

# Sub-Saharan Africa 2009

## MICROFINANCE ANALYSIS AND BENCHMARKING REPORT

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

April 2010

### OVERVIEW

Over the last decade, the microfinance sector in Sub-Saharan Africa (SSA) has capitalized on positive developments that have led to increased outreach and improved performance of microfinance institutions (MFIs). MFIs wrapped up 2007 with impressive growth in outreach, reaching operational self-sufficiency for the first time.

With the beginning of a new year came many challenges. The food and fuel price hikes that occurred early in 2008 were followed by a severe financial and global economic contraction. This triple shock had severe repercussions on economies throughout SSA. According to the International Monetary Fund, gross domestic product growth slowed from 7 percent in 2007 to 5.5 percent in 2008, while inflation rose from 6.8 percent to 11.9 percent in the same time period. The impact of the crises on the real economy, and in particular on MFI clients' livelihoods, was expected to surface in the performance of microfinance in the region, shaking the hard-won gains of microfinance in SSA.

This report analyzes in detail the state of microfinance in 2008 throughout SSA focusing on key growth trends, major legal

and regulatory changes, funding for microfinance, and performance of MFIs.

### GROWTH TRENDS

⇒ *Borrower growth slowed in all but deposit mobilizing MFIs, but average loan balance increased.*

⇒ *Depositor growth increased, but average deposit size decreased significantly.*

At the end of 2008, MFIs in SSA reported reaching 6.5 million borrowers and a significantly larger 16.5 million depositors. With considerably more borrowers than both Eastern Europe and Central Asia (ECA) and Middle East and North Africa (MENA), these figures still bring SSA's penetration rate of borrowers to just 3 percent – significantly lower than all other regions globally aside from ECA.<sup>1</sup> The savings penetration rate is higher at 5 percent. Moreover, while SSA witnessed a slowed growth in borrowers in 2008, there was a continued and strengthened uptake for depositors, as their growth rate increased by 10 percent to reach 40 percent.

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<sup>1</sup> Lending penetration rate: Active borrowers as a percent of population living below the national poverty line; Savings penetration rate: Depositors as a percent of population living below the national poverty line.



## 2 Sub-Saharan Africa 2009 Microfinance Analysis and Benchmarking Report

### SUB-SAHARAN AFRICA: KEY INDICATORS 2008

BENCHMARK INDICATORS		
Indicator	Value	Trend
Borrowers (Millions) *	6.5	↑
Loan Portfolio (Mil. USD)*	3.1	↑
Depositors (Millions)*	16.6	↑
Deposits (Mil. USD)*	2.8	↑
Average Loan Balance (USD)	311	↑
Average Deposit Size (USD)	96	↓
Debt/Equity	2.3	=
Real Yield on Portfolio	23%	↓
Operating Expenses/Assets	18%	↑
Cost per Borrower	134	↑
Portfolio at Risk > 30 days	4.7%	↓

Source: MIX Market 2008; \*Totals from 195 MFIs, other figures are medians

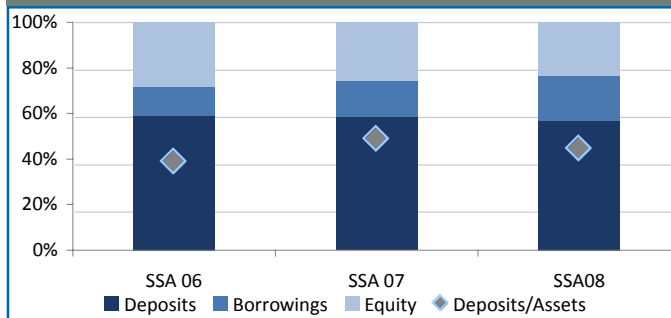
TOP TEN COUNTRIES BY BORROWERS			
#	Country	Borrowers	% of SSA Borrowers
1	Ethiopia	1,840,788	28.4%
2	Kenya	1,093,515	16.9%
3	South Africa	722,559	11.1%
4	Ghana	354,293	5.5%
5	Nigeria	348,750	5.4%
6	Tanzania	270,069	4.2%
7	Uganda	262,106	4.0%
8	Mali	218,291	3.4%
9	Senegal	217,891	3.4%
10	Cameroon	165,470	2.6%

Source: MIX Market 2008, results are totals

TYPE OF LEGISLATION BY COUNTRY		
Type of Legislation	Countries (names in bold indicate a change occurred between 2007 and 2008)	
Specialized Microfinance Laws (29)	<b>Burundi</b> CEMAC Countries (6) Comoros DRC <b>Djibouti</b> Ethiopia The Gambia Guinea	Kenya Madagascar Mauritania <b>Mozambique</b> <b>Rwanda</b> Sudan Uganda <b>WAEMU Countries (8)</b> Zambia
Drafting Specialized Microfinance Laws (5)	<b>Cape Verde</b> <b>Liberia</b> <b>Malawi</b>	<b>Sierra Leone</b> <b>Zimbabwe</b>
MFIs implicitly or explicitly fall under the broader banking or non banking financial institutions legislation (15)	Angola Botswana Ghana Lesotho Liberia Malawi Mauritius	Namibia Nigeria Sao Tome Sierra Leone Somalia South Africa Tanzania Zimbabwe
No Legislation/No Framework (3)	Eritrea Seychelles	Swaziland

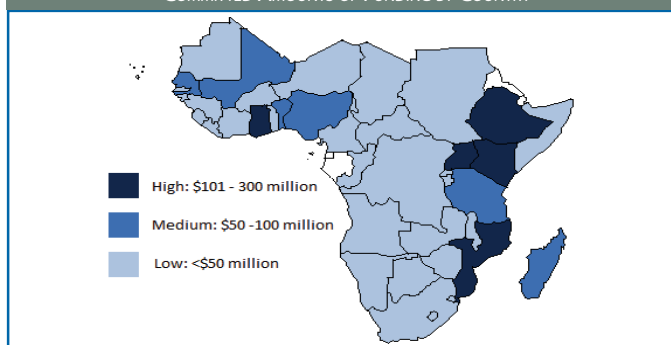
\* CEMAC countries: Cameroon, Central Africa Republic, Chad, Congo, Equatorial Guinea, and Gabon. WAEMU countries: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.  
 Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

### FUNDING STRUCTURE TRENDS



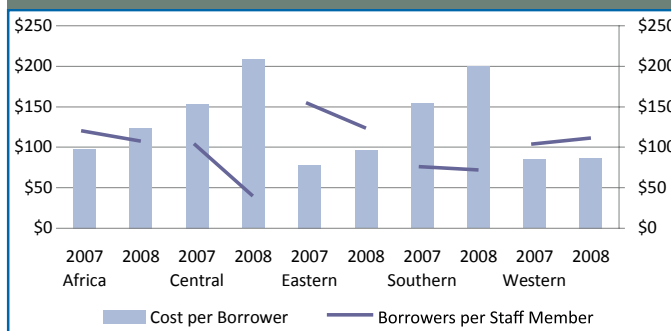
Source: MIX Market, 2006-2008. Results are peer group medians.

### COMMITTED AMOUNTS OF FUNDING BY COUNTRY



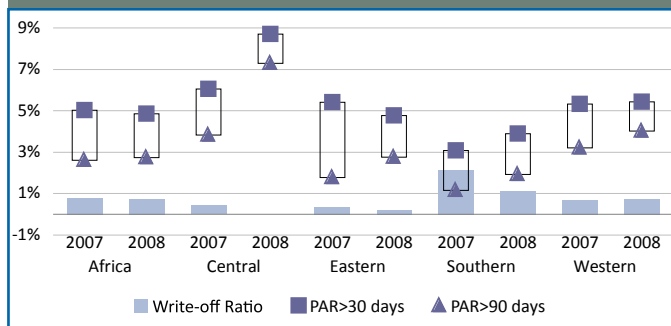
Source: 2009 Microfinance Funder Survey, CGAP; Number of respondents: 47 of 61 funders are active in SSA; Includes only projects attributed to a single country, multi-country projects are not included.

### EFFICIENCY AND PRODUCTIVITY TRENDS BY SUB-REGION



Source: MIX Market, 2008. Results are peer group totals.

### PORTFOLIO RISK TRENDS



Source: MIX Market, results based on medians

TABLE 1 2008 VOLUME FIGURES AND TRENDS BY SUB-REGION

	Borrowers (thousands)	2007-08 Growth Rate	Loan Portfolio (Mil USD)	2007-08 Growth Rate	Depositors (thousands)	2007-08 Growth Rate	Deposits (Mil USD)	2007-08 Growth Rate
SSA	6,484	12%	3,089	26%	16,573	40%	2,798	10%
Central	269	21%	214	20%	719	12%	354	25%
Eastern	3,521	12%	1,481	35%	8,501	33%	1,308	12%
Southern	1,006	14%	486	21%	1,857	45%	236	-5%
Western	1,688	11%	908	17%	5,497	56%	901	8%

Source: MIX Market; 2007-2008. Results based on totals.

### Overall slowed growth in borrowers, but not for MFIs mobilizing deposits

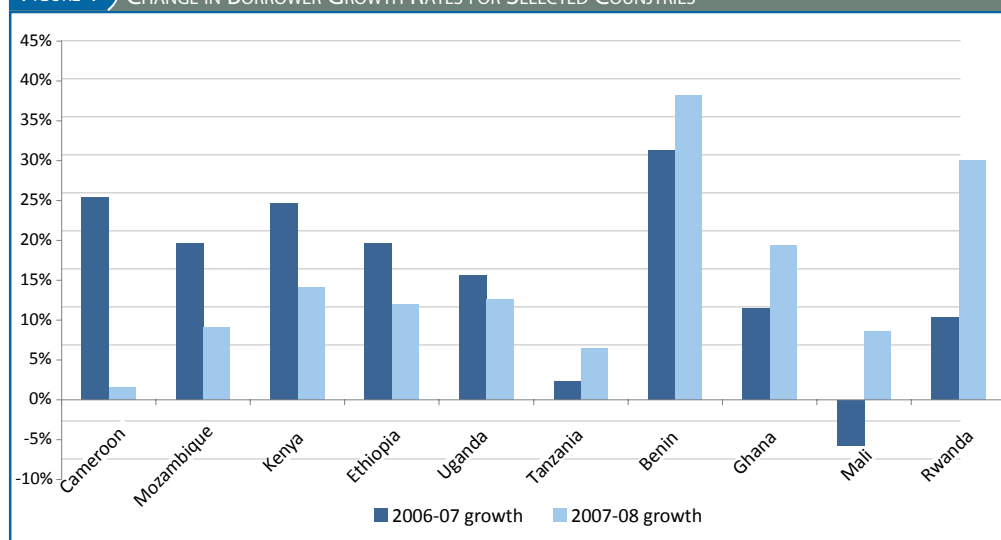
SSA experienced a dramatically slowed growth in borrowers in 2008, from 25 percent in 2007 to just 12 percent in 2008 (see **Table 1**). This was in line with the global trend, as all regions other than Asia experienced similar slowdowns. As the economic crisis hit, MFIs did not expand their client base, instead concentrating on trusted, known borrowers.

enced a decrease in borrower growth from 28 percent (2006-07) to 12 percent (2007-08).

Central Africa was the only sub-region not to experience a slowdown in borrower growth. Despite the drastic drop in median growth rates in Cameroon, a significant market in the sub-region, overall borrower growth rates shifted from being negative for 2006-07 to over 20 percent in 2007-08.

Deposit-taking MFIs are also an exception to decreased borrower growth. These MFIs dominate the

FIGURE 1 CHANGE IN BORROWER GROWTH RATES FOR SELECTED COUNTRIES



Source: MIX Market, 2006-2008. Results based on medians.

The largest markets in Eastern Africa experienced serious slowdowns in median growth rates (see **Figure 1**) as inflation rose in Ethiopia and the post-election troubles shook Kenya. Tanzania and Rwanda saw increases in borrower growth, but these are smaller markets, so overall the Eastern sub-region experi-

market, reaching 86 percent of all SSA borrowers. Moreover, concentration of clients in these deposit-taking institutions has increased as they grew faster than MFIs that do not mobilize deposits. In fact, the growth in borrowers at the median deposit-taking MFI approached 20 percent, much higher than SSA's 12 percent growth in borrowers across all types of MFIs (high financial intermediation, low financial interme-

diation, no financial intermediation).<sup>2</sup> MFIs that do

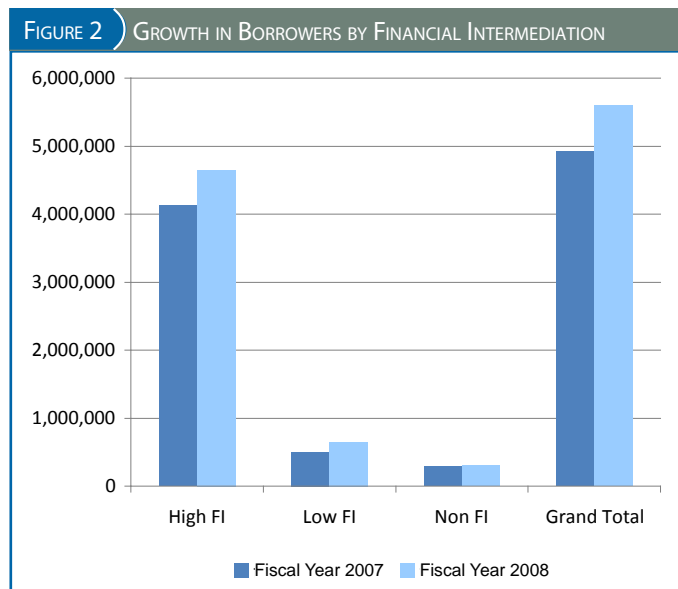
<sup>2</sup> Financial intermediation is the process of mobilizing deposits and disbursing them as loans to clients or investing them in other types of financial instruments.

*High financial intermediation:* MFIs with voluntary savings >20% of total assets

*Low financial intermediation:* MFIs with voluntary savings < 20% of total assets

*No financial intermediation:* MFIs with no voluntary savings

not mobilize deposits experienced zero borrower growth (see **Figure 2**).



Source: MIX Market, 2007-2008. Results are totals.

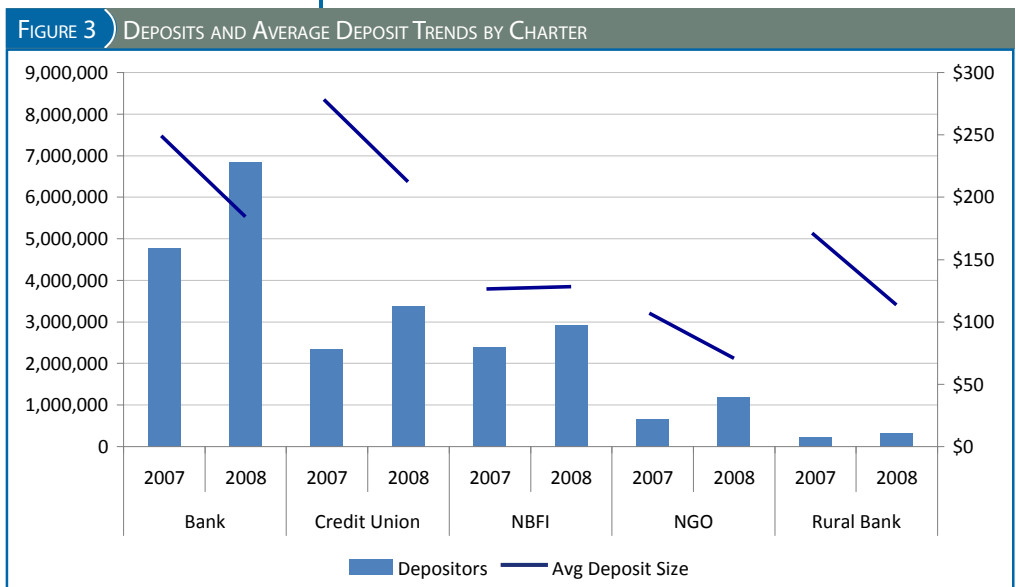
The concentration of growth in borrowers among deposit-taking MFIs is especially evident in Central and Eastern Africa. In Cameroon, the median deposit-taking MFI had an increase in borrowers of 24 percent, compared to negative growth at non-deposit taking MFIs. Kenya, Uganda, and Tanzania all enjoyed positive growth at the median deposit-taking MFIs and a decreasing number of borrowers at the median MFI without deposits.

