THE GROWTH OF COMMERCIAL MICROFINANCE: 2004 – 2006

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An Update to
Characteristics of Equity Investments in Microfinance
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Council of Microfinance Equity Funds

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ABOUT THE COUNCIL OF MICROFINANCE EQUITY FUNDS

The Council of Microfinance Equity Funds (CMEF) is a membership organization of private entities that make equity investments in microfinance institutions (MFIs) throughout the developing world. Council members seek both social and financial returns from their investments in these MFIs. The Council's purpose is three-fold: 1) to articulate and disseminate the knowledge and expertise about equity in microfinance of the Council's members among themselves and to other MFI stakeholders; 2) to present guidelines and principles for effective investment in MFIs; 3) to conceive of a future strategy for the role of investment capital in microfinance with a particular emphasis on attracting private investors in microfinance. ACCION International, the Council Coordinator, originally brought together the group to create the Council in 2002, and it was formally launched in 2003.

Subsequent to the publication of the original (2004) study, CMEF has published *The Practice of Corporate Governance in Shareholder-Owned Microfinance Institutions*, a consensus statement that succinctly lays out the primary issues facing MFI directors and managers in terms of governance. This publication offers insight from many well known people who have worked in microfinance and concretely addresses governance issues in a way that MFIs worldwide can easily implement. Both this publication and the original *Characteristics of Equity Investments in Microfinance* are available online at www.cmef.com.

I. HIGHLIGHTS

- The segment of microfinance in which equity investment plays a role has grown very rapidly during the past two years.
- This study identified 222 microfinance institutions (MFIs) around the world that are regulated, commercial, shareholder-owned institutions – in short, candidates for equity investment in microfinance, compared with 124 institutions that were found just two years ago. The database used for this analysis comprised 199 of these 222 MFIs because not all MFIs make sufficient information publicly available.
- The total number of clients reached by these institutions is 11 million, compared to a total of 3 million in the 2004 study.
- The commercial microfinance industry now counts roughly US $9 billion in loans outstanding and US $14 billion in assets on top of US $1.5 billion of total equity. This compares to US $1.5 billion in loans, US $2.5 billion in assets, and US $363 million of equity in 2004.
- Much of this increase comes from the organic growth of established institutions. *Each year*, the 71 institutions from the 2004 study that were analyzed in 2006 experienced 82 percent portfolio growth, 70 percent asset growth, 49 percent equity growth, and 31 percent growth in the number of clients served.
- Commercial MFIs are increasing financial leverage. The MFIs in this study exhibited an asset-to-equity ratio of 8.6 in 2006, up from 6.6 in 2004.
- The average loan size for commercial MFIs is increasing. The aggregate average loan size has increased from US $623 in 2004 to US $1,193 in 2006.
- Asia shows the most growth of any region in this study; the number of commercial MFIs jumped more than 2.5 times from 2004. This is mainly the result of new entrants beginning operations since 2004 or MFIs reporting for the first time. New institution formation has apparently slowed in Latin America as only seven additional institutions were identified in this study compared to 2004. This implies that the industry is maturing in the region. Established MFIs continued to grow at an impressive pace.
- The number of MFIs with loan portfolios in excess of US $100 million has increased from two to 20 since 2004. Additionally, 19 MFIs now serve a client base greater than 100,000 borrowers, up from just four in 2004.
- Among the group of 18 MFIs that shared information regarding their ownership structure in 2004, we find that today the number of MFIs with international public investors (development agencies etc…) has been cut almost in half. The median number of investors has dropped from five to four, indicating some consolidation of ownership.

II. EQUITY INVESTMENTS IN MFIS: A GLOBAL LOOK

In the previous decade and a half scores of microfinance institutions (MFIs) throughout the developing world have transformed into for-profit entities from non-profit origins or established themselves as brand new, specialized MFIs. While still few in number, shareholder-owned MFIs form an increasingly significant part of the financial landscape in developing countries and have joined banks and other traditional institutions as full-fledged members of the formal financial sector. Many of these institutions continue to experience rapid growth and must work constantly to increase their capital base. The ability of such MFIs to attract additional capital, above all from the private sector, will in large part determine the long-term success of their efforts.

