mortgage loans.
AKRSP	Aga Khan Rural Support Programme, Pakistan	12/98	A	AKRSP is a multi-service NGO that works in the "Roof of the World" region of northern Pakistan. Its credit program began in 1983, offering loans through its network of village organizations.
Al Majmoua	Lebanese Association for Development -- Al Majmoua, Lebanon	12/98	A	Al Majmoua is a Lebanese NGO, offering village banking-type services in both urban and rural areas. The program began operations in 1994 as a project of Save the Children. Ownership was transferred to the Lebanese institution in 1998.
Al Amana	Association Al Amana, Morocco	12/98	AAA	Al Amana offers solidarity group loans through a wide network of branches in urban areas of Morocco. Founded in 1997, it is an affiliate of Pride Vita.

ACRONYM	NAME, LOCATION	DATE	DATA QUALITY RATING	DESCRIPTION OF MICROFINANCE PROGRAM
AMK	AMK Posusje, <i>Bosnia and Herzegovina</i>	12/99	B	AMK is a limited liability company founded in 1997 to provide microcredit to low income self-employed individuals in urban areas. It is financed by the Local Initiatives Department of the World Bank that aims to improve access to credit to the poor to promote economic reconstruction.
ASA	Association for Social Advancement, <i>Bangladesh</i>	12/99	AAA	ASA is an NGO that offers credit services to the rural poor in Bangladesh. The majority of its clients are landless women. It was founded in 1978 and shifted from an earlier, integrated development strategy to its current focus on financial services in the early 1990s. It uses a village level group lending methodology.
BAAC	Bank for Agriculture and Agricultural Cooperatives, <i>Thailand</i>	03/98	AAA	BAAC is a government-owned agricultural bank that lends to small farmers and farmers' cooperatives. Founded in 1966, its outreach in rural areas of Thailand is now estimated to cover more than 80% of farm families.
BanADEMI	Banco de Desarrollo ADEMI, S.A., <i>Dominican Republic</i>	12/99	A	Banco ADEMI is a formal financial institution, which began operations in 1998. The bank is the successor to the NGO, ADEMI, which was involved in microcredit since 1982.
Banco do Povo de Juiz de Fora	Banco do Povo de Juiz de Fora, <i>Brazil</i>	06/99	AAA	Banco do Povo de Juiz de Fora is an NGO operating in Juiz de Fora in Brazil. It offers individual loans to microentrepreneurs and was founded in 1997. It was formerly known as FAEP.
BancoSol	Banco Solidario, S.A., <i>Bolivia</i>	12/99	A	BancoSol is a licensed commercial bank devoted to microfinance, offering microenterprise credit and passbook savings. Its credit program focuses on group loans, and it operates primarily in urban areas of Bolivia. It grew out of the NGO PRODEM and was spun off as a bank in 1992. It is an affiliate of ACCION International.
Banco PeqEmp (BPE)	Banco de la Pequeña Empresa, S.A., <i>Dominican Republic</i>	12/98	AAA	Banco de la Pequeña Empresa was created to serve both microenterprises and small businesses, and has just completed its first year of operations. It is a formal financial sector institution and holds a license to operate as a development bank. It is an affiliate of ACCION International.
Bank Dagang	Bank Dagang Bali, <i>Indonesia</i>	12/98	AAA	Bank Dagang is a private commercial bank that offers savings and credit facilities to primarily low-income clients in Bali. It was founded in 1970.
BASIX	Bharatiya Samruddhi Finance Ltd., <i>India</i>	03/99	AAA	BASIX was set up in 1996 to provide financial services to the rural poor, to promote self-employment, and to provide technical assistance to microentrepreneurs and rural financial institutions.
BOSPO	BOSPO, <i>Bosnia and Herzegovina</i>	12/99	B	BOSPO is a NGO founded in 1995 to provide microcredit to solidarity groups made of low income women entrepreneurs in secondary cities of Tuzla. It is financed by the Local Initiatives Department of the World Bank that aims to improve access to credit to the poor to promote economic reconstruction.