One of the reasons behind deposit-taking MFIs' higher growth in number of borrowers is that they typically have lower interest rates on loans. For example, the median yield on portfolio at a deposit-taking MFI is nearly 15 percent lower than at an MFI that does not take deposits. Deposit-taking MFIs

also tend to offer higher loan balances that are attractive to many clients.

### Increasing number of depositors, but decreasing deposit size

In a year where growth in borrowers slowed, growth in depositors increased, underscoring the importance of savings. In fact, SSA had the largest growth in depositors of any region in 2008, at 40 percent. However, average deposit size across the region dropped by 22 percent between 2007 and 2008. Several factors could explain the decrease in deposit balance. Households likely had less cashflow as their micro-businesses struggled due to the multiple crises and as they faced higher prices for basic goods such as food. It is also possible that clients dipped into their own savings rather than took out new loans, given uncertainties of how they would be able to repay. The drop in borrower growth rates helps to substantiate this assumption.



\* NBF = Non Bank Financial Institution. NGO = Non Governmental Organization. Source: MIX Market, 2007-2008. Results based on totals.

The trend of decreasing deposit size played out with variations across institutional charters and sub-regions. Banks and credit unions, which together comprise over 80 percent of the deposits in the region,

each experienced a decrease in average deposit size of over 20 percent (see **Figure 3**). In Southern Africa, where banks account for nearly all of the deposits, a significant decrease in deposits at one large bank led to a 46 percent decrease in the average deposit size. In Western Africa, where credit unions account for three quarters of all deposits, every country experienced lower average deposit size. Benin, The Gambia, Ghana, and Niger all experienced decreased deposit sizes of at least 30 percent.

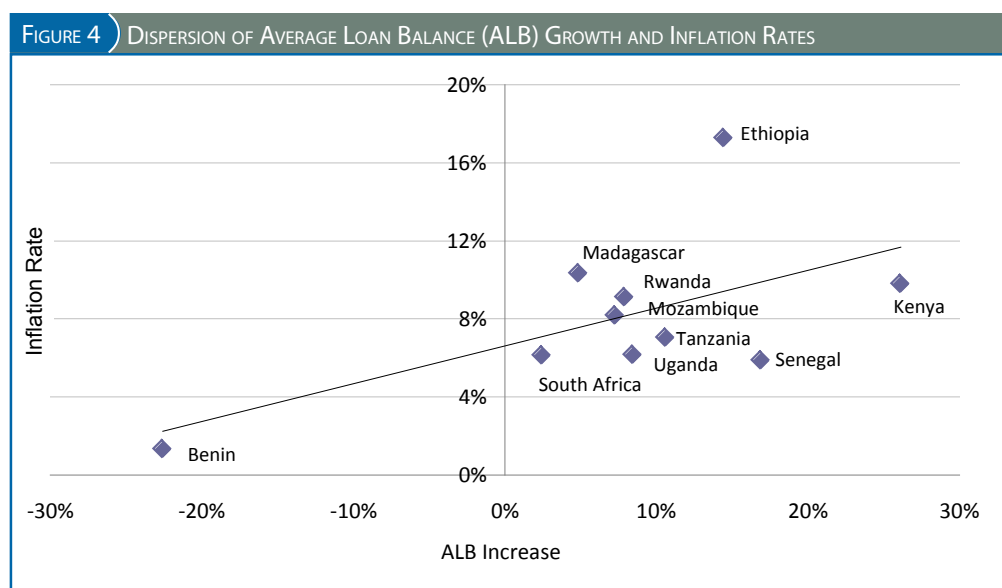
### Increasing average loan balance

The average loan balance in SSA increased by 12 percent as portfolios grew more quickly than borrowers in 2008. This has both demand-side and supply-side explanations. Clients needed larger loan balances to keep up with inflation and the ensuing increased cost of goods that affected their micro-businesses and day-to-day expenses. As MFIs slowed in taking on new loan clients, they also could offer larger loan sizes to existing clients.

**Figure 4** shows a correlation between inflation rate and average loan balance. Increased average loan balance was especially evident in Eastern Africa, where portfolio volumes grew almost three times as

quickly as borrowers in 2008 and average loan balance increased by 20 percent. In Ethiopia, which historically has had low loan balances, the high 17 percent inflation rate in 2008 contributed to the average loan balance increasing by 14 percent. But it was the dramatic increase of average loan size in Kenya by over a quarter that had the largest impact on average loan balance within Eastern Africa. Demand for larger loans spiked in the wake of the post-election crisis as clients sought to rebuild homes and businesses that had burned to the ground.

Not all countries experienced increased average loan balance. Several Central African countries, such as Cameroon, the Central African Republic, and Chad, experienced little to no inflation. An outlier within the sub-region is the Democratic Republic of Congo (DRC), where a large increase in average loan size coincided with a very high inflation rate.



Source: MIX Market, 2008.

## A view across sub-regions...

We have already seen variation in how trends play out across SSA. An overview by sub-region allows for further differentiated analysis of growth trends.

### **CENTRAL AFRICA**

Following a decrease in borrowers in 2007, Central Africa was the only sub-region to experience a significant increase in borrowers in 2008, albeit from a low base. Burundi, DRC, and Cameroon all witnessed considerable growth in borrowers. Overall, Central Africa represents just 4 percent of total borrower outreach in SSA, with a few leading MFIs accounting for over 60 percent of outreach. The lending penetration rate is the lowest in SSA at 1 percent. Total depositor outreach did not grow at the same pace as borrowers, though there are three times as many depositors as borrowers.

### **EASTERN AFRICA**

With over 3.5 million borrowers, Eastern Africa accounts for over half of the microfinance borrowers within SSA. This sub-region is home to the two largest markets of SSA – Ethiopia and Kenya – which together serve 45 percent of borrowers and 43 percent of depositors across the continent. Not surprisingly, this sub-region has one of the highest penetration rates within SSA, at 4 percent. However, a few of the large markets within Eastern Africa were struck with high inflation rates, and this was the only sub-region in 2008 to experience a decrease in growth rate of borrowers, depositors, loans, and deposits.

### **SOUTHERN AFRICA**

Southern Africa is the second smallest market within SSA. With just over 1 million borrowers in 2008, it serves 16 percent of SSA borrowers. Despite penetration rates below 2 percent, this sub-region had the largest percent decrease in borrower growth in 2008 and experienced an even more drastic decrease in loan portfolio growth. South Africa, which accounts for over 70 percent of clients within the sub-region and is heavily dominated by two large banks, accounts for a major part of the decreasing growth in portfolio, which plummeted from 121 percent in 2007 to just 21 percent in 2008 across the sub-region. However, at the same time, the other countries within this sub-region (aside from Zambia) witnessed growth in their portfolios. In fact, Malawi doubled its loan portfolio size as two young MFIs experienced high growth.

### **WESTERN AFRICA**

Western Africa serves just over a quarter of SSA borrowers. It witnessed the slowest growth in both borrowers and loan portfolio, perhaps because of its already relatively higher penetration rate, at 4 percent. Credit unions, which reach over one-third of borrowers and cover two-thirds of the loan portfolio of this market, experienced the slowest growth in borrowers of all institutional charters, but their presence in this region played a big role in its large increase in depositors.

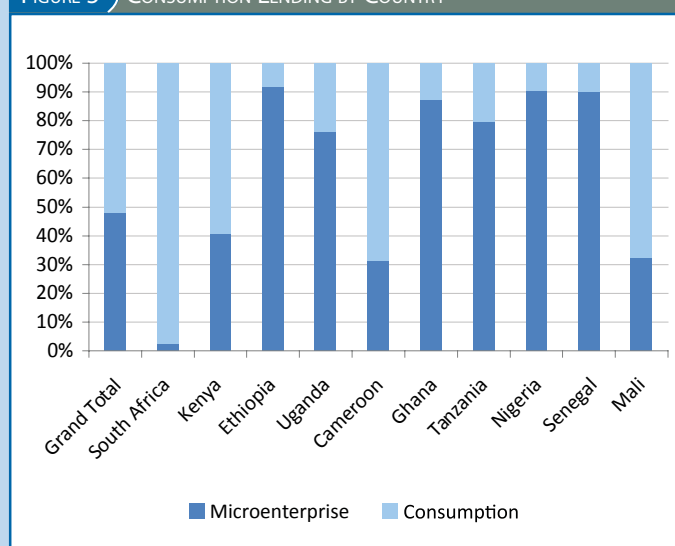
## Consumption lending in SSA

MFI in SSA offer a variety of deposit and loan products, including consumption loans – loans that finance goods or services not intended for use in a business. Consumption loans finance consumption goods and household needs, including education and housing/mortgage loans.

Just over half of the loan portfolio in SSA is in consumption lending. South Africa alone accounts for almost half of the consumption loan portfolio, and Kenya accounts for over a quarter (while the loan portfolios in these countries each account for just under one quarter of the general microfinance

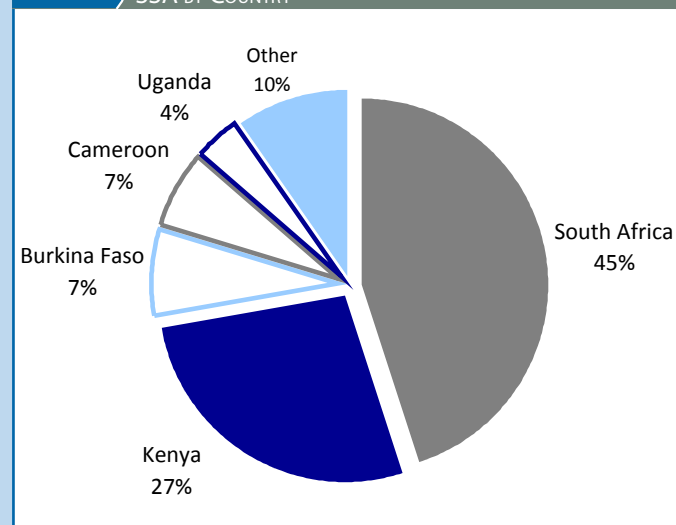
loan portfolios within SSA). This is due to the preponderance of credit offerings provided through banks in these countries, which often have more diverse credit products. Is consumption lending risky business? The numbers do not provide a clear answer. Mali has a relatively low portfolio risk with a large percentage of portfolio in consumption loans. Conversely, Ghana has relatively higher risk with a portfolio that is heavily micro-enterprise focused. However, two countries with a significant percentage of consumption loans, South Africa and Cameroon, also have two of the riskiest portfolios (with PAR>30 reaching 10 and 20 percent, respectively).

FIGURE 5 CONSUMPTION LENDING BY COUNTRY



Source: MIX Market, 2008.

FIGURE 6 PERCENTAGE OF TOTAL CONSUMPTION PORTFOLIO (IN USD) IN SSA BY COUNTRY



Source: MIX Market, 2008.

### MICROFINANCE POLICY AND REGULATORY ENVIRONMENT AND TRENDS<sup>3</sup>

⇒ Between 2007 and 2008, 13 countries adopted, drafted, or amended laws and/or regulations pertaining to microfinance providers, and legislation/regulation is pending in five additional countries.

<sup>3</sup> This section draws on CGAP's 2009 *Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa*.

⇒ Branchless banking is taking off in SSA with operations in 28 countries; the lack of specific guidelines for m-banking is clearly not stifling innovation.

⇒ The number of Financial Intelligence Units (FIUs) to implement anti-money laundering/combating the financing of terrorism (AML/CFT) regulations has more than tripled.<sup>4</sup>

<sup>4</sup> FIUs are named differently across sub-regions, e.g., Agence nationale des investigations financières (ANIF) in Central Africa and Centre national de traitement des informations financières (CENTIF) in West Africa.

Microfinance continues to be high on the agenda of many governments in SSA. The triple shocks of the food, financial, and fuel crises of late 2008 heightened governments' interest in the potential of financial services to help the most vulnerable segments of the population. At the time of writing, the heads of state of African Union member states had just approved a policy note on advancing the microfinance sector, including adoption of the Key Principles of Microfinance and a commitment to promote financial stability, increased access, and client protection.

Several promising changes are evident in the region, such as a push toward transparency and more rigorous standards, as well as the adoption of important reforms on the regulation front, including a new law regulating MFIs in the West Africa Economic and Monetary Union (WAEMU)<sup>5</sup> region. However, supervision capacity to enforce and safeguard regulations remains very thin. The integration of microfinance into formal financial systems brings new compliance requirements, such as AML/CFT regulations, as well as new opportunities, for example to tap into payment systems, get real time settlement, etc.

### Positive moves on the regulation of microfinance

National governments across SSA take regulation of microfinance seriously; all but three countries explicitly cover microfinance in legislation or regulations. Typically, specialized microfinance laws cover MFIs and financial cooperatives, but not commercial banks. In 30 countries, the regulation of financial cooperatives falls under a specialized microfinance or non bank financial institution (NBFIs) law, or under the banking/financial institutions law. In 15 countries, financial cooperatives are regulated by a separate law or act that governs the full range of cooperatives.

In most countries, these laws and regulations are relatively new; 27 of the 29 countries with microfi-

<sup>5</sup> WAEMU countries: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

nance-specific laws or regulations have implemented these since 2002. Between 2007 and 2008, 13 countries adopted, drafted, or amended laws and/or regulations pertaining to microfinance providers.<sup>6</sup> An additional five countries are currently in the process of drafting or passing specialized microfinance laws or regulations. Only Eritrea, Swaziland, and Seychelles have no legislation in place whatsoever to cover the microfinance sector. Table 2 summarizes type of legislation and changes to legislation in SSA countries.

Seventeen countries have existing or draft legislation that categorizes MFIs by scope of activities or by size, and generally adjusts the type and level of regulation in proportion to the systemic risks posed by these categories.

### Highlights of the revised microfinance law in WAEMU

- The licensing process now applies to all MFIs (credit unions, private companies, and associations).
- All major MFIs (outstanding portfolio greater than 4 million USD) now fall under the supervision of the Central Bank (BCEAO) and the Banking Commission; small and medium-sized MFIs will be supervised by the ministries of finance.
- Major MFIs are required to have an annual external audit and report monthly financial information to authorities.
- The consolidation of savings and credit groups into medium-sized entities with more financial and technical capacities is recommended.
- A common accounting framework has been approved and is mandatory starting January 2010.
- All MFIs must be members of a recognized national microfinance association.

