

# Microfinance in the Arab World: Shaping the Industry's Future

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## The African Microfinance Panorama

**Kimanthi Mutua**  
Managing Director  
K-Rep Bank



This presentation looks at the African Microfinance panorama:

- History & evolution
- Current scene
- Some lessons
- Challenges
- The future

In the 70's, the sector was marked by:

- Donor supported income generating projects
- Rural banks & credit unions – in parts of West Africa

Gained prominence in the 80's thru:

- Expansion of donor supported NGOs
- A few government projects & credit unions
- Emergence of other forms of rural development banks

In the 90's the sector was marked by:

- Influx of micro-credit projects
- Changes in service delivery methods:  
Minimalists & financial systems approach
- Increased outreach & operational sustainability amongst some NGO-MFIs & credit unions
- Active involvement of African MFIs, in the global movement
- Lobby for MFI legislation

### Late 90's

- Transformation of NGOs into regulated financial institutions
- Transformation of conventional financial inst. into MFIs
- Increased outreach & financial sustainability
- Special legislation for regulating MFIs
- Entry of new types of investors for MFIs
- State owned banks turning to microfinance
- Post-banks identifying with microfinance
- MFI networks

## Current Scene

<b>Regulated</b>	<b>Not-Regulated</b>
(Most MFIs classified as Large by MBB)	Most MFIs classified as medium & small
Commercial Banks Building Societies Credit Unions MFIs under special legislation	NGOs Financial Services Associations (Village Rotating Savings & Credit Associations
<b>Funding</b>	
Equity Savings Commercial lines of credit	Grants Compulsory savings Bank loans
<b>Ownership</b>	
Shareholders	Charitable trusts Members
<b>Estimated distribution, by # of inst.</b>	
~ 30%	~ 70%

## Comparative Analysis: Outreach & Financing Structure

	Outreach					Financing Structure				
	Borrowers	Savers	Loan Portfolio	Deposits	Ln. Bal / Borrowers	Total Assets	Comm.funds /Loan Portf.	Deposits / Loan Portf	Deposits / Tot assets	
			\$ m	\$ m	US\$	\$ m	%	%	%	
African MFIs										
- Large	30,431	82,052	15.3	11.8	503	28.9	114.8	95.1	45.2	
- Medium	29,935	5,170	3.7	0.33	124	5.3	41.4	9.8	6.0	
- Small	13,602	826	1.1	0.075	81	1.7	39.2	5.2	3.3	
MENA	13,463	na	3.3	na	245	6.4	23.9	0.0	0.0	
Asia										
- Large	1.2m	7.6m	380	663.8	316	848	131.4	72.8	39.5	
- Medium	58,734	22,542	4.9	182.5	83	6.9	70.3	3.1	2.3	
- Small	14,266	4,801	0.96	0.011	67	2.1	26.6	1.4	0.5	
Latin America										
- Large	55,323	5,255	49.9	29.02	902	65	95.5	53.0	40.3	
- Medium	22,627	na	6.7	na	296	8.5	71.8	3.7	3.1	
- Small	4,282	na	1.05	na	245	1.8	9.8	2.0	1.5	

Source: MBB MIX – June 2003

## Comparative Analysis: Selected performance indicators

Selected Performance Measures							
	AROA	AROE	Opex /Loans	Adj. tot xps. ratio	Portfolio at risk	Borrowers per staff	Borrowers per loan officer
	%	%	%	%	%		
African MFIs							
- Large	3.7	14.1	21.4	14.4	2.1	138	447
- Medium	-2.3	-4.0	43.3	33.3	2.1	214	423
- Small	-12.3	-24.8	83	58.4	4.6	177	334
Asia							
- Large	4.5	31.6	15.5	18.5	5.1	158	415
- Medium	0.2	1.0	26.6	27.9	2	167	265
- Small	-4.9	14.7	53.9	31.7	0.8	172	279
Latin America							
- Large	5.3	27.7	18.1	29.9	4.4	150	385
- Medium	3.6	9.0	27	28.6	3.4	190	552
- Small	-12.8	-25.2	34.4	61.6	5.1	141	298
MENA	0.6	0.4	38.4	22	1.4	133	213