BRAC	Bangladesh Rural Advancement Committee, <i>Bangladesh</i>	12/99	AAA	BRAC is an NGO that started in 1972. It provides both financial and non-financial services primarily in rural areas. The financial services include the provision of microloans and mobilization of savings.
BRI	Bank Rakyat Indonesia, Unit Desa System, <i>Indonesia</i>	12/99	AAA	BRI is a government-owned bank oriented towards rural areas, which has operated since 1897. The Unit Desa system is an extensive network of small banking units, which function as profit centers and provide individual loans and savings services. The system has existed in its current form since 1984.
BURO, Tangail	BURO, Tangail, <i>Bangladesh</i>	12/99	AAA	Flexible voluntary open-savings, microloans and insurance services are provided by BURO Tangail since 1990. It is an NGO.
Calpiá	Financiera Calpiá, S.A., <i>El Salvador</i>	12/98	AAA	Financiera Calpiá began as an NGO, AMPES, and was converted into a finance company in 1995. It offers individual loans to microenterprises and small businesses and has started to mobilize savings. It operates mainly in urban areas, although 25% of its portfolio is now in rural areas.
CAM	Centro de Apoyo a la Microempresa, <i>El Salvador</i>	12/99	B	FINCA's affiliate in El Salvador, the CAM was founded in 1990 and is one of FINCA's largest affiliates serving over 16,000 clients in all 15 geographic <i>departamentos</i> in El Salvador.

ACRONYM	NAME, LOCATION	DATE	DATA QUALITY RATING	DESCRIPTION OF MICROFINANCE PROGRAM
CDS	Community Development Society, <i>India</i>	03/99	A	CDS offers microcredit and non-financial services in the Nagpur region of India. It was founded in 1985 and is an affiliate of Opportunity International.
CEAPE/PE	Centro de Apoio aos Pequenos Empreendimentos Pernambuco, <i>Brazil</i>	06/99	AAA	CEAPE Pernambuco is an urban-based microenterprise credit program. A member of the FENAPE network in Brazil, and of ACCION International, it was founded in 1992.
CERUDEB	Centenary Rural Development Bank, <i>Uganda</i>	12/99	A	CERUDEB was founded as a trust company in 1983, and obtained its banking license in 1992. It received technical assistance from IPC from 1993-98, and its current shareholders are the Uganda Catholic Secretariat, the Catholic Dioceses of Uganda, Hivos-Triodos Fond and SIDI. CERUDEB provides credit and savings services in Kampala and Uganda's district towns.
Citi S&L	Citi Savings & Loans, <i>Ghana</i>	12/99	B	Citi Savings is a private non-bank financial institution that operates in Greater Accra, Ghana. It lends to rotating savings and credit associations (susu clubs) and informal savings collectors, and mobilizes savings from the public.
CHISPA	Fundación Chispa, <i>Nicaragua</i>	06/98	AAA	Founded in 1991, CHISPA works primarily in urban areas of Nicaragua. It is affiliated with the Mennonite Economic Development Association (MEDA).
Chuimequená	Cooperativa San Miguel Chuimequená, <i>Guatemala</i>	09/99	AAA	San Miguel Chuimequená is a Guatemalan credit union. It is a member of the FENACOAC system and it participates in WOCCU's technical assistance program. It offers loans and savings services to its members.
CM Arequipa	Cajas Municipales de Arequipa, <i>Peru</i>	12/98	AAA	The municipal savings and credit banks of Peru are owned by city governments. Arequipa is one of the largest and most successful banks of the national network, and offers pawn and microenterprise loans as well as savings products.
CMM/Med	Corporación Mundial de la Mujer Medellín, Medellín, <i>Colombia</i>	12/99	A	CMM Medellín is affiliated to the Women's World Banking network, and operates in Medellín and surrounding areas. It was founded in 1985 and lends to both men and women.