<sup>6</sup> For some countries, such as Uganda, some of the MFIs are covered by a specialized microfinance law and others fall under other laws.



Type of Legislation	Countries (names in bold indicate a change occurred between 2007 and 2008)
Specialized Microfinance Laws (29)	<p><b>Burundi</b> CEMAC Countries (6)<sup>7</sup> Comoros DRC <b>Djibouti</b> Ethiopia The Gambia Guinea</p> <p>Kenya Madagascar Mauritania <b>Mozambique</b> <b>Rwanda</b> <b>Sudan</b> Uganda <b>WAEMU Countries (8)</b> Zambia</p>
Drafting Specialized Microfinance Laws (5)	<p><b>Cape Verde</b> <b>Liberia</b> <b>Malawi</b></p> <p><b>Sierra Leone</b> <b>Zimbabwe</b></p>
MFIs implicitly or explicitly fall under the broader banking or non banking financial institutions legislation (15)	<p>Angola Botswana Ghana Lesotho Liberia Malawi Mauritius</p> <p>Namibia Nigeria Sao Tome Sierra Leone Somalia South Africa Tanzania Zimbabwe</p>
No Legislation/No Framework (3)	<p>Eritrea Seychelles</p> <p>Swaziland</p>

Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

### Improved reporting standards bode well for transparency

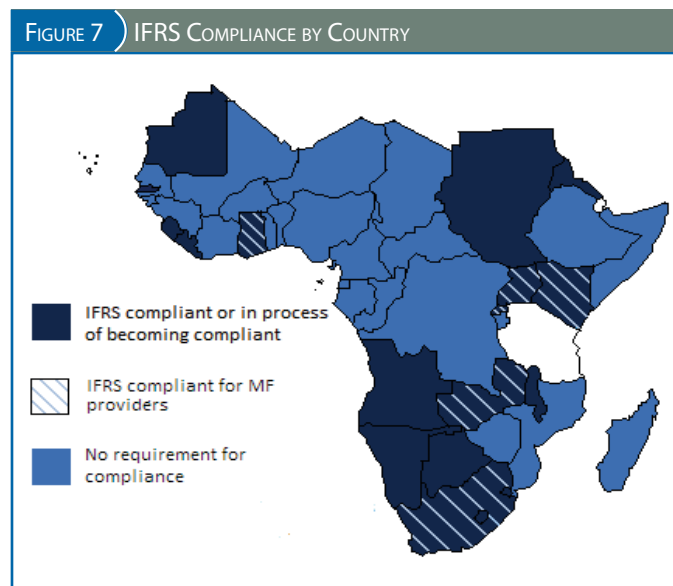
Twenty countries in SSA require, or will soon require, that financial institutions comply with International Financial Reporting Standards (IFRS)<sup>8</sup> (see **Figure 7**). Six of these countries also specifically mandate IFRS compliance for microfinance providers: Ghana, Rwanda, and Uganda (for certain types of MFIs), Kenya, South Africa, and Zambia. Twenty-four countries do not require compliance, although DRC and Mozambique are considering implementing such requirements. Financial institutions in the Economic and Monetary Community of Central Africa (CEMAC) and WAEMU zones, along with Guinea and Comoros, are required to comply with accounting standards set by OHADA<sup>9</sup> (called SYSCOA in

7 CEMAC countries: Cameroon, Central Africa Republic, Chad, Congo, Equatorial Guinea, and Gabon.

8 IFRS are accounting standards developed by the International Accounting Standards Board (IASB) that set the global standard for the preparation of public company financial statements.

9 OHADA (Organisation pour l'Harmonisation en Afrique du Droit des Affaires) countries: Benin, Burkina Faso, Cameroon, Comoros, Congo, Côte d'Ivoire, Gabon, Guinea, Guinea Bissau, Equatorial Guinea, Mali, Niger, Central African Republic, Senegal, Chad, and Togo.

Western Africa). OHADA does not follow IFRS accounting and auditing standards, though improvements are being made in that direction.



Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

In addition, and perhaps most importantly, authorities in 27 countries have put in place both regulatory and general reporting standards for microfinance providers (see **Figure 8**). Countries such as Ghana and Rwanda require that some, but not all, MFIs follow these standards, based on institutional type. Certain countries have also created specific accounting frameworks for microfinance providers, including all CEMAC and WAEMU countries, Ghana (for certain types of MFIs), The Gambia, and South Africa. Another three are in the process of creating MFI-specific frameworks: DRC, Mauritania, and Madagascar.

FIGURE 8 REPORTING STANDARDS BY COUNTRY



Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

### Supervision capacity lags behind

The supervision of the microfinance sector is placed under the banking supervisory authority in the majority of SSA countries. This has the advantage of capitalizing on existing regulatory skills and decreasing the opportunity for regulatory arbitrage.<sup>10</sup> In 28 countries, the central bank is the regulator and supervisor of all types of MFIs, whether deposit-taking or not. Six countries (Ghana, Kenya, Malawi, Mauritius, Namibia, and Uganda) place deposit-taking MFIs under the supervision of the central bank with other MFIs being supervised by the ministry of finance or another government authority. In WAEMU and CEMAC countries, responsibility for licensing and supervising MFIs (both deposit-taking and credit-only) and financial cooperatives is shared between the regional central bank and the ministries of finance.

The limited capacity, tools, and resources available to the supervisory authorities cast a shadow on the overall positive trend described above. Supervision missions are often infrequent or of poor quality, and

<sup>10</sup> Regulatory arbitrage is where a regulated institution takes advantage of the difference between its real (or economic) risk and the regulatory position.

recommendations are unequally applied, resulting in a worrisome gap between the adoption and the enforcement of new regulations/laws on the books. This challenge is amplified by the large numbers of small, decentralized MFIs in many countries in the region.

### Increasing relevance of legislation and regulation

As microfinance is more fully integrated into formal financial systems, it must comply with broad financial sector legislation and regulation. One example is AML/CFT regulations, including “know your customer” requirements, such as checking clients’ identity and verifying their residential address. While such regulations serve important security and stability purposes, the introduction of new or tightened AML/CFT regulations may have the unintended and undesirable consequences of reducing low-income people’s access to finance. To avoid this, it is important that such regulation is risk-based.<sup>11</sup>

Seven countries (Ghana, Namibia, Swaziland, Guinea, Tanzania, Rwanda, and Sao Tome) have passed or amended AML or AML/CFT laws or regulations since 2007. Six countries (Ethiopia, Kenya, Lesotho, Uganda, Cape Verde, and Liberia) have drafted laws that have not yet been adopted, and four countries (Angola, Somalia, Eritrea, and Seychelles) do not have any AML/CFT regulations. In all, 35 SSA countries now have AML or AML/CFT laws or regulations.

Beyond having appropriate laws and regulations in place, a key challenge is implementation. AML/CFT obligations are only effective when matched to the capacity of both public and private institutions. Where institutional capacity is lacking, a plan should be developed to improve capacity and phase in AML/CFT obligations as institutional capacity increases. There has been progress in implementing laws since 2007,

<sup>11</sup> In 2007, Financial Action Task Force (FATF) issued guidance to assist countries in implementing a risk-based AML approach.

and 25 countries have an FIU in place, although not all FIUs are necessarily functional.

### New opportunity: branchless banking regulation

Africa has witnessed an emergence of branchless banking initiatives, particularly mobile-phone based offerings of financial services (primarily payments and transfers). With this surge in technology-driven financial services, an increasing number of SSA countries (25) are developing regulatory frameworks or guidelines for e-money (see **Table 3**).<sup>12</sup> Seven countries are issuing guidelines for mobile banking, and banks are allowed to use agents<sup>13</sup> for financial services in 18 countries. Two countries, Ghana and South Africa, have guidelines or regulations for e-money, m-banking, and use of agents.

In the meantime, m-banking services are available, or will soon be available, in 28 countries, including the less mature financial markets of DRC and Niger (see **Figure 9**). Evidently the lack of specific regulation for m-banking has not curtailed the mushrooming of m-banking services, and central banks seem to have adopted a “wait and see” approach to regulating these new services. Kenya and South Africa are the pioneers of m-banking with Safaricom, Vodafone, and WIZZIT (to name just a few), and in other countries, regional mobile phone service providers like MTN and Orange are partnering with banks and MFIs.

12 The term e-money can be used to refer to a stored-value card or a mobile phone used to transfer funds and make payments. E-money is defined in the European Union’s *Electronic Money Institutions Directive* (2000) as “monetary value as represented by a claim on the issuer which is: (i) stored on an electronic device; (ii) issued on receipt of funds of an amount not less in value than the monetary value issued; (iii) accepted as a means of payment by undertakings other than the issuer.”

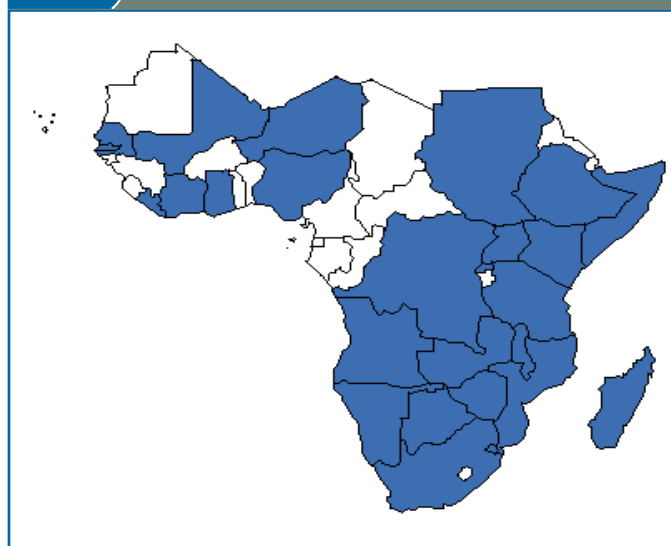
13 Banking agents are retail, lottery, and postal outlets that work on behalf of a financial institution and let clients deposit, withdraw, and transfer funds, pay their bills or an insurance plan, inquire about an account balance, or receive government benefits or a direct deposit from their employer. The agent – depending on local regulation – can open bank accounts for new clients and accept credit applications.

**TABLE 3** BRANCHLESS BANKING REGULATORY FRAMEWORK BY COUNTRY

Regulatory Frameworks	Countries	
E-Money Guidelines/Laws (25)	Botswana CEMAC Countries (6) DRC Ghana Mauritania Namibia	Nigeria Rwanda South Africa Tanzania Uganda WAEMU Countries (8) Zimbabwe
M-Banking Guidelines/Laws (7)	Botswana Ghana Nigeria South Africa	Tanzania Uganda Zimbabwe
Use of Agents Guidelines/Law (18)	CEMAC Countries (6) DRC Ghana	Kenya South Africa WAEMU Countries (8)

Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

**FIGURE 9** COUNTRIES WITH M-BANKING OPERATIONS



Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

### Payment systems, real-time gross settlement systems, and automated clearinghouses opening up to microfinance

Thirty-seven countries have implemented reforms related to their national payment system, though not all have laws pertaining to the payment system.<sup>14</sup> Sever-

14 National payment system refers to (i) payment instruments used to transfer funds between accounts at financial institutions; (ii) payment infrastructures for transacting and clearing payment instruments, etc.; (iii) the financial institutions themselves and the institutions that operate the payment, clearing, and settlement operations; (iv) the contracts for producing the payment instruments and services; and (v) the laws and regulations that govern the mechanics.

al of these are currently upgrading their systems and/or drafting specific laws (DRC, Guinea, Mauritania, Lesotho, Liberia, Sierra Leone, and Rwanda). Payment systems allow funds to flow among financial institutions and facilitate rapid, accurate, and secure processing of financial transactions. Institutions that serve poor clients need access to these systems—whether directly or indirectly—to allow their customers to move money around the country and/or from outside the country.

MFIs have indirect access to payment systems through banks in most countries, although they are explicitly barred from participating directly in 25 countries. In WAEMU and CEMAC countries, MFIs can in theory apply to the regional central bank for authorization for direct access, though no information is available whether such an authorization has ever been requested. Encouragingly, under Rwanda's new draft law, microfinance banks are expected to participate fully in the national payment system.

Of the 48 SSA countries, 33 have or are in the process of putting in place a real-time gross settlement system (RTGS).<sup>15</sup> Twenty-four countries also have or are planning automated clearing houses, while three (Botswana, Zambia, and Zimbabwe) have or are developing an electronic clearinghouse system. The benefits of these broader financial sector reforms represent a great improvement over cash- and paper-based systems in which transfers between banks can take days, and will also benefit large MFIs with sophisticated operations and banking relationships.

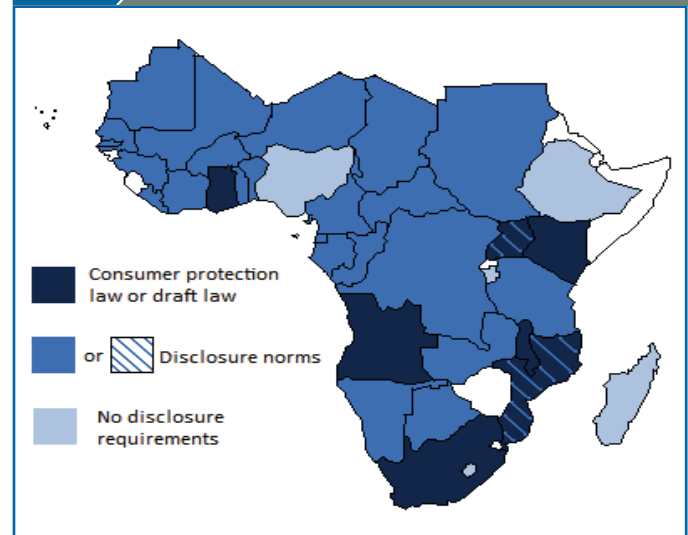
### A central preoccupation -- consumer protection

In the past year, several countries in SSA have stepped up efforts to put in place broad consumer protection measures. The outcry following the financial crisis has certainly accelerated this trend. However, to date, fewer than a dozen countries have put in place general consumer protection measures and even fewer have consumer protection measures for

financial services. Two countries (South Africa and Mauritius) have consumer protection measures for clients of financial institutions, and six others have a consumer protection law or are considering such a law: Malawi and Kenya (published in 2007, but not yet in effect), Uganda, Ghana, Mozambique (draft law), and Angola (see **Figure 10**).

Other countries have some elements of consumer protection embedded in various laws and regulations. Botswana, Mauritius, and Mauritania have, or plan to, put in place a financial literacy unit or program to help financial consumers. Twenty-five countries have included in their regulation some kind of disclosure requirement for financial institutions to their customers. In some countries, there is specific language that the requirement be applied to MFIs.

FIGURE 10 CONSUMER PROTECTION REGULATION BY COUNTRY



Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

<sup>15</sup> RTGS are typically operated by central banks and are used for large-value transactions.

## FUNDING MICROFINANCE<sup>16</sup>

⇒ Deposits are the main source of funding for SSA MFIs, constituting 57 percent of MFIs' funding structure.

⇒ Funding from cross-border donors and investors continues to grow, with a 13 percent increase in commitments from the previous year.

⇒ Cross-border funding is concentrated, with five countries receiving one-third of all commitments.