At the same time as MFIs are distributing financial services to a rapidly increasing number of clients, they are offering investors attractive financial and social returns. The pool of funds available for private equity investment in microfinance has also grown rapidly, with new equity funds bringing new investors to the field. It is important for prospective investors to understand the universe of institutions with which they are considering becoming involved, and it is important for the industry as a whole to understand how the opportunities for equity investment in "investable" MFIs are growing.

This study attempts to provide a picture of the worldwide scale of institutions structured as private, commercial, regulated and shareholder-owned MFIs in 2006, and to track the growth of commercial microfinance in the recent past. In 2004 the Council of Microfinance Equity Funds (CMEF or the Council) published a study of shareholder-owned, commercial MFIs titled *Characteristics of Equity Investments in Microfinance*.[1] The study provided insight not before available in several areas: the size and geographic distribution of the worldwide commercial microfinance industry, a review of the owners of MFIs and generalizations about their motivations, and finally an analysis of corporate governance practices common among commercial MFIs. After only two years the Council felt that there had been so much change in the field that an update of the study was needed. This update provides another snapshot of the commercial microfinance industry worldwide and assesses the changes that have occurred in the past two years.

The focus of this study is the scale of commercial microfinance, in terms of both client outreach and financial aggregates: equity, portfolio and assets. The study does not address questions of social or financial performance, but this is in no way meant to de-emphasize the role that social and financial performance metrics should play in evaluating commercial MFIs.

STUDY METHODOLOGY

The 2004 study identified 124 commercial MFIs. The authors excluded all identifiable NGOs, cooperatives, and government controlled institutions, i.e., institutions lacking a shareholder structure that permits external equity investment. The data for that study came mostly from the Microfinance Information eXchange (MIX)[2] and from the MFIs in which Council

[1] Kaddaras, James and Elisabeth Rhyne, Council of Microfinance Equity Funds, April 2004.
[2] www.mixmarket.org

members had invested. Data was not available for all institutions, therefore the study included 92 of the 124 MFIs. In addition to basic information on this group of MFIs, the original study also provided analysis of the ownership structure, shareholder identity and equity characteristics of a sample of 18 MFIs.

In order to update the 2004 study, the authors collected data from MFIs from the original study, which was supplemented by data from the MIX, Council of Microfinance Equity Fund members and other sources. A second stage involved a more detailed look at ownership for 25 MFIs, including the 18 examined in the earlier study.

For the purposes of this study, we have included only private financial institutions with share capital that are primarily dedicated to the provision of loans, deposits and other financial services to people in the self-employed or informal sector in the developing world, especially microentrepreneurs. Furthermore, the MFIs used in the database were only those classified as "regulated" institutions on the MIX.

Two caveats should be made about the data. First, significant gaps exist within the data as set out in the Annex tables. These gaps reflect the difficulty of gathering complete and standard data from MFIs in different countries. Second, the data do not all reflect the same point in time. While most of the data collected is current through Dec. 31, 2005, a number of instances exist where the most recent information was from 2004 or earlier. This issue affected the 2004 study in the same way. In our opinion, the benefits gained from an attempt to examine the industry comprehensively outweigh the shortcomings of the data.

ORGANIC GROWTH IN COMMERCIAL MICROFINANCE: 2004 INSTITUTIONS IN 2006

We examined the change from 2004 to 2006 among the MFIs from the original CMEF study to understand the recent growth performance of established, commercial MFIs. In the original study, 124 institutions were identified, and 92 had complete enough data to include in the analysis. For the current study, the authors identified all the original MFIs. Thirteen institutions were found not to fit the criteria, and others lacked full data. We obtained complete 2004 and 2006 numbers for 71 of the 92 from the first study. The comparisons that follow are based on these 71 institutions.[3] These institutions include many if not most of the best-known and top-performing commercial MFIs in the world. This group could be considered the top tier of MFIs.