Source: MBB-MIX - July 2003

## K-Rep before & after transformation

Financial Base (in US\$ millions)							
	Before Transformation			After Transformation			
	1997	1998	1999	2000	2001	2002	Spt'03
<b>Total Assets</b>	<b>6.86</b>	<b>7.51</b>	<b>6.45</b>	<b>12.41</b>	<b>15.04</b>	<b>21.91</b>	<b>25.57</b>
Loan Portfolio	5.11	4.6	3.76	4.51	9.09	15.09	18.80
Liquid Assets	1.37	1.56	2.34	6.55	4.59	5.34	5.27
Other Assets	0.38	1.35	0.35	1.34	1.37	1.48	1.51
<b>Liabilities</b>	<b>0.64</b>	<b>0.75</b>	<b>2.46</b>	<b>5.87</b>	<b>8.00</b>	<b>13.94</b>	<b>17.10</b>
Deposits	-			3.45	5.25	10.72	12.75
Other Liabilities	0.64	0.75	1.5	0.84	1.28	1.00	0.03
Borrowed Funds	-		0.96	1.59	1.48	2.2	4.3
<b>Capital</b>	<b>6.22</b>	<b>6.75</b>	<b>4</b>	<b>6.53</b>	<b>7.04</b>	<b>7.97</b>	<b>8.48</b>
Accumulated funds	6.22	6.75	4	-			
Shareholders fund	-	-	-	6.53	7.04	7.97	8.48
<b>Capital &amp; Liabilities</b>	<b>6.86</b>	<b>7.5</b>	<b>6.46</b>	<b>12.41</b>	<b>15.04</b>	<b>21.91</b>	<b>25.57</b>
Number of loan clients	10,856	13,150	13,636	14,636	19,863	28,084	42,282
Number of depositors	0	0	0	20,251	28,084	31,566	57,239

# Equity Building Society

	Building society			Fully fledged MFI			
	1997	1998	1999	2000	2001	2002	2003
	Mliion US\$						
Total Assets	4.28	6.41	9.33	16.58	24.78	33.89	42.57
Loan Porfdio	2.57	3.03	4.30	5.92	11.32	15.79	19.74
Deposits	3.76	5.59	8.00	12.87	19.74	27.63	34.21
Nb. of Loan Accounts	1,109	954	1,109	1,460	2,753	41,000	57,000
Nb of Depositors	32,000	41,000	48,000	61,000	105,000	155,000	187,000

## Some lessons



The following factors have contributed immensely to the growth of the MFI industry in Africa:

- Transformation of NGOs into banks & other regulated institutions
- Transformation of banks & NBFIs into MFIs
- New products such as individual loans & wholesale loans to credit unions & other MFIs and a range of savings products
- Access to equity, deposits & other commercial funds
- Change in ownership & governing structure
- Disclosure of performance information & rating
- Competition

### External

- Political & economic environment
- Insecurity limits penetration to rural areas
- Regulatory framework susceptible to political interference
- Infrastructure & payment systems
- Multiple institutional form could undermine regulatory process
- Globalization killing traditional micro-enterprises

## Internal

- Capacity to meet growth trends
- Rapid growth, unmatched by capacity – looming danger
- Multiple loans by clients, across many MFIs
- Deposit mobilization exerts pressure on MFIs to shift from original mission

### Industry level

- Limited investors for transforming MFIs
  - Same investors seen in most transformed MFIs
  - Innovations & diversity undermined
- MFIs increasingly becoming foreign owned
- Performance standards lag behind new products & services
- Networks have yet to play a strong role in the development of the industry

- MFIs in will operate under regulatory environment in most parts of Africa
- There will be multiple institutional forms for MFI
- NGOs will face strong competition from banks & other NBFIs entering the sector
- IT & product diversity will drive industry