There is an increasing array of funding sources for microfinance around the world. Much of the literature focuses on cross-border flows, but local funding is becoming an increasingly important source to fuel the growth of microfinance. This is the case in SSA where MFIs historically have been very successful at mobilizing deposits, which constitute a majority share of their funding structure. Moreover, during the financial crises, institutions with a strong deposit base tended to fare better than those relying heavily on foreign investment. Yet, despite a positive track record of intermediating deposits, "too little funding" was the fastest rising risk among African respondents to the *Microfinance Banana Skins 2009* report.<sup>17</sup> This section first provides details on the supply of funds from international donors and investors to microfinance, and then approaches funding from the demand side.

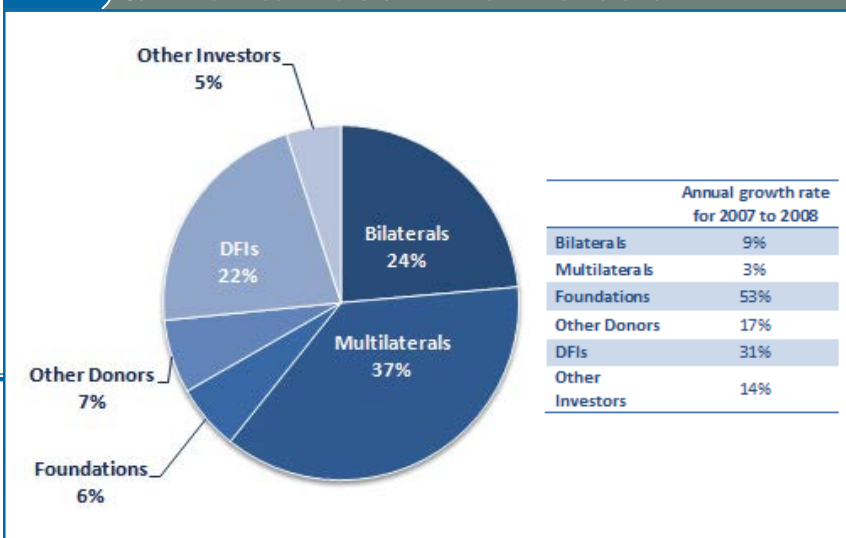
## The Cross-Border Flows to Microfinance in SSA

Over three-quarters of the 61 donors and investors that responded to CGAP's global microfinance funder survey are active in SSA. These 47 major cross-border funders had close to two billion USD committed for microfinance as of December 2008, representing a 13 percent increase from the previous year. Overall, SSA ranks fourth in terms of share of global commitments for microfinance, after South Asia (SA), Eastern Europe and Central Asia (ECA), and Latin America and the Caribbean (LAC).

### Donors dominate, but new entrants make their mark

Donors, including bilateral and multilateral development agencies, foundations, and large non-governmental organizations (NGOs), have traditionally provided much of the cross-border funding for microfinance in SSA. As of December 2008, they accounted for close to 74 percent of total funding committed (see **Figure 11**). The two largest donors, African Development Bank and International Fund for Agricultural Development, together account for over 25 percent of total commitments.

FIGURE 11 COMMITTED AMOUNT AND GROWTH RATE BY TYPE OF FUNDERS



16 The source of data for cross-border funding is CGAP's 2009 Microfinance Funder Survey (<http://www.cgap.org/p/site/c/template.rc/1.26.12206/>). Data on local sources of funding are drawn from MIX's *Funding Structure Database 2008* of 131 MFIs in the region.

17 *Microfinance Banana Skins 2009*, Centre for the Study of Financial Innovation: <http://www.cgap.org/p/site/c/template.rc/1.9.35203/>

\* DFI = Development Finance Institution  
Source: 2009 Microfinance Funder Survey, CGAP; Number of respondents: 47 of 61 funders are active in SSA

Though still small in terms of amounts committed as of December 2008, more recent donor entrants such as foundations are quickly stepping up their activities. Foundations' commitments for microfinance grew an astounding 53 percent between 2007 and 2008. This growth is largely driven by the Bill and Melinda Gates Foundation.

Investors, including development finance institutions (DFIs) and individual and institutional investors, accounted for 27 percent of total commitments as of December 2008. Most of this funding comes from public DFIs that are proactively expanding in the region, with commitments growing by 31 percent from 2007 to 2008. This shows DFIs' willingness to take on currency and political risks associated with African microfinance and to contribute to building the needed capacity of MFIs and investing in creating new institutions.

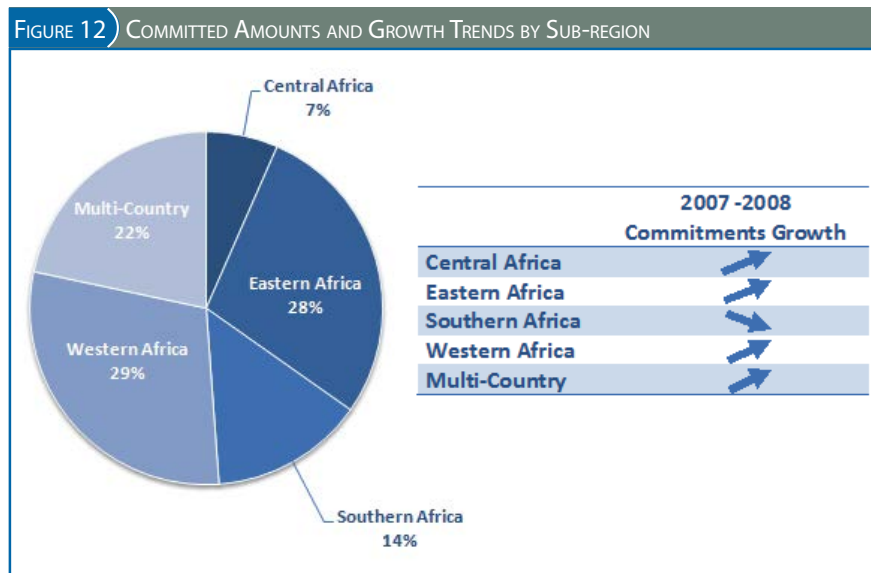
In addition to these primary sources of funding, microfinance investment vehicles (MIVs)<sup>18</sup> are also showing timid interest in the SSA microfinance sector. According to a CGAP survey that focuses

on these entities,<sup>19</sup> MIVs' investments in SSA accounted for 6.2 percent of the total 4.8 billion USD assets under management in the global microfinance portfolio, whereas 76 percent of their investments are concentrated in ECA and LAC. The majority of MIVs in SSA are holdings of MFIs that provide equity finance and technical assistance to Greenfield or start-up MFIs. Leading holding companies in the region include Advans, Access Holding, and Pro-Credit Holding AG.

Significant geographic concentration

Donors' and investors' funding to microfinance in SSA remains very concentrated geographically. Two sub-regions, Western and Eastern Africa, have the lion's share of commitments (see **Figure 12**). One-third of all commitments are allocated for just five countries: Ethiopia, Ghana, Kenya, Mozambique and Uganda (see **Figure 13**).

However, commitments grew by 27 percent in Central Africa between 2007 and 2008, driven mostly by Cameroon and the DRC. In Southern Africa, commitments decreased by a modest 4 percent as some

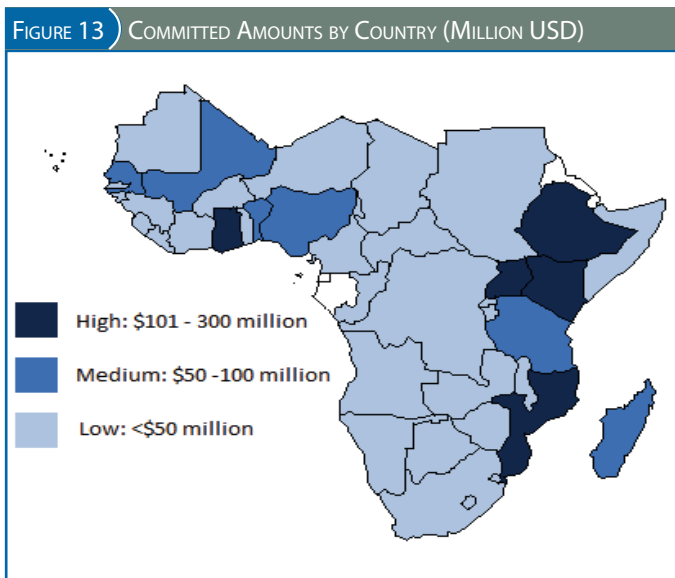


Source: 2009 Microfinance Funder Survey, CGAP; Number of respondents: 47 of 61 funders are active in SSA.

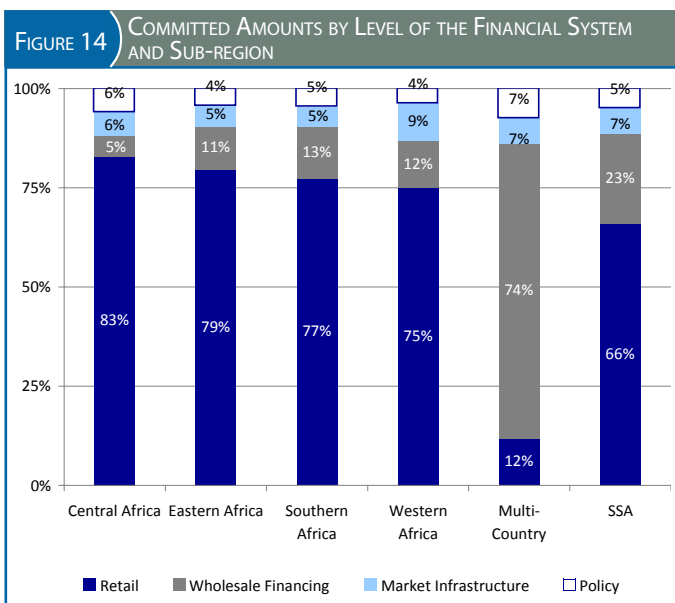
18 MIVs are independent investment entities that intermediate capital from private and public investors to microfinance providers and/or to other MIVs.

19 CGAP 2009 MIV Survey: <http://www.cgap.org/gm/document-1.9.37549/CGAP%20MIV%20Survey%20-%20Results%20Presentation.pdf>

funders withdrew from certain microfinance markets in countries including Angola, Namibia, and South Africa. On the other hand, Madagascar — another fast growing microfinance market (+68 percent in borrowers from 2007 to 2008) — continues to receive attention from cross-border funders. The 47 funders participating in the funder survey did not report any activities in Botswana, Gabon, Eritrea, Equatorial Guinea, or Seychelles.



Source: 2009 Microfinance Funder Survey, CGAP; Number of respondents: 47 of 61 funders are active in SSA; Includes only projects attributed to a single country, multi-country projects are not included.

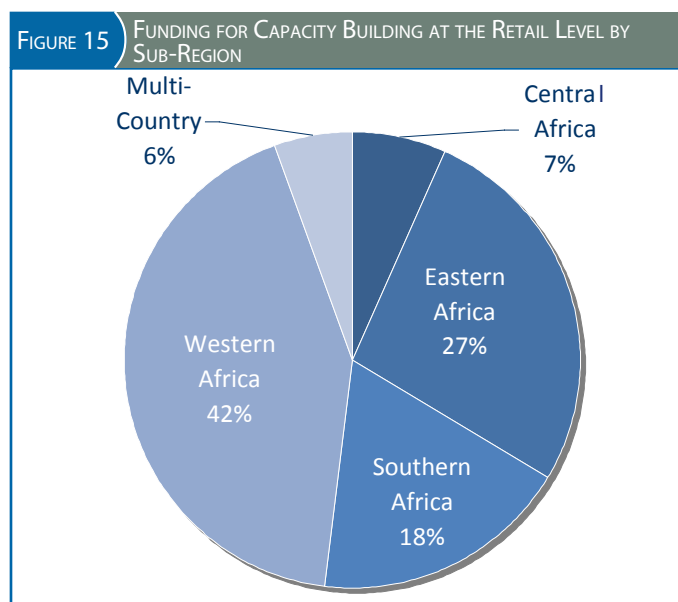


Source: 2009 Microfinance Funder Survey, CGAP; Number of respondents: 47 of 61 funders are active in SSA

### Strong focus on strengthening retail institutions

Donors and investors in SSA, like elsewhere, concentrate the majority of funding to support retail financial institutions. As the backbone of the financial sector, solid and growing retail institutions are able to absorb significant funding for capital and capacity-building in order to scale up financial services for poor people. In SSA, 66 percent of total commitments are directly for the retail level (see **Figure 14**).

Institutional capacity remains a serious constraint to advancing microfinance in SSA. It is therefore positive to note that SSA receives 35 percent of the 1 billion USD in global funder commitments for capacity-building at the retail level, although this amount is not distributed evenly across the sub-regions (see **Figure 15**).



Source: 2009 Microfinance Funder Survey, CGAP; Number of respondents: 47 of 61 funders are active in SSA

Cross-border funders are also active at the meso-level of the financial system, either through wholesale financing or to support the market infrastructure. Close to 23 percent of the funding commitments is for wholesale funding facilities such as MIVs or

apexes,<sup>20</sup> with more than half provided by DFIs. Market infrastructure accounts for 6.5 percent of committed funding.

There is also considerable interest—and funding—for the policy level or macro level of the financial system. Funding for policy work represents 5 percent of total commitments to SSA, more than any other region. While this may not seem significant, engagement at the policy level requires relatively less funding and more skilled human resources than, for example, making a loan to a large MFI. The majority of the policy projects in SSA are supported by bilateral donors.

### Debt and grants are the primary instruments

Donors and investors support the development of microfinance in SSA primarily through debt and grants. Debt—mostly from multilateral agencies and channeled as loans to governments—accounts for 46 percent of total commitments, and grants account for 42 percent (see **Figure 16**). Not surprisingly, two-thirds of debt funding is committed to Eastern and

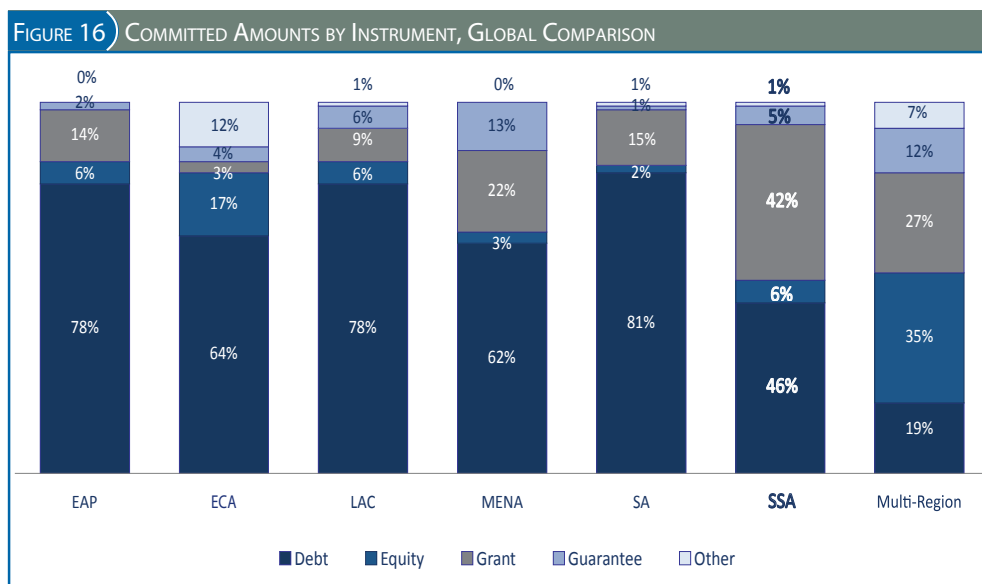
Western Africa, the two most mature sub-regional markets. Close to one-third of grant commitments are for Western Africa, which is in line with where most of the retail capacity building is taking place. The importance of grant funding—no other region in the world comes close to having such high grant commitments—no doubt reflects the regional context, including the pressing need to build capacity at all levels of the financial system.