COMPART	Asociación Programa Compartamos, I.A.P., <i>Mexico</i>	12/99	B	Compartamos is the lending arm of Gente Nueva, a Mexican NGO that was founded in 1985. The program uses a village banking methodology focusing on women, in rural and semi-urban areas of Mexico. It began lending in 1990.
CONSTAN	Constanta, <i>Georgia</i>	12/98	A	Constanta was established in 1997 with a grant from UNHCR/Save the Children as a local NGO to provide group loans to poor self-employed women.
CONTIGO	Fundación CONTIGO, <i>Chile</i>	12/99	A	CONTIGO began lending operations in 1989, and offers credit services to microentrepreneurs in communities in the south of Santiago de Chile.
COOSAJÓ	Cooperativa San José Obrero, <i>Guatemala</i>	09/99	AAA	San José Obrero is a member of the FENACOAC credit union federation, and participated in WOCCU's technical assistance program in Guatemala. It offers loans and savings services to its members.
CRECER	CRECER, <i>Bolivia</i>	06/99	B	CRECER is an NGO working primarily in rural areas of Bolivia. It participates in Freedom from Hunger's "Credit with Education" program, using a village banking methodology.
ECOSABA	ECOSABA, <i>Guatemala</i>	09/99	AAA	ECOSABA is a member of the FENACOAC credit union federation, and participated in WOCCU's technical assistance program in Guatemala. It offers loans and savings services to its members.
Emprender	Emprender Buenos Aires, <i>Argentina</i>	04/99	A	Emprender, founded in 1992, is an ACCION affiliate that offers microenterprise credit in urban areas of Argentina. The majority of its lending is to solidarity groups.
EMT	Ennathian Moulethan Tchonnebat, <i>Cambodia</i>	12/99	A	EMT was founded in 1991 as a rural credit project run by the French agency, GRET. It is in the process of transformation to an independent Institution, and operates in rural areas in the south of Cambodia. It offers individual and solidarity group loans.

ACRONYM	NAME, LOCATION	DATE	DATA QUALITY RATING	DESCRIPTION OF MICROFINANCE PROGRAM
ENLACE	Programa ENLACE, Banco Solidario, Ecuador	09/99	B	ENLACE is the microfinance division of Banco Solidario in Ecuador. The program was founded in 1995, and Banco Solidario receives technical assistance from ACCION International. ENLACE offers both credit and savings services to microentrepreneurs. It also administers a pawn-lending product.
FAMA	Fundación de Apoyo a la Microempresa, Nicaragua	12/99	A	FAMA operates mainly in urban areas of Nicaragua, providing microenterprise credit. It was founded in 1991 and is affiliated with ACCION.
FATEN	Palestine for Credit and Development, West Bank and Gaza	12/99	A	FATEN was initiated as a Save the Children affiliate in 1995 and spun-off as an independent NGO in 1999. It provides microcredit to poor women entrepreneurs using group methodology.
FAULU	Food for the Hungry International, Uganda	12/99	B	Founded in 1995 as an affiliate of Food for the Hungry International, FAULU provides group based credit and voluntary deposit services to small and microentrepreneurs in urban and semi-urban areas.
FED	Fundación Ecuatoriana de Desarrollo, Ecuador	12/99	A	Founded over 30 years ago, FED has an extensive branch network throughout Ecuador providing individual microloans. It is an affiliate of ACCION International.
FEFAD	Foundation for Enterprise Finance and Development, Albania	12/98	A	Operating mainly in urban areas of Albania, FEFAD offers small business loans. It was founded in 1995 as an initiative of the Albanian and German governments, and receives technical assistance from IPC.
FIE	FFP - Fomento a Iniciativas Económicas, S.A., Bolivia	12/99	A	FFP - FIE is a for-profit financial institution offering individual loans to microenterprises in urban areas of Bolivia. It began lending in 1988 as an NGO, and began operating as a "Private Financial Fund" in 1998 under regulation by the Bolivian Superintendency of Banks.