[3] Only three institutions in the original study were from the Middle East and North Africa (MENA). These institutions are not included in this analysis because it was determined that they did not constitute a critical mass for drawing regional conclusions. In the 2004 study the three MENA institutions were combined with the Africa region.

TABLE 1 AND 1A: COMPARISON OF MFIS IDENTIFIED FROM 2004 STUDY

Regions	MFIs From 2004	Total Assets (US $ millions)		Difference	Percent Change	Total Equity (US $ millions)		Difference	Percent Change
		2004	2006			2004	2006		
Africa	14	309	671	361	**117%**	63	141	78	**124%**
Asia	11	97	370	273	**281%**	39	68	29	**74%**
E.Europe	14	827	3,028	2,201	**266%**	80	224	144	**180%**
Latin America	32	1,102	2,728	1,626	**148%**	174	358	184	**106%**
Total	**71**	**$2,335**	**$6,797**	**$4,462**	191%	**$356**	**$791**	**$435**	122%

Regions	Loan Portfolio (US $ millions)		Difference	Percent Change	Number of Borrowers		Difference	Percent Change
	2004	2006			2004	2006		
Africa	203	445	242	**119%**	630,271	887,835	257,564	**41%**
Asia	71	248	177	**249%**	631,831	922,068	290,237	**46%**
E.Europe	416	2,063	1,647	**396%**	122,031	332,760	210,729	**173%**
Latin America	776	2,090	1,314	**169%**	968,102	1,917,987	949,885	**98%**
Total	**$1,466**	**$4,846**	**$3,380**	231%	**2,352,235**	**4,060,650**	**1,708,415**	73%

The data in Table 1 clearly demonstrate the strong position and rapid growth enjoyed by these established MFIs. Total assets of these institutions nearly tripled in two years. Only a handful of institutions did not experience asset and loan portfolio growth during the period. In order to support this growth, the equity base of the institutions is also growing, though not as fast as assets: the institutions are becoming more highly leveraged. In the aggregate, the asset/equity ratio climbed from 6.6 times in 2004 to 8.6 times in 2006. A total of $435 million in additional equity was added by these institutions during two years. Although it is not within the scope of this study to determine precisely how much of this increase came from retained earnings, it is clear that a substantial amount came from new investment.

Borrower growth is slower than asset and portfolio growth, but is still substantial: the number of borrowers increased by 73 percent in two years. The disparity between portfolio and borrower growth rates suggests that loan sizes are increasing, and this is indeed the case. The average loan size in the aggregate for these institutions was $623 in 2004 and $1,193 in 2006, an increase of 91 percent. Average loan sizes grew in all regions, especially Eastern Europe which suggests that microfinance institutions are broadening their client base. Only a handful of institutions, such as BASIX in India, actually decreased average loan size.

Although the overall picture shows very rapid asset and portfolio growth, rapid borrower growth, higher leverage and larger loan sizes in every region, there are interesting differences among regions.

- *Africa*. The group includes seven specialized microfinance banks, four non-bank financial institutions (NBFIs), two bank subsidiaries (downscaling projects), and one rural bank. There were few changes of status during the last two years, the most notable being the conversion of Equity Building Society into Equity Bank. All the institutions grew, except one in Zimbabwe. Borrower growth was not as high as in other regions: 41 percent. Three of the 14 institutions lost clients. Much of the portfolio growth is due to increase in loan size, which increased by 56 percent during the past two years. Leverage ratios have improved during the period, with both under-leverage and over-leverage being corrected. In 2006 only one institution had leverage over 8 times, and the average was 5.4 times. Previously, four institutions had leverage over 8 times and three had below 3 times.