### A Bottom-Up Look at the Funding Structure of MFIs in SSA

SSA is the region most heavily funded by deposits. Borrowings account for 20 percent of funds—the lowest percentage of borrowings across all regions. Donated equity constitutes a small but important source of funding for SSA MFIs.

### Deposits remain the largest source of MFI funding

More than in any other region, MFIs in SSA fund their operations through deposit mobilization, with nearly 60 percent of funding coming from this source



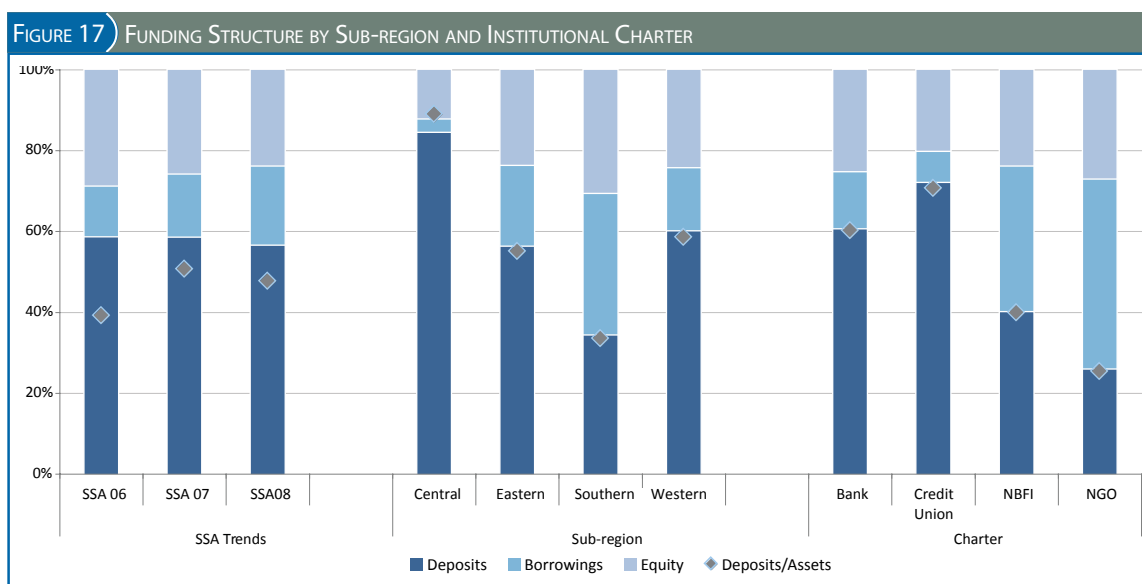
Source: 2009 Microfinance Funder Survey, CGAP; Number of respondents: 61

<sup>20</sup> Apexes are often attractive to funders because pooling money into one vehicle has less transaction costs than reaching individual retailers one by one. Examples of apexes in SSA include MITAF in Sierra Leone and FPM in DRC.

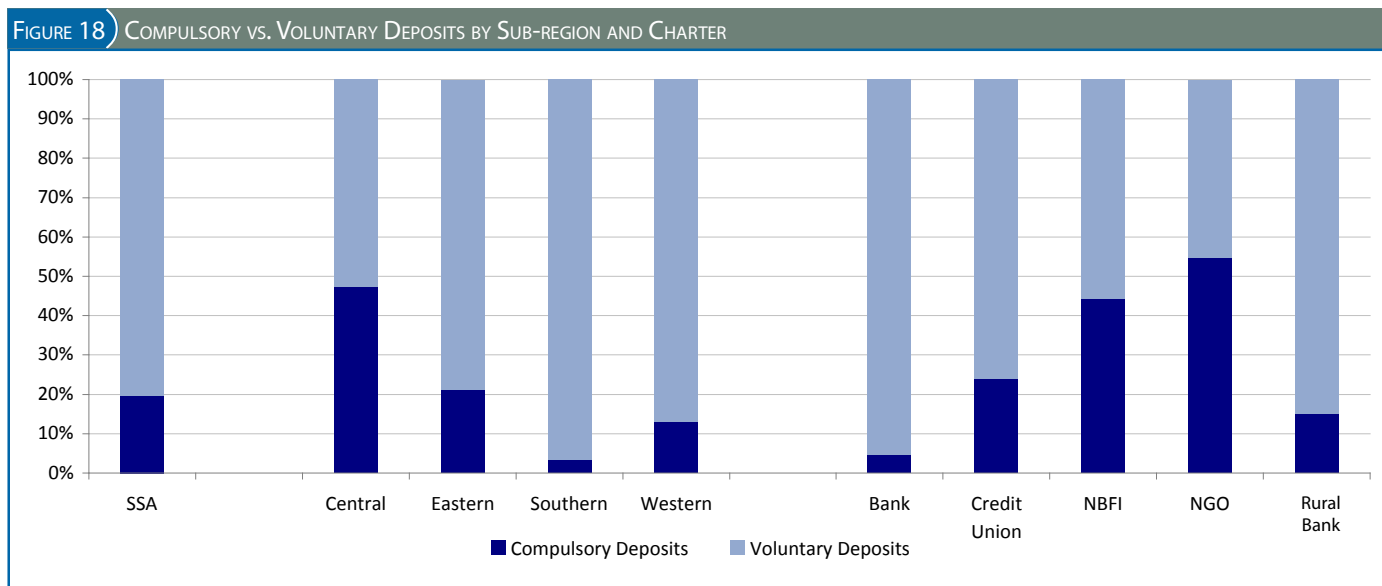


(see **Figure 17**). In fact, deposits far outstrip any external sources of funding, including the cross-border flows described above. Eighty percent of these deposits are in voluntary accounts (see **Figure 18**). However, MFIs in SSA witnessed a slightly decreasing deposit/asset ratio in 2008 as borrowings started to contribute more significantly to the overall funding structure.

There is a significant disparity in funding structure across sub-regions and charter types, as illustrated in **Figure 17**. Institutional type is a key determinant of funding structure. For example, deposits account for 70 percent of credit unions' funding. Banks, which also account for 40 percent of SSA's total deposits, have the most similar funding structure to the overall structure of SSA MFIs. NGOs, on the other hand, are much more reliant on borrowings, and account for only 3 percent of SSA deposits.



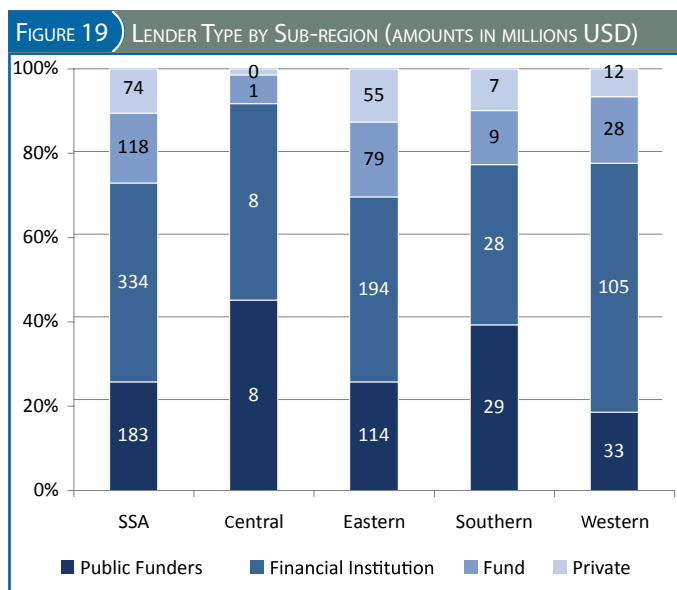
Source: MIX Market, 2006-2008. Results for deposits, borrowings, and equity are totals. Deposits/Assets represents median values.



Source: MIX Market 2008. Results based on totals.

### Borrowings as a source of funds – half local, half foreign

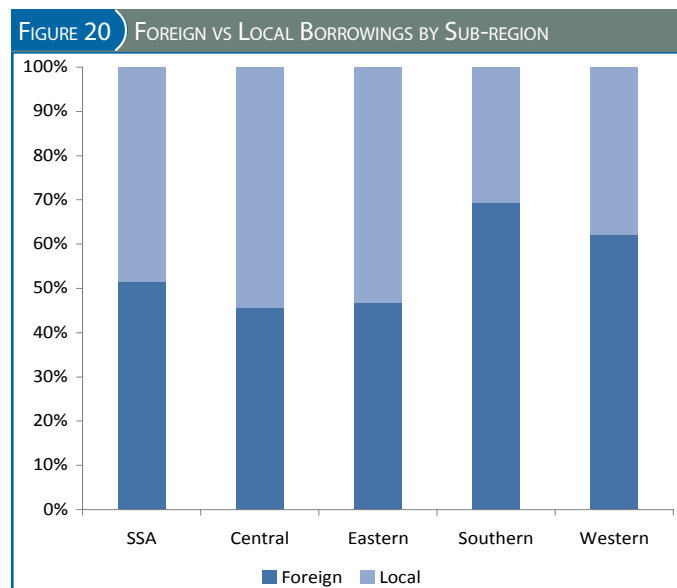
Borrowings from a variety of lender types are another key source of funding for MFIs (see **Figure 19**). MFIs on the whole receive an equal amount of funds coming from foreign and local lenders (see **Figure 20**), although the foreign loans carry a slightly higher interest rate. Financial institutions provide nearly three-quarters of all local borrowings, and are the largest source of borrowings for SSA MFIs, providing over one-third of total borrowings. Public funders account for just over a quarter of total borrowings, two-thirds of which are from foreign sources and carry an interest rate double that of the local public funders, at 11 percent. **Table 4** presents a full array of MFI borrowing costs by lender type and sub-region.



Source: MIX Funding Structure Database, 2008.

Cross-border funds account for only 15 percent of total borrowings, and are heavily concentrated within a few markets. The concentration of foreign funds in Eastern and Western Africa described in the previous pages is apparent also from a funding structure perspective. The 10 countries with the most funding from foreign sources are all within these two sub-regions. Kenya alone accounts for over 40 percent of

all cross-border funds at the retail MFI level. However, of the top 10 countries by loan portfolio, three receive no cross-border funding at all (Ethiopia, where cross-border funds are intermediated through local agencies that then on-lend to the MFIs, South Africa, and Burkina Faso). A few countries, such as Uganda, Tanzania, and Niger, receive amounts of foreign funds disproportionately larger than their loan portfolios.



Source: MIX Funding Structure Database, 2008.

Lender type	SSA	Central	Eastern	Southern	Western
Public Funders	8%	3%	9%	8%	5%
Financial Institution	9%	7%	8%	13%	10%
Fund	10%	8%	10%	11%	10%
Private	3%	4%	3%	1%	5%
Blended	8%	5%	8%	9%	9%

Source: MIX Funding Structure Database, 2008.

### Donated equity, small but still important

Just over 20 percent of MFIs’ funding comes from equity; 3 percent of this is donated equity or grants to MFIs that have become part of the MFI’s equity base. SSA has the second highest percent of dona-

tions globally; donated equity accounts for 1 percent or less in all other regions (aside from MENA). This donated equity, though relatively small compared to the total pool of deposits or other funding, provides important support to building institutional capacity. Donated equity is especially prominent in Central and Western Africa, where it accounts for nearly one-

quarter of the total equity. In Eastern and Southern Africa, donated equity accounts for only 4 percent of total equity.

## A view across sub-regions...

### CENTRAL AFRICA

Central Africa relies almost exclusively on deposits as a source of funding, which is explained by the prevalence of credit unions. Interestingly, although credit unions tend to mobilize voluntary deposits, in this sub-region a significant portion of deposits are compulsory. Central Africa accounts for less than 2 percent of total SSA borrowings, even as interest rates on borrowings tend to be lower than in any other sub-region. Just over half of borrowings come from local sources, even though interest rates are 3 percent higher than foreign sources. Public funders and financial institutions account for 90 percent of Central Africa's borrowings, with commercial banks providing over half of these borrowings.

### EASTERN AFRICA

Eastern Africa has a relatively balanced funding structure; deposits account for just over half of total funding. In the case of several large deposit-taking institutions, these deposits are mobilized not only from microfinance clients, but also from corporate or other institutional depositors. These large deposits account for a quarter of total deposits within the sub-region, and typically contribute to lowering the operating costs of MFIs and are thus a relatively cheap source of funds. However, they also represent potentially greater liquidity risk for MFIs, as a corporation could withdraw considerable funds at any given time. Eastern Africa accounts for over half of all SSA borrowings. Despite the significant amount of committed foreign funds to this sub-region, a slightly greater percentage of the borrowings comes from local sources, which carry a lower interest rate. Foreign funds are expensive, with a 20 percent interest rate in Rwanda and a 10 percent interest rate in Kenya, Tanzania, and Uganda.

### SOUTHERN AFRICA

In Southern Africa, sources of funds are very balanced, with just about one-third coming from deposits, one-third from borrowings, and one-third from equity. Almost all of the deposits come from banks in the form of voluntary savings (see **Figure 18**). Seventy percent of the borrowings in the region come from foreign sources, which carry a lower interest rate than do local lenders. Over half of these foreign borrowings go to one MFI in Angola and two MFIs in South Africa. Overall, interest rates in this sub-region tend to be higher than any other sub-region, since a large percentage of borrowings go to South Africa. The significantly stronger equity base in the sub-region is explained by the presence of several large banks and the predominance of NGOs.

### WESTERN AFRICA

In Western Africa, deposits account for over 65 percent of funds, with three-quarters of deposits coming from credit unions. Whereas deposits within Central Africa are largely concentrated in Cameroon alone, deposits in Western Africa come from multiple countries – 6 of the 12 countries within this sub-region each contribute at least 10 percent of total deposits. Like Eastern Africa, Western Africa receives a significant amount of cross-border commitments. Foreign borrowings account for just over 60 percent of total borrowings, of which 70 percent are for Benin, Senegal, and Ghana. The majority of loans in Western Africa are from financial institutions and tend to carry high interest rates. On the other hand, public funders' loans – three-quarters of which go to Senegal and Benin – account for 20 percent of borrowings and tend to carry quite low interest rates.

## MFI PERFORMANCE

⇒ MFIs experienced increasing revenue, as a greater percent of assets was placed in the loan portfolio.

⇒ Efficiency and productivity decreased, perhaps due to investments in keeping portfolio quality stable in trying times.

Profitability in SSA remained relatively consistent from 2007 to 2008 despite the difficulties engendered by increasing food and fuel prices and the global financial and economic downturn. While there was a general slowdown in growth, especially on the credit side, MFIs in the region overall benefited from relatively stable performance. The median MFI did not reach full operational self-sufficiency in 2008 after having done so in 2007, but overall MFIs showed good resilience and trends remained generally positive.