Finamérica	Financiera América, S.A., Colombia	12/99	AAA	Finamérica is a regulated finance company operating in Bogotá and surrounding areas. Its predecessors were the NGO Actuar Bogotá, founded in 1988, the NGO Corposol, and the financiera Finansol. It is an affiliate of ACCION International.
FINCA EC	FINCA Ecuador, Ecuador	12/98	B	FINCA Ecuador was founded in 1994 and provides village banking services to low-income families in three regions of the country: Pichincha, Guayas, and Imbabura.
FINCA HO	FINCA Honduras, Honduras	12/98	B	FINCA Honduras is one of the largest FINCA affiliates in terms of portfolio size. It was founded in 1989 and operates in 13 of the 18 departamentos of Honduras.
FINCA KY	FINCA Kyrgyzstan, Kyrgyzstan	12/99	A	Founded in 1995, FINCA Kyrgyzstan is operating in five of the six oblasts of Kyrgyzstan and offers both village banking and individual loan products to 10,000 clients.
FINCA MA	FINCA Malawi, Malawi	08/99	A	FINCA Malawi works with women in the country's southern region, and has been in operation since 1994.
FINCA MX	FINCA México, Mexico	12/98	B	FINCA Mexico currently operates village banking groups in the state of Morelos. It was founded in 1989.
FINCA NI	FINCA Nicaragua, Nicaragua	06/99	A	FINCA's Nicaraguan affiliate began lending in 1992, and has since expanded to have branch offices in several urban areas in Nicaragua.
FINCA UG	FINCA Uganda, Uganda	12/99	AAA	One of FINCA's largest programs, FINCA Uganda has been in operation since 1992. The program offers village banking services to women in Kampala, Jinja and Lira.
FMM Pop	Fundación Mundo Mujer Popayán, Colombia	12/99	B	FMM Popayán is a Women's World Banking affiliate working in the state of Cauca in Colombia. It began lending to microenterprises in 1985.
FOCCAS	Foundation for Credit and Community Assistance, Uganda	12/98	B	FOCCAS, an affiliate of Freedom from Hunger, operates a village banking-style program in Uganda's district towns and villages. It is based on a credit with education model.
FONDECO	Fondo de Desarrollo Comunal, Bolivia	12/99	A	FONDECO is an NGO working primarily in rural areas in Bolivia. It was founded in 1995.
FUNADEH	Fundación Nacional para el Desarrollo de Honduras, Honduras	12/97	AAA	FUNADEH works with small and microenterprises in urban areas of Honduras. It is an affiliate of ACCION International and was founded in 1985.
			DATA	

ACRONYM	NAME, LOCATION	DATE	QUALITY RATING	DESCRIPTION OF MICROFINANCE PROGRAM
Fundusz Mikro	Fundusz Mikro, <i>Poland</i>	09/99	A	Fundusz Mikro began operations in 1995, and now lends to microentrepreneurs across Poland through an extensive branch network. It is a member of the MicroFinance Network.
FWWB Cali	Fundación Women's World Banking Cali, <i>Colombia</i>	12/98	AAA	FWWB Cali, an affiliate of Women's World Banking, began lending in 1982. It makes individual loans to urban microenterprises in Cali.
FWWB India	Friends of WWB, <i>India</i>	03/98	A	FWWB India lends to rural women through savings and credit groups. It was founded in 1982.
HUBLAG	HUBLAG Development Finance Programme, <i>Philippines</i>	12/98	A	The Hublag Development Finance Programme is the microlending arm of the Gerry Roxas Foundation. It lends to microenterprises with both individual and group lending methodologies, and began operations in 1987.