- *Asia*. Asian MFIs experienced extraordinary portfolio and asset growth during this period, with portfolio increasing by 249 percent and assets by 281 percent. All the Asian MFIs are growing, many very fast. Share (India) grew by nearly 600 percent in portfolio and over 300 percent in clients. Client growth was slower, however, which means that the region is increasing its loan sizes (though overall client growth was affected by two older institutions which lost large numbers of clients). This region includes the oldest set of institutions: three were founded in the 1980s, eight in the 1990s, and none after 2000. Only ACLEDA in Cambodia and XAC Bank in Mongolia are full fledged commercial banks. All the others are non-banks or a lesser category of bank (such as SEWA, which is classified as an urban cooperative bank). The Asian institutions show problems in the area of leverage, though these problems are not as severe as in 2004. Only one was in the most appropriate equity range (4 to 8 times). Two institutions were excessively leveraged, while most were underleveraged (between 2 and 4 times).[4]

- *Eastern Europe* (including one in Central Asia). The big story in this region is ProCredit, which accounts for nine of the 14 institutions identified in the region. All the ProCredit institutions are commercial banks. These MFIs are newer than those in Asia, with eight launched in the 1990s, and six in the 2000s. Driven by the ProCredit banks, the region shows very high leverage, with the average leverage climbing from 10.4 times to 13.5 times. Only four institutions were leveraged less than 6 times. These institutions are broadening to become full-service banks; this is shown by the increase in average loan size from $3,409 to $6,200, a rise of 82 percent.

- *Latin America*. This region has by far the largest number of commercial MFIs, with 32 represented here. Nearly all of these MFIs were founded in the 1990s. Fifteen are non-bank financial institutions, while ten are microfinance banks, most operating with standard commercial bank licenses. Seven are service companies or subsidiaries of commercial banks, representing downscaling efforts. All the institutions have grown in assets, portfolio and equity and all but one have added clients. This region shows appropriate leverage ratios, with the average rising from 6.3 times to 7.6 times. Only a few institutions are significantly over- or under- leveraged, which reflects positively on the quality of regulation and supervision in the region. For a region which has often been accused of mission drift, it may be surprising that average loan size grew less rapidly in this region than in any of the others (36 percent during two years). The overall picture is of a healthy, maturing industry in Latin America.

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[4] These numbers exclude Bank Rakyat Indonesia, one of the most successful and largest MFIs in the world. BRI was a government-owned institution in 2004, and has since issued a public offering of 30 percent of its stock, becoming partially shareholder-owned. BRI is so large, however, that including it in the totals masks more widespread regional trends.

CONSTRUCTING A 2006 DATABASE

In 2006 the study identified 222 MFIs in four developing regions that have share capital and are regulated by some local authority. Of these, 199 provided enough information on loans, borrowers, assets, and shareholder equity to be included in this study (for the full data set, see Annex 4). The 2006 data includes the 71 institutions profiled above, as well as the newly identified institutions. It is striking that in 2006 we were able to identify and obtain data on more than twice as many shareholder-owned MFIs as in 2004 (Table 2). This fact alone testifies to the rapid growth commercial microfinance is now experiencing. It also testifies to the increasing availability of information, which in itself is correlated with increasing interest in microfinance by commercial investors. Investor interest grows as better information is available. Given time and data availability constraints, we have made no attempt to separate new entrant growth from reporting growth.

The patterns of growth in number of institutions differ widely by region. Latin America, the pioneer region for commercial microfinance, has only seven more institutions in 2006 when compared to 2004 (Annex 4). New entry by specialized MFIs has apparently slowed from the early period of rapid institutional formation. Commercial microfinance is today a maturing industry in Latin America, with several factors possibly contributing to the lack of new institutions:

- With highly competitive markets, the barriers to entry for new players may retard entry by new institutions.
- The process of transformation of NGOs into regulated financial institutions may be largely completed: many potential transformations may have taken place.
- New entry into microfinance may be increasingly coming from existing mainstream commercial banks who do not report themselves as MFIs.
- Data availability in Latin America developed earlier than in other regions, so it may not be possible to find existing institutions that were not already identified in 2004.

TABLE 2: NUMBERS OF MFIS BY REGION, 2004-2006

Regions	No. of Identified Institutions		Percent Change	No. of MFIs with Information	
	2004	2006		2004	2006
Africa	28	52	86%	19	49
Asia	24	66	175%	17	59
E. Europe	25	54	116%	21	47
Latin America	47	50	6%	35	44
Total	**124**	**222**	**79%**	**92**	**199**

Growth in the number of institutions is most striking in Asia, where the number that could be identified jumped nearly three times in the past two years. Asia finds itself in the midst of a growth spurt in commercial microfinance where new institution formation is happening quickly, and institutions are increasingly reporting to international microfinance bodies such as the MIX.