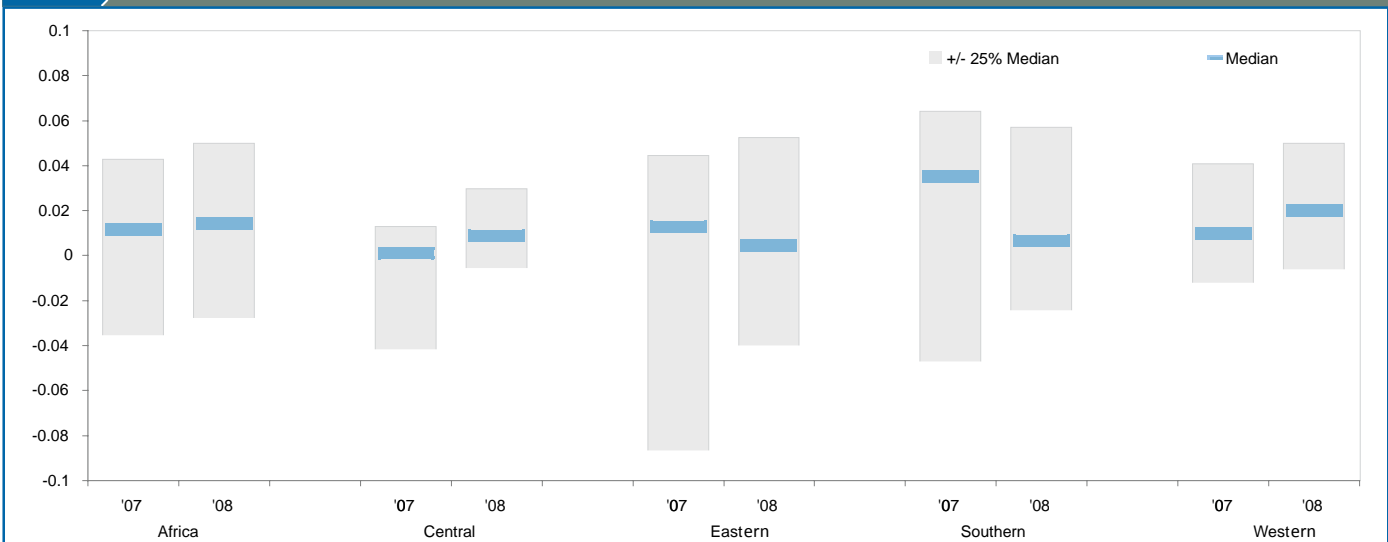
### Flat and converging returns

Overall returns in SSA remained on par with 2007 figures, even as the range of returns across MFIs – from loss-making to profit-making – narrowed

in 2008 (see **Figure 21**). The 25th percentile MFI increased in profitability in every sub-region, approaching the rate of returns of the median MFI. This indicates that those MFIs that were having the most difficulty with profitability saw their losses decrease in 2008. Profitability of the 75th percentile MFIs also increased in most sub-regions, as a greater number of MFIs are enjoying increased returns. While the regional median return on assets did not increase significantly from 2007 to 2008, the narrowing range of results means that there is less volatility in returns, with fewer MFIs incurring significant losses at the low end of the spectrum. This is a positive sign of improved profitability across the range of institutions operating in the region.

In Eastern Africa, for example, the 25th percentile MFI increased its return on assets from nearly negative 9 percent up to negative 4 percent. Even as the median returns had a slight decrease, this is a positive trend; converging returns indicate that a greater portion of MFIs are approaching self-sufficiency. This was heavily impacted by the improving performance of a number of MFIs in Rwanda and Tanzania, which had significant difficulties in 2007 but experienced substantially increased returns in 2008.

FIGURE 21 ROA DISPERSION TRENDS BY SUB-REGION



Source: MIX Market, 2007-2008.

Western Africa, on the other hand, already had a relatively small range of MFI performance. Western Africa hosts more advanced-stage, mature MFIs than any other sub-region – such institutions account for over 60 percent of all MFIs within this sub-region. The experience of MFIs in the region helped them manage the challenge of operating in the high-inflation environment of 2008 so as to obtain similar results as in 2007.

### Increasing financial revenue as greater percentage of assets goes toward portfolio

One way that MFIs achieved the increased returns described above was through a more productive utilization of the MFI's asset base. A greater percentage of assets going toward loan portfolio indicates that MFIs are doing a more efficient job of having their existing funds work to support their operations. The loan portfolio is the portion of the asset base that receives the highest returns, and putting a greater portion of assets toward loans ultimately leads to more income for the MFI. MFIs in SSA are still putting the smallest percent of their assets toward portfolio compared to other regions globally (66 percent), although this figure increased by 5 percent from 2007 to 2008.

The increase in asset productivity has enabled MFIs to lower interest rates to attract clients as competition continues to rise across SSA. Portfolio yield has decreased overall by 2 percent, thereby reducing clients' costs. At the same time, the increase in the portfolio-to-asset ratio has increased MFIs' financial revenue sufficiently to compensate for lowered interest rates.

An example of this scenario can be found in those MFIs with a focus on deposit mobilization, which had a large increase in portfolio-to-asset ratio, an increase in financial revenue, and much lower portfolio yield than those MFIs that do not mobilize deposits. In fact, MFIs with a focus on deposit mobilization have much higher returns than those with little to no finan-

## Interest Rates, Cost Structure, and Sustainability in WAEMU

Since 1997, regulatory authorities in the eight-country WAEMU have set the usury rate on banking and microfinance operations at 18 percent and 27 percent, respectively, to protect consumers from unscrupulous lenders. Many practitioners believe the usury rate hinders the development of the sector in the region.

In 2007, BCEAO decided to shed light on this issue and undertook a series of studies to analyze the cost and pricing structure of microfinance operations in Senegal, Mali, and Benin.

Highlights of the report findings are:

- Effective interest rates charged by MFIs will vary according to the target clientele, operation area, range of loan products, institutional type, and/or the amount of individual loan disbursed.
- MFIs' profitability is mostly influenced by staff expenses, level of the portfolio at risk, and yield on loan products.

*Source: "Costs and pricing of services provided by microfinance institutions in Western African Economic and Monetary Union: Synthesis of studies conducted between 2007 and 2008 in Mali and Senegal by BCEAO and in Benin by Millennium Challenge Account/Benin." August 2009.*

cial intermediation. They enjoy a return on assets of 2 percent, while credit-only MFIs experience returns of 0.1 percent. The median high financial intermediary MFI has a portfolio yield of under 30 percent, while institutions with little to no financial intermediation have yields between 40 and 50 percent. Focusing on mobilizing deposits has meant that the cost of funds of these high financial intermediary MFIs is lower than for low financial intermediaries who pay higher interest rates on loans. However, those MFIs with no deposits at all have the lowest cost of funds, as they tend to be more heavily financed by grants; this is evidenced by a debt-to-equity ratio less than half of the high financial intermediary MFIs.

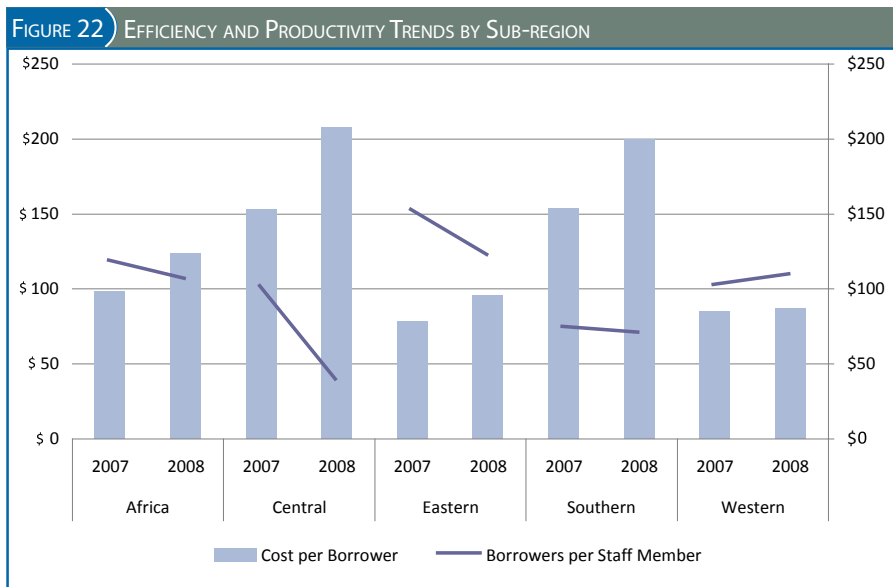
High operating expenses as productivity declines

Increased revenue from the portfolio was very important for MFIs' profitability, especially as overall expenses were the highest of all regions in 2008. The driver of high expenses was operating, not financial, expenses. In fact, SSA has the second lowest financial expense ratio globally, after MENA, due to the dominance of deposits as a source of funding.

MFIs in SSA allocate a high percentage of their funds toward staff salaries. The average salary over gross national income per capita is nearly three times higher than in other regions. Some analysts have noted that in markets lacking an ample supply of skilled labor, as well as those with new entrants (including down-scaling banks), there has been high staff turnover, which may contribute to high operating costs.<sup>21</sup>

In addition to an already high percentage of funds devoted to covering staff costs, total MFI staff across SSA increased by twice as much as total borrowers. The unforeseen slowdown in growth of borrowers is one factor that has led to the decreased productiv-

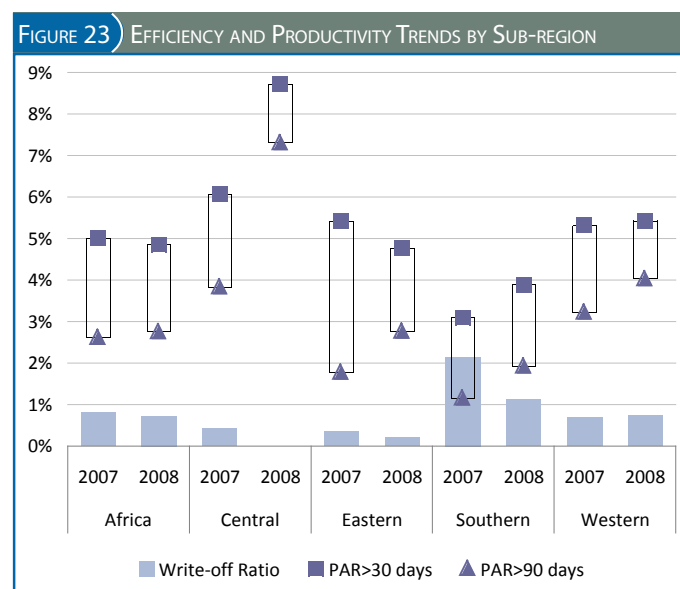
ity and efficiency of MFIs in 2008. As the average loan balance increased, cost per borrower also increased, by 25 percent (although SSA stands right in the middle of all regions globally in terms of both efficiency and productivity). The decreased productivity and efficiency levels may have, in fact, been conscious and positive decisions for some MFIs. Larger loan balances often require more due diligence, screening, and monitoring for each loan. MFIs appear to have prioritized resources to focus on monitoring and evaluating their loan portfolios, which hurt efficiency and productivity ratios, but helped maintain portfolio at risk at the previous year's level despite the serious economic problems of 2008.



Source: MIX Market, 2007-2008.

21 [http://www.m-cril.com/SEF\\_Social\\_Rating.pdf](http://www.m-cril.com/SEF_Social_Rating.pdf) and <http://allafrica.com/stories/200804231110.html>

## On the whole, portfolio at risk (PAR) remains stable



Source: MIX Market, 2007-2008. Results are medians.

Given the increased due diligence of MFIs, portfolio risk on a regional level remained consistent with 2007 figures – still higher than other regions, but not increasing (see **Figure 23**). Eastern and Western Africa showed resilience to local crises, and maintained solid portfolio quality in 2008. Central Africa, however, experienced a significant increase in PAR. This change was more likely due to MFIs following up on existing bad debt and becoming less productive in doing so, as opposed to increasing staff to stave off declining portfolio quality.

## Reducing Credit Risk and Improving Productivity

The lack of information about the borrowing habits of clients of financial institutions presents a hurdle for the performance of these institutions. Private credit bureaus and public registries address this challenge by collecting information on the credit history of borrowers, both institutional and individual, and make this information available to financial institutions. They also lower the transaction costs of lending, by reducing the amount of time financial institutions spend evaluating loan applications. Credit registries and bureaus can contribute to greater competition among financial service providers as they compete for the clients with the best credit histories and raise incentives for borrowers to repay their loans.

In SSA, 26 countries have, or are setting up, public credit registries, and 13 have private credit bureaus in place. Four countries have neither, though Lesotho and Sierra Leone have plans for a credit bureau. MFIs in six countries participate in existing private credit bureaus (Uganda only for microfinance deposit-taking institutions) or public credit registries (Burundi where MFIs must report to the registry, Mozambique where MFIs can access borrower information, and Tanzania, once in place). MFIs also sometimes create informal arrangements among themselves to track delinquent clients, as is the case in Ghana.

Credit Registries and Bureaus	Countries	
Public Credit Registries (26)	Angola Burundi Cape Verde CEMAC (6) DRC Ethiopia The Gambia	Guinea Liberia Madagascar Mauritania Mozambique Sao Tome WAEMU (8)
Private Credit Bureaus (13)	Botswana Ghana Kenya Malawi Namibia Nigeria Rwanda	South Africa Swaziland Tanzania Uganda Zambia Zimbabwe
MFIs Participate in Credit Bureau or Credit Registry (6)	Burundi Mozambique Rwanda	South Africa Tanzania Uganda
Neither Credit Bureau nor Credit Registry (4)	Eritrea Lesotho	Sierra Leone Sudan
No information (4)	Comoros Djibouti	Seychelles Somalia

Source: 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa, CGAP

## A view across sub-regions...

As converging returns were observed across SSA, indicating less volatility overall, this positive trend played out differently within the sub-regions. While some witnessed significant changes in revenues, expenses, productivity, and portfolio risk, others had results more consistent with their 2007 performance.

### CENTRAL AFRICA

Slightly increasing – and significantly converging – returns in Central Africa occurred in 2008. Financial revenues in the sub-region continue to be the lowest across the continent; with a mere half of total assets going toward portfolio, along with a low and decreasing yield, the median revenue is less than half that of the median revenue across SSA. While operating expenses in this sub-region remain the lowest across SSA, they did incur the largest growth in 2008 as PAR spiked and MFIs had to shift focus away from growth to portfolio recovery. Lack of supervision, described in the policy section of this report, allows MFIs to keep bad loans on the books for extended periods of time. This is especially evident in Cameroon, where there was not a single loan written off even as the median MFI's PAR>30 reached almost 20 percent. One potential reason for the increased exposure to risk is that the average loan balance is nearly double that of any sub-region, so fewer clients failing to repay loans in a timely manner has a greater impact on overall portfolio risk.

### EASTERN AFRICA

Eastern Africa experienced decreased returns as a result of expenses increasing more rapidly than revenue, despite having the greatest asset productivity across the region. As a consequence, it was the least profitable sub-region in 2008. Cost of funds increased, particularly in Kenya, Uganda, and Tanzania.

The post-election crisis in Kenya hit MFIs hard, as much of the turmoil took place in poor and rural areas; clients struggled to repay loans and sought re-financing to re-build businesses. MFIs were able to access costly emergency funding to avoid liquidity problems and meet clients' needs, as loans were not being re-paid within the originally set timeframes. Additionally, a slowdown in lending due to an increased expectation of risk led to MFIs incurring ongoing staffing expenses for loan officers carrying much lighter case loads, causing decreased productivity. The decreased borrowers per staff had a direct and positive impact on portfolio risk; despite the additional crisis within this region, PAR>90 days actually decreased in 2008.