Inicjatywa Mikro	Inicjatywa Mikro, <i>Poland</i>	12/99	A	Inicjatywa Mikro lends to microenterprises mainly in urban areas of Poland. It is affiliated with Opportunity International.
Kafo Jiginew	Kafo Jiginew, <i>Mali</i>	12/99	B	Kafo Jiginew is a federation of credit unions operating in rural areas in the south-central region of Mali. It was founded in 1987.
KASHF	Kashf Foundation, <i>Pakistan</i>	03/00	A	KASHF is a NGO founded in 1996 to provide microcredit to low income women entrepreneurs in rural and urban areas. It is an affiliate of ASA, Bangladesh.
Los Andes	Caja de Ahorros y Créditos Los Andes, <i>Bolivia</i>	12/99	A	Caja Los Andes grew out of ProCrédito, an NGO that began lending operations in 1992. It was converted to a special finance company in 1995. Los Andes operates in urban and some rural areas in Bolivia, providing individual loans and savings services.
LOK	LOK Sarajevo <i>Bosnia and Herzegovina</i>	12/99	B	LOK is a NGO founded in 1997 to provide individual credit to small entrepreneurs in urban and rural areas. It is financed by the Local Initiatives Department of the World Bank that aims to improve access to credit to the poor to promote economic reconstruction.
MC-SEA	Mercy Corps – Scottish European Aid, <i>Bosnia and Herzegovina</i>	12/99	B	MC SEA is a NGO that started its operation in 1997 and provides individual credit to microenterprises in war affected areas. It is financed by the Local Initiatives Department of the World Bank that aims to improve access to credit to the poor to promote economic reconstruction.
MEB	Microenterprise Bank, <i>Bosnia</i>	12/98	A	The Microenterprise Bank was launched by IPC in 1997 to provide financial services such as loans, money transfers and deposit services to micro and small enterprises in Bosnia-Herzegovina.
Mibanco	Banco de la Microempresa, <i>Peru</i>	12/99	A	Mibanco is a commercial microfinance bank offering microenterprise credit in Lima, and is affiliated with ACCION International. Formerly operated as an NGO under the name Acción Comunitaria del Perú, the institution was transformed into a bank in 1998.
Microfund for Women	Microfund for Women, <i>Jordan</i>	12/99	B	This former Save the Children village banking program in Jordan was founded in 1994. It focuses primarily on Palestinian women from squatter communities.
MIKROFIN	MIKROFIN, <i>Bosnia and Herzegovina</i>	12/99	B	MIKROFIN is an affiliate of CARE international and started its operations in 1997. It provides individual and group loans to microentrepreneurs in semi-urban areas. It is financed by the Local Initiatives Department of the World Bank and CARE.
Moyután	Cooperativa Moyután, <i>Guatemala</i>	09/99	AAA	Moyután is a member of the FENACOAC credit union federation, and participated in WOCCU's technical assistance program in Guatemala. It offers loans and savings services to its members.
Moznosti	Moznosti, <i>Macedonia</i>	12/99	A	Moznosti, an affiliate of Opportunity International, began lending in 1996. It operates both in urban and rural areas of Macedonia, and lends to microenterprises and small businesses.
Nachala	Nachala, <i>Bulgaria</i>	12/99	B	Nachala, an affiliate of Opportunity International, converted into a cooperative in 1998. It operates both in urban and rural areas and makes individual loans to microenterprises and small businesses for working capital.
Network Leasing	Network Leasing Corporation Ltd., <i>Pakistan</i>	06/99	A	Network Leasing is a private for profit financial company which offers financial services to microentrepreneurs. It uses leasing, a methodology considered compatible with Islamic law, which forbids borrowing on interest.

ACRONYM	NAME, LOCATION	DATE	DATA QUALITY RATING	DESCRIPTION OF MICROFINANCE PROGRAM
NIRDHAN	Nirdhan Utthan, <i>Nepal</i>	06/99	A	Nirdhan is an NGO founded in 1991. It is a Grameen replicate providing credit and deposit services to the poor. Both compulsory and voluntary deposits services are offered. The NGO has transformed into Nirdhan Utthan Bank Limited in July 1999. It is a member of the CASHPOR network.