Growth in the Africa and Eastern Europe/Central Asia regions has also proceeded rapidly; the number of institutions in each of these two regions increased by 86 percent and 116 percent respectively. Finally, one region, Middle East and North Africa (MENA), is not shown in the table or in subsequent analysis because only three shareholder-owned MFIs were identified in the entire region. While microfinance is growing in the region, commercial models are so far limited to mainstream banks, many in the public sector, rather than specialized MFIs. At present, the MENA region is open for debt investors in NGO MFIs but not equity.

WORLDWIDE COMMERCIAL MICROFINANCE AGGREGATES AND RECENT GROWTH

Together, the 199 institutions in the study provide a snapshot of shareholder-owned microfinance in 2006. These institutions serve almost 11.5 million active borrowers and have a combined portfolio of US $8.7 billion. Total equity amounts to US $1.5 billion and assets are just over US $13.7 billion (Figures 1 &2). Annex 1 provides the numerical breakdown.

Asian MFIs currently serve over 50 percent of the clients worldwide in spite of commanding only 44 percent of assets and just 38 percent of the portfolio outstanding. Opposite on the spectrum we find Eastern European institutions serving only 8 percent of the clients with 27 percent of the portfolio and 29 percent of the total equity.

FIGURE 1: 2006 COMMERCIAL MICROFINANCE EQUITY AND BORROWERS

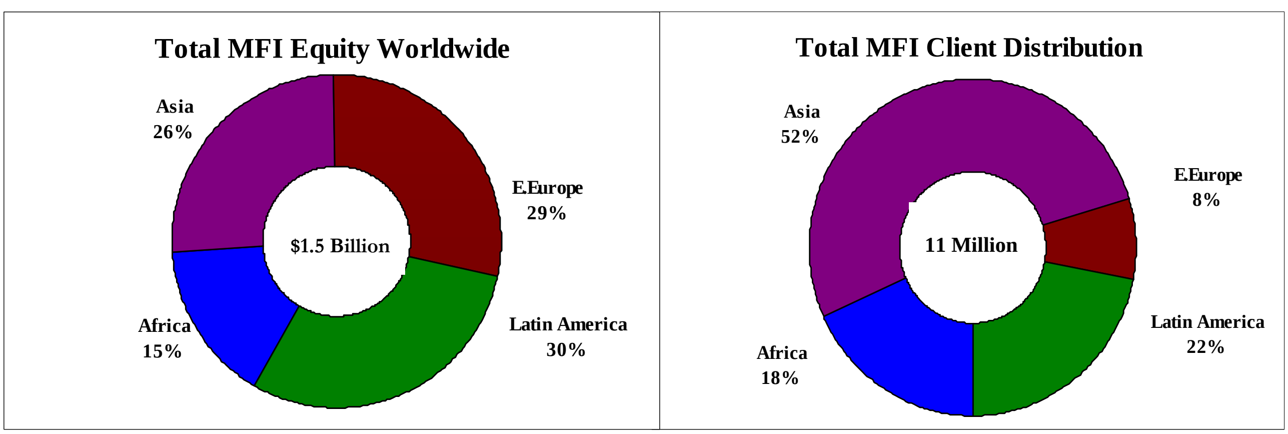
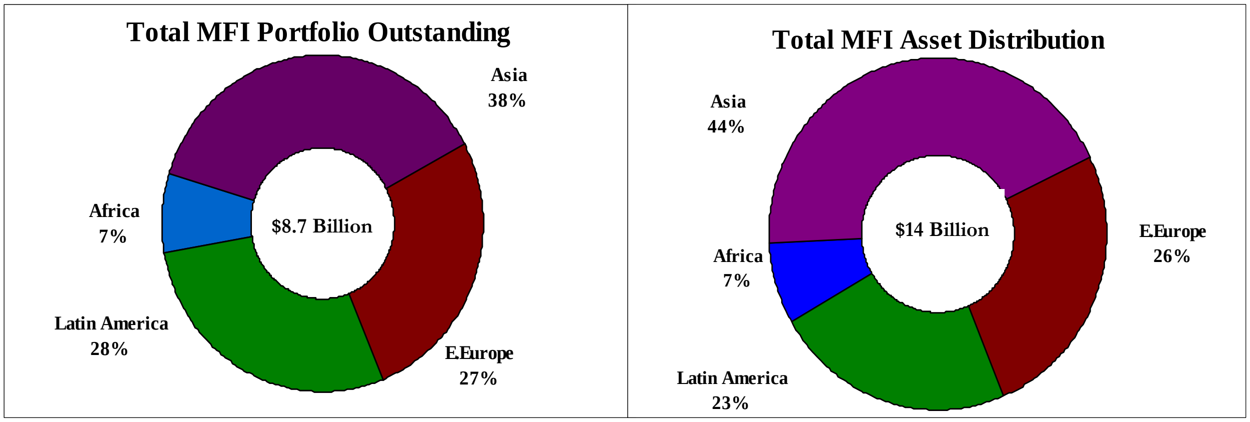