### SOUTHERN AFRICA

Despite decreasing returns in 2008, this sub-region remained the most profitable across SSA. With by far the highest yield on portfolio, potentially due to the significant amount of consumption loans, revenues within Southern Africa are nearly double those of SSA as a whole. A significant increase in asset productivity also contributed to these high returns.

### WESTERN AFRICA

The benefit of a relatively high percentage of mature MFIs within this sub-region was evident as it weathered high inflation rates linked to the food crisis and enjoyed the greatest stability of all sub-regions across all performance figures. Returns increased slightly due to an increase in yield, and expenses remained on par with 2007 figures as an emphasis on deposit mobilization meant a stable cost of funds. Efficiency, productivity, and portfolio risk all remained relatively constant despite the high inflation rates, indicating the resilience of this sub-region.

### LOOKING AHEAD

In a year of global economic crisis, microfinance markets in SSA proved rather resilient overall. Donors and investors are standing by microfinance in the region with committed amounts increasing by 13 percent in 2008. Cross-border funders play a significant role in building market infrastructure and supporting policy and regulation, but the capital base of the retail level is fueled by deposit mobilization.

While borrower and portfolio growth slowed in 2008, MFIs experienced stable performance trends and maintained portfolio quality. In fact, there has been less volatility in returns, and fewer MFIs are incurring significant losses than in 2007. These are positive trends as the microfinance markets in SSA weathered the trying economic conditions fairly well. Continued vigilance and focus on sound management and governance are in order, in particular if some of the aftershocks of the economic crisis are yet



to come. However, with the positive trends of 2008 alongside new and innovative developments, such as the take-off of branchless banking solutions, we look forward to seeing SSA's performance next year.

## ACKNOWLEDGEMENTS

Special thanks to Antonique Koning, Barbara Gähwiler, and Djibril Mbengue of CGAP, Blaine Stephens of MIX, and Christine Poursat for providing reviews of the report.

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## DATA AND DATA PREPARATION

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

## SUB-SAHARAN AFRICA MFI PARTICIPANTS

## Benchmarks 2008 (195 MFIs)

**Angola:** KixiCredito

**Benin:** ACFB, Alidé, CBDIBA/RENACA, CMMB, FECECAM, FIDEVIE, PADME, PAPME, Vital Finance

**Burkina Faso:** CVECA SOUM\*, GRAINE sarl, LSK\*, Micro Start\*, RCPB

**Burundi:** COSPEC, Turame Community Finance, WISE\*

**Cameroon:** ACEP Cameroon\*, CamCCUL, CCA, CDM, CDS, CECIC S.A., CEC-PROM Mature, MC<sup>2</sup>, SOFINA

**Central African Republic:** CMCA

**Chad:** UCEC/MK

**Congo, Democratic Republic of the:** COOPEC/ACCO\*, FINCA – DRC, Hekima\*, PAIDEK, ProCredit Bank- DRC, COOPEC CAMEC Inkisi, COOPEC CAMEC Kimpese, COOPEC CAMEC Lukala

**Congo, Republic of the:** CAPPED, FAM\*

**Côte d'Ivoire:** UNACOOPEC-CI\*

**Ethiopia:** ACSI, DECSI, OCS SC\*, ADCSI\*, Wisdom, Buusaa Gonofaa, Wasasa, Eshet, SFPI, PEACE, Meklit\*, Harbu, Gasha, Degaf\*, Letta\*

**Gambia, The:** GAWFA, Reliance

**Ghana:** SAT, OISL, Bessfa RB, ProCredit – GHA, APED, Asa Ghana\*, FASL, Atwima Kwanwoma, Maata-N-Tudu, Bonzali RB\*, KSF, Nwabiagya RB\*, Upper Manya RB, Kakum RB, CRAN, Juaben RB\*, Otuasekan RB, South Akim RB\*, CFF, La Community Bank, ID-Ghana, Akuapem RB, Union RB, CEDEF\*, DQF\*, AGSG

**Guinea:** 3A Entreprises, CAFODEC, CPECG Yete Mali, CRG, Pride Finance, RCCECG

**Guinea-Bissau:** DIVUTEC

**Kenya:** Equity Bank, KWFT, Faulu – KEN, Jamii Bora\*, K-Rep, Juhudi Kilimo, PAWDEP\*, SMEP, KADET, Opportunity Kenya, BIMAS, MCL\*, Micro Africa, RAFOD, Riverbank\*, KPOSB

**Madagascar:** MicroCred – MDG, Otiv Alaotra, Otiv Diana, Otiv Sambava, Otiv Tana, SIPEM, TIAVO, AccèsBanque Madagascar

**Malawi:** MUSCCO\*, OIBM, CUMO, FINCA – MWI, MLF MWI

**Mali:** CVECA Kita/Bafoulabé, CVECA KORO Pays Dogon\*, Jigiyaso Ba\*, Kafo Jiginew, Kondo Jigima, Miselini, Nyesigiso, PASECA – Kayes, Soro Yiriwaso, UCCEC GY, CACOEC Sududiawdi

**Mozambique:** NovoBanco – MOZ, Tchuma, BOM, FCC, Hluvuku, FDM

**Niger:** ASUSU CIIGABA, COOPEC Hinfani Dosso, KOKARI, MECREF

**Nigeria:** LAPO, DEC, SEAP, IMFB, AMfB, ICMFB, Alliance MFB

**Rwanda:** ACB sa, CFE\*, COOPEDU-Kigali\*, Duterimbere, RML, UNION DES COOPECS UMUTANGUHA, UOB\*

**Senegal:** ACEP Senegal, CAURIE Micro Finance, CMS, DJOMEK, MEC AFER\*, MEC FEPRODES, MECBAS, MicroCred – SEN\*, PAMECAS, SEM Fund, U-IMCEC, UMECDES\*, ASACASE CPS

**Sierra Leone:** ARD, GGEM Microfinance Services Ltd., LAPO-SLE\*, ProCredit Bank – SLE\*

**South Africa:** Capitec Bank, SEF-ZAF, Marang\*, Opportunity Finance

**Sudan:** BRAC – SS, PASED, SUMI

**Swaziland:** FINCORP

**Tanzania:** PRIDE – TZA, BRAC – TZA, FINCA – TZA, SEDA, Akiba, IDYDC, Tujijenge\*, Mbinga CB, OI – TZA

**Togo:** CECA, FUCEC Togo, MGPC DEKAWOWO, Mutuelle Akwaba\*, WAGES

**Uganda:** Centenary Bank, BRAC – UGA, FINCA – UGA, Faulu – UGA, U-Trust, Hofokam\*, MED-Net, REDFunds\*, MMDCT\*, MUL, Madfa SACCO\*

**Zambia:** FINCA – ZMB, CETZAM

*\*MFIs not included in trends*

Category	Peer Group	Number of MFIs	Definition
Sub-Regions	Central Africa	22	MFIs from Burundi, Cameroon, Central African Republic, Chad, DR Congo, and Congo
	Eastern Africa	57	MFIs from Ethiopia, Kenya, Rwanda, Sudan, Tanzania, and Uganda
	Southern Africa	26	MFIs from Angola, Madagascar, Malawi, Mozambique, South Africa, Swaziland, and Zambia
	Western Africa	90	MFIs from Benin, Burkina Faso, The Gambia, Ghana, Guinea, Guinea-Bissau, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo
Financial Inter-mediation (FI)	Non FI	23	MFIs with no voluntary savings
	Low FI	39	MFIs with voluntary savings < 20% of total assets
	High FI	133	MFIs with voluntary savings > 20% of total assets
Outreach	Small	99	MFIs with number of borrowers <10,000
	Medium	50	MFIs with number of borrowers ≥10,000 and ≤ 30,000
	Large	46	MFIs with number of borrowers > 30,000
Charter Type	Bank	17	
	Credit Unions	50	
	NBFI	61	
	NGO	55	
	Rural Bank	12	

## INDICATOR DEFINITIONS

**INSTITUTIONAL CHARACTERISTICS**

Number of MFIs	Sample Size of Group
Age	Years Functioning as an MFI
Total Assets	Total Assets, adjusted for Inflation and standardized provisioning for loan impairment and write-offs
Offices	Number, including head office
Personnel	Total number of staff members

**FINANCING STRUCTURE**

Capital/ Asset Ratio	Adjusted Total Equity/ Adjusted Total Assets
Debt to Equity	Adjusted Total Liabilities/ Adjusted Total Equity
Deposits to Loans	Deposits/ Adjusted Gross Loan Portfolio
Deposits to Total Assets	Deposits/ Adjusted Total Assets
Portfolio to Assets	Adjusted Gross Loan Portfolio/ Adjusted Total Assets

**OUTREACH INDICATORS**

Number of Active Borrowers	Number of borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/ Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/ Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/ GNI per Capita	Adjusted Average Loan Balance per Borrower/ GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio/ Adjusted Number of Loans Outstanding
Average Outstanding Balance / GNI per Capita	Adjusted Average Outstanding Balance/ GNI per Capita
Number of Depositors	Number of depositors with any type of deposit account
Number of Deposit Accounts	Number of all deposit accounts
Deposits	Total value of all deposit accounts
Average Deposit Balance per Depositor	Deposits/ Number of Depositors
Average Deposit Balance per Depositor / GNI per capita	Average Deposit Balance per Depositor / GNI per capita
Average Deposit Account Balance	Depositors/ Number of Deposit Accounts
Average Deposit Account Balance / GNI per capita	Average Deposit Account Balance / GNI per capita

**MACROECONOMIC INDICATORS**

GNI per Capita	Total income generated by a country's residents, irrespective of location / Total number of residents (World Development Indicators)
GDP Growth Rate	Annual growth in the total output of goods and services occurring within the territory of a given country (World Development Indicators)
Deposit Rate	Interest rate offered to resident customers for demand, time, or savings deposits (IMF/International Financial Statistics)
Inflation Rate	Annual change in average consumer prices (IMF/International Financial Statistics)
Financial Depth	Money aggregate including currency, deposits and electronic currency (M3) / GDP, measuring the monetization of the economy (IMF/International Financial Statistics)

**OVERALL FINANCIAL PERFORMANCE**

Return on Assets	(Adjusted Net Operating Income-Taxes)/ Adjusted Average Total Assets
Return on Equity	(Adjusted Net Operating Income -Taxes)/ Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Impairment Losses on Loans + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/ Adjusted (Financial Expense + Impairment Losses on Loans + Operating Expense)

**REVENUES**

Financial Revenue/Assets	Adjusted Financial Revenue/ Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income/ Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio/ Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)

**EXPENSES**

Total Expense/ Assets	Adjusted (Financial Expense + Net Impairment Loss + Operating Expense) / Adjusted Average Total Assets
Financial Expense/Assets	Adjusted Financial Expense / Adjusted Average Total Assets
Provision for Loan Impairment/ Assets	Adjusted Impairment Losses on Loans/ Adjusted Average Total Assets
Operating Expense / Assets	Adjusted Operating Expense/ Adjusted Average Total Assets
Personnel Expense/ Assets	Adjusted Personnel Expense/ Adjusted Average Total Assets
Administrative Expense/ Assets	Adjusted Administrative Expense/ Adjusted Average Total Assets
Adjustment Expense/ Assets	(Unadjusted Net Operating Income – Adjusted Net Operating Income)/ Adjusted Average Total Assets

**EFFICIENCY**

Operating Expense/ Loan Portfolio	Adjusted Operating Expense/ Adjusted Average Gross Loan Portfolio
Personnel Expense/ Loan Portfolio	Adjusted Personnel Expense/ Adjusted Average Gross Loan Portfolio
Average Salary/ GNI per Capita	Adjusted Average Personnel Expense/ GNI per capita
Cost per Borrower	Adjusted Operating Expense/ Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense/ Adjusted Average Number of Loans

**PRODUCTIVITY**

Borrowers per Staff Member	Adjusted Number of Active Borrowers/ Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding/Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/ Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding/ Number of Loan Officers
Depositors per Staff Member	Number of Depositors/ Number of Personnel
Deposit Accounts per Staff Member	Number of Deposit Accounts/ Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/ Number of Personnel

**RISK AND LIQUIDITY**

Portfolio at Risk > 30 Days	Outstanding balance, portfolio overdue > 30 Days + renegotiated portfolio/ Adjusted Gross Loan Portfolio
Portfolio at Risk > 90 Days	Outstanding balance, portfolio overdue > 90 Days + renegotiated portfolio/ Adjusted Gross Loan Portfolio
Write-off Ratio	Adjusted Value of loans written-off/ Adjusted Average Gross Loan Portfolio
Loan Loss Rate	(Adjusted Write-offs - Value of Loans Recovered)/ Adjusted Average Gross Loan Portfolio
Risk Coverage Ratio	Adjusted Impairment Loss Allowance/ PAR > 30 Days
Non-earning Liquid Assets as a % of Total Assets	Adjusted Cash and banks/ Adjusted Total Assets