NOA	NOA, <i>Croatia</i>	12/98	B	NOA, an affiliate of Opportunity International, was started in 1997 to provide individual and group loans to self employed persons in agriculture and small businesses.
Nyésigiso	Réseau Nyésigiso, <i>Mali</i>	12/99	A	Established in 1990 as a credit union, Nyésigiso offers credit and savings services to both men and women in urban and rural areas of Mali. It is a member of the Development International Desjardins network.
Oscus	Cooperativa Oscus Ltda., <i>Ecuador</i>	06/99	AAA	Oscus is a credit union in Ecuador, and it participates in WOCCU's technical assistance program. Oscus offers both credit and voluntary savings services to members.
PADME	Association pour la Promotion et l'Appui au Développement des MicroEntreprises, <i>Benin</i>	06/99	AAA	PADME is an NGO working in urban and peri-urban areas of Benin. It offers loans to small and microenterprises, and was founded in 1993.
PAMÉCAS	Programme d'Appui aux Mutuelles d'Epargne et de Crédit au Sénégal, <i>Senegal</i>	12/99	A	Pamécas was established as a credit union in 1996. It offers a wide range of savings and credit services, primarily to women, using individual, solidarity and village banking products in urban and peri-urban Senegal. It is a member of the Development International Desjardins network.
Portosol	Portosol, <i>Brazil</i>	06/99	AAA	Portosol is an NGO operating in Porto Alegre in Brazil. It offers individual loans to microentrepreneurs and was founded in 1996.
Pride Vita Guinea	Pride Finance Guinea, <i>Republic of Guinea</i>	12/98	AAA	Pride Vita (or Pride Finance) works primarily in urban and semi-urban areas of Guinea and was founded in 1991.
PRIDE TZ	Promotion of Rural Initiatives and Development Enterprises, <i>Tanzania</i>	12/99	A	PRIDE offers microcredit in urban and semi-urban areas of Tanzania. It was founded in 1993.
PRIDE UG	Promotion of Rural Initiatives and Development Enterprises, <i>Uganda</i>	12/98	A	PRIDE in Uganda was started in 1996. It provides microloans to borrowers organized as groups in urban and semi-urban areas of Uganda.
PRODEM	Fundación para la Promoción y Desarrollo de la Microempresa, <i>Bolivia</i>	12/99	B	PRODEM began in 1986 as an NGO offering group loans to urban microenterprises, and was the precursor to BancoSol. When its urban portfolio was passed to BancoSol in 1992, it began to develop a new clientele in rural areas in Bolivia.
ProEmpresa	EDYPME ProEmpresa, <i>Peru</i>	12/99	A	ProEmpresa, formerly the IDESI network, is now operating as a formal financial institution in Peru.
ProMujer	ProMujer, <i>Bolivia</i>	12/99	A	ProMujer Bolivia was founded in 1991, to provide training and credit to predominantly women clients.
RFF	Rural Finance Facility, <i>South Africa</i>	03/99	AAA	RFF is a non-profit organization offering microcredit in rural areas of South Africa. The institution also operates a separate housing loan program for salaried employees. RFF's microcredit program was established in 1993.
RSPI	Rangtay Sa Pagrangay Inc., <i>Philippines</i>	12/98	A	RSPI, an Opportunity International partner, lends primarily to self-help groups in the Cordillera and Iloco regions of the Philippines.
Sagrario	Cooperativa El Sagrario, Ltda., <i>Ecuador</i>	06/99	AAA	El Sagrario is a credit union in Ecuador, and participates in WOCCU's technical assistance program, begun in 1995. It offers both credit and voluntary savings services to members.