FIGURE 2: 2006 COMMERCIAL MICROFINANCE PORTFOLIO AND ASSETS BY REGION



Africa offers an interesting example for the microfinance investor. The region has 15 percent of the total equity yet only 7 percent of the total assets and 7 percent of the total portfolio. African MFIs are less highly leveraged than MFIs in Latin America and Eastern Europe. This paradox may indicate that the region is high risk and therefore must seek larger relative amounts of risk capital.

The aggregates for 2006 are dramatically higher than those in 2004 (Table 3). All have increased several times over, and this rapid change appears in all regions. As we saw in the first section, much of the growth can be explained by the organic growth of existing MFIs. In addition, some existing MFIs have moved into the shareholder-owned segment, through transformation from NGO into financial institution (such as Uganda Microfinance Limited) or by change of ownership from government to private. By far the biggest single change of this type comes from Bank Rakyat Indonesia, which had no private equity investors in 2004, as a fully government owned institution. In November, 2003 BRI sold 30 percent of its equity in a public offering on the Singapore Stock Exchange. New start-ups undoubtedly account for some of the growth, though new institutions are unlikely to add significantly to worldwide aggregates during their earliest years. Finally, growth also comes from increased capture in the database of institutions, as explained above.

TABLE 3: COMMERCIAL MICROFINANCE AGGREGATES, 2006

	Borrowers	Loan Portfolio (US $ millions)	Assets (US $ millions)	Equity (US $ millions)
2006 By Region				
Africa	2,098,000	652	1,032	239
Asia	5,968,000	3,269	6,028	402
E. Europe	874,000	2,314	3,537	441
Latin America	2,526,000	2,482	3,191	465
Total 2006 (199 MFIs)	**11,466,000**	**$8,717**	**$13,788**	**$1,547**
2004 - 2006 Comparison				
Total 2004 (92 MFIs)	**2,897,000**	**$1,549**	**$2,491**	**$363**
Growth Amount	**8,569,000**	**7,168**	**11,297**	**1,184**
Percentage Growth	**296%**	**463%**	**454%**	**326%**