## BENCHMARKS FOR SUB-SAHARAN AFRICA

<i>(All figures are medians)</i>	Sub-Regions				
	Africa	Central	Eastern	Southern	Western
<b>INSTITUTIONAL CHARACTERISTICS</b>					
Number of MFIs	195	22	57	26	90
Age	10	11	9	10	11
Total Assets	4,994,906	5,278,328	5,930,164	5,422,318	4,034,230
Offices	8	6	12	9	7
Personnel	88	62	103	128	70
<b>FINANCING STRUCTURE</b>					
Capital/ Asset Ratio	26%	18%	25%	30%	24%
Debt to Equity	2.3	3.3	2.4	2.0	2.3
Deposits to Loans	53%	135%	44%	24%	63%
Deposits to Total Assets	35%	60%	25%	15%	44%
Portfolio to Assets	66%	50%	70%	64%	66%
<b>OUTREACH INDICATORS</b>					
Number of Active Borrowers	9,143	5,761	14,473	9,652	8,561
Percent of Women Borrowers	57%	34%	55%	62%	63%
Number of Loans Outstanding	9,620	4,727	15,374	9,652	8,561
Gross Loan Portfolio	2,708,387	1,751,911	3,133,538	2,883,167	2,227,513
Average Loan Balance per Borrower	308	457	216	425	320
Average Loan Balance per Borrower/ GNI per Capita	68%	100%	60%	100%	66%
Average Outstanding Balance	311	559	211	425	320
Average Outstanding Balance / GNI per Capita	64%	100%	59%	100%	62%
Number of Depositors	18,336	10,096	19,903	10,782	20,305
Number of Deposit Accounts	18,434	11,881	19,903	10,782	21,161
Deposits	1,366,283	2,341,841	1,349,501	383,496	1,711,692
Average Deposit Balance per Depositor	98	285	59	83	110
Average Deposit Balance per Depositor / GNI per capita	19%	38%	19%	12%	18%
Average Deposit Account Balance	96	301	59	83	105
Average Deposit Account Balance / GNI per capita	19%	38%	19%	12%	18%
<b>MACROECONOMIC INDICATORS</b>					
GNI per Capita	560	1050	370	340	600
GDP Growth Rate	6%	3%	8%	6%	5%
Deposit Rate	6%	4%	5%	11%	4%
Inflation Rate	8%	1%	10%	8%	6%
Financial Depth	28%	19%	21%	23%	33%
<b>OVERALL FINANCIAL PERFORMANCE</b>					
Return on Assets	-1%	-8%	-2%	-1%	0%
Return on Equity	-2%	-35%	-6%	-4%	2%
Operational Self-Sufficiency	108%	104%	110%	105%	110%
Financial Self-Sufficiency	96%	95%	97%	97%	96%
<b>REVENUES</b>					
Financial Revenue/Assets	25%	21%	24%	38%	21%
Profit Margin	-4%	-5%	-3%	-3%	-4%
Yield on Gross Portfolio (nominal)	33%	28%	33%	56%	26%
Yield on Gross Portfolio (real)	23%	27%	23%	44%	22%
<b>EXPENSES</b>					
Total Expense/ Assets	28%	43%	28%	37%	23%
Financial Expense/Assets	5%	9%	6%	6%	3%
Provision for Loan Impairment/ Assets	2%	6%	2%	1%	2%
Operating Expense / Assets	18%	16%	17%	28%	17%
Personnel Expense/ Assets	9%	7%	9%	13%	7%
Administrative Expense/ Assets	9%	9%	8%	15%	9%
Adjustment Expense/ Assets	2%	3%	3%	2%	1%
<b>EFFICIENCY</b>					
Operating Expense/ Loan Portfolio	33%	29%	28%	49%	28%
Personnel Expense/ Loan Portfolio	13%	11%	13%	21%	11%
Average Salary/ GNI per Capita	10.8	9.2	15.3	17.6	9.2
Cost per Borrower	134	148	92	200	108
Cost per Loan	132	88	88	174	128
<b>PRODUCTIVITY</b>					
Borrowers per Staff Member	108	58	128	84	108
Loans per Staff Member	109	46	129	84	112
Borrowers per Loan Officer	288	239	263	208	392
Loans per Loan Officer	286	174	267	208	415
Depositors per Staff Member	228	213	198	162	286
Deposit Accounts per Staff Member	243	237	203	162	294
Personnel Allocation Ratio	41%	32%	47%	43%	36%
<b>RISK AND LIQUIDITY</b>					
Portfolio at Risk > 30 Days	5%	7%	4%	5%	5%
Portfolio at Risk > 90 Days	2%	4%	2%	2%	2%
Write-off Ratio	2%	4%	2%	2%	1%
Loan Loss Rate	1%	3%	1%	1%	1%
Risk Coverage Ratio	57%	49%	68%	83%	50%
Non-earning Liquid Assets as a % of Total Assets	16%	38%	14%	17%	16%

## BENCHMARKS FOR SUB-SAHARAN AFRICA

<i>(All figures are medians)</i>	Financial Intermediation (FI)			Outreach		
	Non FI	Low FI	High FI	Small	Medium	Large
<b>INSTITUTIONAL CHARACTERISTICS</b>						
Number of MFIs	20	38	120	99	50	46
Age	8	9	11	9	9	13
Total Assets	2,119,492	3,472,135	6,160,611	2,093,867	6,469,437	31,254,193
Offices	4	6	13	5	14	38
Personnel	34	112	104	39	128	416
<b>FINANCING STRUCTURE</b>						
Capital/ Asset Ratio	36%	45%	21%	29%	29%	20%
Debt to Equity	1.4	0.9	3.1	2.0	1.9	3.6
Deposits to Loans	0%	19%	75%	58%	46%	53%
Deposits to Total Assets	0%	13%	50%	37%	32%	39%
Portfolio to Assets	75%	68%	63%	60%	67%	67%
<b>OUTREACH INDICATORS</b>						
Number of Active Borrowers	4,173	11,583	11,341	3,114	15,600	56,450
Percent of Women Borrowers	70%	70%	52%	48%	69%	63%
Number of Loans Outstanding	4,173	11,602	11,453	3,029	15,600	60,054
Gross Loan Portfolio	1,677,479	2,160,323	3,189,582	1,355,883	3,746,771	20,629,153
Average Loan Balance per Borrower	212	160	413	395	203	248
Average Loan Balance per Borrower/ GNI per Capita	46%	44%	87%	92%	58%	56%
Average Outstanding Balance	233	158	398	417	218	229
Average Outstanding Balance / GNI per Capita	60%	44%	82%	89%	60%	55%
Number of Depositors		13,597	28,142	6,474	22,024	115,742
Number of Deposit Accounts		14,259	28,626	6,887	22,751	124,890
Deposits		383,496	2,992,647	454,232	1,380,091	10,889,494
Average Deposit Balance per Depositor		23	114	108	69	96
Average Deposit Balance per Depositor / GNI per capita		6%	24%	19%	16%	19%
Average Deposit Account Balance		23	113	98	75	96
Average Deposit Account Balance / GNI per capita		6%	23%	19%	18%	19%
<b>MACROECONOMIC INDICATORS</b>						
GNI per Capita	395	395	560	560	430	580
GDP Growth Rate	6%	6%	6%	6%	6%	7%
Deposit Rate	9%	8%	5%	7%	6%	5%
Inflation Rate	9%	8%	7%	8%	8%	7%
Financial Depth	24%	26%	30%	28%	30%	28%
<b>OVERALL FINANCIAL PERFORMANCE</b>						
Return on Assets	0%	-4%	0%	0%	-2%	-1%
Return on Equity	-1%	-6%	-1%	2%	-6%	-4%
Operational Self-Sufficiency	101%	108%	109%	110%	107%	105%
Financial Self-Sufficiency	86%	91%	97%	96%	93%	100%
<b>REVENUES</b>						
Financial Revenue/Assets	38%	29%	23%	28%	24%	24%
Profit Margin	-17%	-10%	-1%	-4%	-8%	0%
Yield on Gross Portfolio (nominal)	38%	47%	29%	34%	33%	27%
Yield on Gross Portfolio (real)	25%	36%	23%	27%	23%	22%
<b>EXPENSES</b>						
Total Expense/ Assets	33%	32%	25%	28%	28%	25%
Financial Expense/Assets	8%	7%	5%	4%	6%	6%
Provision for Loan Impairment/ Assets	3%	1%	2%	2%	2%	1%
Operating Expense / Assets	19%	22%	18%	19%	19%	17%
Personnel Expense/ Assets	10%	12%	8%	9%	10%	9%
Administrative Expense/ Assets	10%	8%	9%	11%	9%	8%
Adjustment Expense/ Assets	3%	2%	2%	2%	2%	2%
<b>EFFICIENCY</b>						
Operating Expense/ Loan Portfolio	41%	36%	29%	35%	30%	24%
Personnel Expense/ Loan Portfolio	12%	20%	13%	14%	13%	12%
Average Salary/ GNI per Capita	17.6	15.5	10.4	9.2	13.3	13.0
Cost per Borrower	150	121	135	178	116	92
Cost per Loan	200	121	129	179	119	84
<b>PRODUCTIVITY</b>						
Borrowers per Staff Member	133	112	93	67	128	170
Loans per Staff Member	126	112	100	67	122	171
Borrowers per Loan Officer	285	258	302	221	337	338
Loans per Loan Officer	271	258	302	210	327	393
Depositors per Staff Member		138	261	189	226	312
Deposit Accounts per Staff Member		141	267	201	238	313
Personnel Allocation Ratio	51%	48%	36%	36%	45%	48%
<b>RISK AND LIQUIDITY</b>						
Portfolio at Risk > 30 Days	5%	5%	5%	5%	4%	4%
Portfolio at Risk > 90 Days	2%	2%	2%	2%	2%	2%
Write-off Ratio	2%	1%	2%	2%	2%	1%
Loan Loss Rate	1%	1%	1%	2%	2%	1%
Risk Coverage Ratio	99%	76%	51%	51%	67%	63%
Non-earning Liquid Assets as a % of Total Assets	11%	18%	17%	18%	13%	16%

## BENCHMARKS FOR SUB-SAHARAN AFRICA

<i>(All figures are medians)</i>	Charter Type				
	Bank	Credit Union	NBFI	NGO	Rural Bank
<b>INSTITUTIONAL CHARACTERISTICS</b>					
Number of MFIs	17	50	61	55	12
Age	8	11	8	11	16
Total Assets	43,265,282	4,190,577	4,447,167	2,671,885	6,168,201
Offices	12	9	10	8	5
Personnel	307	43	103	65	91
<b>FINANCING STRUCTURE</b>					
Capital/ Asset Ratio	19%	22%	33%	34%	14%
Debt to Equity	3.8	2.8	1.9	1.7	6.3
Deposits to Loans	105%	89%	33%	26%	134%
Deposits to Total Assets	61%	60%	24%	16%	71%
Portfolio to Assets	57%	64%	70%	68%	53%
<b>OUTREACH INDICATORS</b>					
Number of Active Borrowers	8,712	3,661	13,557	11,229	6,852
Percent of Women Borrowers	44%	39%	57%	80%	38%
Number of Loans Outstanding	11,593	3,661	12,659	11,229	7,319
Gross Loan Portfolio	21,772,902	2,162,902	3,231,627	1,691,354	2,849,895
Average Loan Balance per Borrower	843	473	290	141	550
Average Loan Balance per Borrower/ GNI per Capita	135%	117%	61%	33%	93%
Average Outstanding Balance	843	525	257	141	512
Average Outstanding Balance / GNI per Capita	135%	117%	59%	34%	87%
Number of Depositors	84,268	15,556	14,464	12,935	36,487
Number of Deposit Accounts	84,268	15,532	16,275	13,214	36,587
Deposits	25,033,620	1,774,074	963,318	450,750	4,897,646
Average Deposit Balance per Depositor	138	132	83	53	137
Average Deposit Balance per Depositor / GNI per capita	28%	29%	19%	12%	23%
Average Deposit Account Balance	138	123	88	52	117
Average Deposit Account Balance / GNI per capita	25%	28%	19%	11%	23%
<b>MACROECONOMIC INDICATORS</b>					
GNI per Capita	400	535	370	600	600
GDP Growth Rate	7%	4%	7%	6%	6%
Deposit Rate	9%	4%	5%	9%	9%
Inflation Rate	8%	2%	10%	7%	11%
Financial Depth	28%	27%	21%	31%	34%
<b>OVERALL FINANCIAL PERFORMANCE</b>					
Return on Assets	-1%	0%	0%	-3%	2%
Return on Equity	-4%	2%	-1%	-5%	21%
Operational Self-Sufficiency	106%	110%	112%	102%	122%
Financial Self-Sufficiency	98%	96%	95%	88%	106%
<b>REVENUES</b>					
Financial Revenue/Assets	29%	17%	25%	34%	25%
Profit Margin	-2%	-4%	-6%	-10%	6%
Yield on Gross Portfolio (nominal)	34%	22%	28%	42%	42%
Yield on Gross Portfolio (real)	26%	20%	22%	34%	28%
<b>EXPENSES</b>					
Total Expense/ Assets	34%	16%	28%	35%	25%
Financial Expense/Assets	5%	2%	7%	6%	3%
Provision for Loan Impairment/ Assets	3%	1%	2%	1%	1%
Operating Expense / Assets	22%	13%	18%	25%	19%
Personnel Expense/ Assets	10%	6%	9%	13%	9%
Administrative Expense/ Assets	12%	7%	9%	11%	11%
Adjustment Expense/ Assets	2%	1%	3%	1%	2%
<b>EFFICIENCY</b>					
Operating Expense/ Loan Portfolio	41%	23%	30%	36%	37%
Personnel Expense/ Loan Portfolio	19%	10%	12%	20%	17%
Average Salary/ GNI per Capita	18.8	9.9	11.6	9.9	8.9
Cost per Borrower	247	150	138	68	169
Cost per Loan	247	140	138	69	195
<b>PRODUCTIVITY</b>					
Borrowers per Staff Member	58	69	117	151	62
Loans per Staff Member	61	69	113	151	62
Borrowers per Loan Officer	209	272	265	316	531
Loans per Loan Officer	250	272	260	305	531
Depositors per Staff Member	318	267	181	217	314
Deposit Accounts per Staff Member	330	286	186	218	342
Personnel Allocation Ratio	28%	30%	47%	51%	18%
<b>RISK AND LIQUIDITY</b>					
Portfolio at Risk > 30 Days	5%	5%	4%	5%	2%
Portfolio at Risk > 90 Days	1%	3%	2%	2%	1%
Write-off Ratio	1%	2%	2%	1%	3%
Loan Loss Rate	1%	2%	2%	0%	3%
Risk Coverage Ratio	51%	47%	68%	62%	58%
Non-earning Liquid Assets as a % of Total Assets	21%	16%	14%	15%	20%

## ANNEX: REFERENCES AND DATA SOURCES

### References

Centre for the Study of Financial Innovation. “Microfinance Banana Skins 2009: Confronting Crisis and Change.” London: CSFI, 2009.

CGAP. “2009 Microfinance Funder Survey: Sub-Saharan Africa.” Washington, D.C.: CGAP, 2009.

CGAP. “2009 MIV Survey.” Washington, D.C.: CGAP, 2009

CGAP. “2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa.” Washington, D.C.: CGAP, 2009.

### Data Sources

Five different data sets are drawn on to present the analysis of the microfinance sector in this report:

**CGAP 2009 Microfinance Funder Survey: Sub-Saharan Africa.** This annual survey captures the microfinance portfolios of leading donors and investors. The survey is based on self-reported data by 61 funders. All data provided are as of December 2008 (except for a few funders whose fiscal year ends in June). A few funders were not able to provide breakdowns by purpose. In such cases, CGAP used secondary sources and its best judgment to provide reliable estimates for the relevant breakdowns. Trend analysis is based on the set of funders that had data available for both years (December 2007 and December 2008 data). For DFIs, trend analysis is possible over a four-year period. Minor adjustments were made to 2007 data based on additional information received. If not specified otherwise, analysis is based on committed amounts. Committed amounts represent all funds set aside for microfinance in all active projects/investments, whether or not disbursed. Outstanding portfolio represents all disbursed funds minus repayments.

**CGAP 2009 MIV Survey.** The CGAP 2009 MIV Survey, powered by Symbiotics, provides the most comprehensive view and analysis on the microfinance investment vehicle industry. It offers key data and benchmarks on market trends, MIV performance by peer groups, and environment, social and governance information.

**CGAP 2009 Overview of Microfinance-Related Legal and Policy Reform in Sub-Saharan Africa.** In 2009, CGAP completed its second survey of the legal and policy reform activity relevant for access to finance in the 48 countries of SSA. The survey methodology is based on an analysis of documents mostly found through French, English, and Portuguese language internet research, with limited follow-up to resolve ambiguities or confirm accuracy. Given these methodological limitations, the survey may not be fully complete for the countries covered. This report should not be relied upon for legal advice or as the basis for investment or legal structuring decisions. The 48 countries include Djibouti, which is considered part of the Middle East for some.

**MIX Funding Structure Database.** In 2008, 131 MFIs provided detailed information on their individual borrowings, including source, original currency, beginning and maturity date, and interest rate on the loan. While each MFI’s information is confidential, MIX creates aggregate analysis on the types of lenders, cost, and maturity of retail debt in SSA.

**MIX Market.** The MIX data set consists of 195 MFIs in 2008 and a balanced panel data set of 164 MFIs for 2007-2008. These institutions were selected based on their ability to provide transparent, detailed reporting. The report analyzes this sample to review MFI financial and operational performance. Data for all of the individual institutions included in the report is publicly available online and regularly updated at [www.mixmarket.org](http://www.mixmarket.org).



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