Sartawi	Servicio Financiero Rural, Fundación Sartawi, <i>Bolivia</i>	12/98	A	Fundación Sartawi offers group credit to producers and other microenterprises in rural areas of Bolivia. The credit program has operated in its current form since 1990.
SAT	Sinapi Aba Trust, <i>Ghana</i>	12/98	B	The Sinapi Aba Trust is a member of Opportunity International, and offers individual and group loans both in rural and urban areas of Ghana. It was founded in 1995.

ACRONYM	NAME, LOCATION	DATE	DATA QUALITY RATING	DESCRIPTION OF MICROFINANCE PROGRAM
SEEDS	Sarvodaya Economic Enterprises, <i>Sri Lanka</i>	03/99	B	SEEDS was established in 1987 to provide loans for employment creation and increasing standard of living, to mobilize deposits through compulsory and voluntary savings programs and to provide life and natural disaster insurances.
SEF	Small Enterprise Foundation, <i>South Africa</i>	06/99	AAA	SEF is an NGO working in the Northern Province of South Africa. It works with a Grameen methodology to provide loans to rural women, and was founded in 1991.
SHARE	Society for Helping Awakening Rural poor through Education, <i>India</i>	03/99	AAA	SHARE lends to women in rural areas of Andhra Pradesh in India. It is a member of the CASHPOR network.
SUNRISE	SUNRISE Sarajevo <i>Bosnia and Herzegovina</i>	12/99	B	SUNRISE is a NGO founded in 1997 to provide individual credit to start-up and established micro enterprises. It is financed by the Local Initiatives Department of the World Bank that aims to improve access to credit to the poor to promote economic reconstruction.
Tonantel	Cooperativa Tonantel, <i>Guatemala</i>	09/99	AAA	Tonantel is a member of the FENACOAC credit union federation, and participated in WOCCU's technical assistance program in Guatemala. It offers loans and savings services to its members.
TSPI	TSPI Development Corporation, <i>Philippines</i>	06/99	A	TSPI operates in urban and semi-urban areas of the Philippines, offering group loans to microenterprises. It was founded in 1981 and is affiliated to the Opportunity Network, the MicroFinance Network and CASHPOR, among others.
Tulcán	Cooperativa Tulcán, Ltda., <i>Ecuador</i>	06/99	AAA	Tulcán is a credit union in Ecuador, and participates in WOCCU's technical assistance program, begun in 1995. It offers both credit and voluntary savings services to members.
UNRWA	United Nations Relief Works Agency, <i>Gaza</i>	12/99	B	The Income Generation Program of UNRWA lends to microenterprises and small businesses in Gaza. It began operations in 1991.
UWFT	Uganda Women's Finance Trust, <i>Uganda</i>	12/99	A	Uganda Women's Finance Trust offers solidarity group and individual loans to women in Kampala and district towns of Uganda. It is an affiliate of Women's World Banking.
Vivacred	Vivacred, <i>Brazil</i>	06/99	AAA	Vivacred is an NGO operating in Rio de Janeiro in Brazil. It offers individual loans to microentrepreneurs, and was founded in 1997.
WAGES	Women and Associations for Gain both Economic and Social, <i>Togo</i>	12/99	A	WAGES serves women in Lomé and surrounding areas, working with borrowers' associations in a village-banking type methodology. It was founded in 1994.
WR Honduras	World Relief Honduras, <i>Honduras</i>	09/99	B	World Relief, Honduras was founded in 1981 as a NGO. It is part of COVELO network and network of NGOs FODIPREH. It offers a mix of individual, solidarity and village banking loan products to women in urban and semi-urban areas in Honduras.
WVB	World Vision, <i>Bosnia</i>	09/99	A	Founded in 1996 as an affiliate of World Vision, the NGO provides individual and group loans to self-employed small and microentrepreneurs.

Note: Sources for macroeconomic country data are the IMF, *International Financial Statistics* and the World Bank, *World Development Indicators*, unless otherwise indicated.