"INVESTABLE" MFIS, 2006

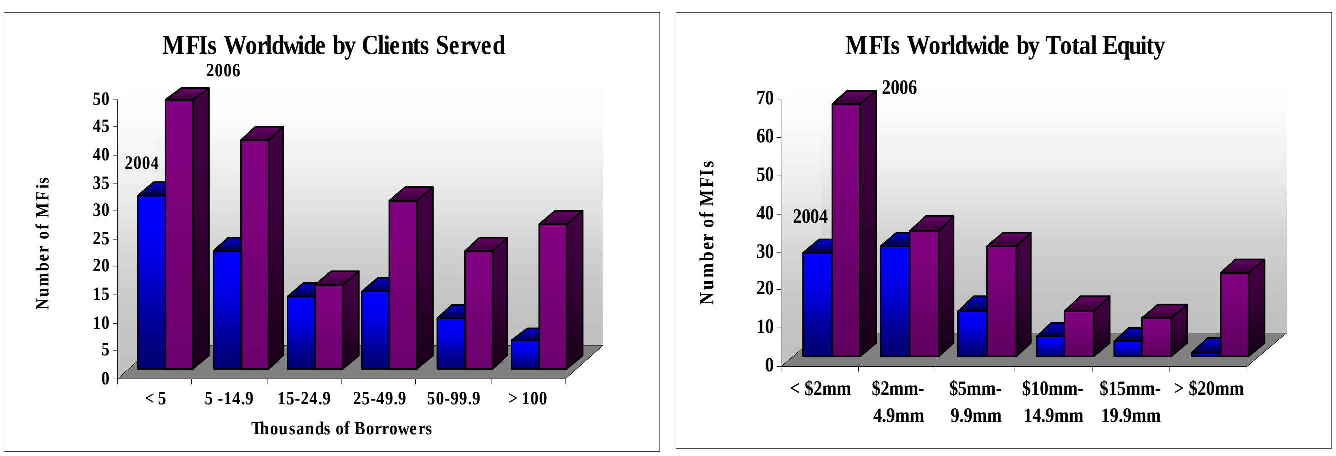
This section examines the distribution of shareholder-owned institutions and how this distribution has changed since 2004. There are more MFIs at all size ranges in 2006 than there were in 2004, whether one looks at clients served, total equity or loan portfolio. The number of relatively small MFIs, defined as serving fewer than 15,000 borrowers, often with US $5 million of equity or less, increased 88 percent. The growth at the large end of the range is the most impressive (Annex 2).

LARGE MFIS

An increasing number of MFIs are reaching important milestones of scale: 100,000 borrowers and loan portfolios of US $100 million (Figures 3). In 2004, only five institutions (ACSI, BRI, TEBA Bank, Compartamos, and SEEDs) had more than 100,000 borrowers, and only four (TEBA, BRI, KMB, and Banco Solidario) had portfolios above US $100 million. Today, 20 institutions have reached this milestone for number of borrowers and 20 have reached the portfolio size milestone (Figure 4). Six MFIs are on both lists. (TEBA, ACLEDA, BRI, Solidario, Compartamos, and Mibanco) Large institutions appear in every region, though no institution in Eastern Europe has reached over 100,000 borrowers.

Ten of the institutions with largest client outreach are, as expected, in Asia, including several newly identified institutions. Most if not all of these new MFIs existed in 2004 (such as Spandana and Sanghamitra in India), but were little known outside their countries. It is notable that six of the institutions with large numbers of borrowers are in Africa, dispelling the notion that African MFIs have not achieved large outreach.

FIGURE 3: WORLDWIDE MFI CHANGE BY CLIENT AND EQUITY DIVISIONS, 2004 - 2006



Most of the institutions with portfolios above US $100 million are either in Eastern Europe or Latin America. Nearly all of these were identified in the 2004 study, but at that time only four had portfolios above this threshold. All the ProCredit Banks listed above were far from this mark in 2004 and through extraordinary growth have crossed this threshold during the past two years.

Bank Rakyat Indonesia remains the largest institution in both client outreach and portfolio size, in 2004 and 2006. Its recent public equity offering has placed it for the first time in the category of shareholder-owned MFI.

FIGURE 4

MFIs that serve more than 100,000 borrowers

- ACSI (Ethiopia)
- Credit Indemnity (S. Africa)
- DECSI (Ethiopia)
- Equity Bank (Kenya)
- Malawi Rural Finance Co.
- TEBA Bank (S. Africa)
- ACLEDA Bank (Cambodia)
- AMRET (Cambodia)
- Bank Rakyat Indonesia
- Khan Bank (Mongolia)
- Ruhuna (Sri Lanka)
- Sabaragamuwa (Sri Lanka)
- Sanghamitra (India)
- SHARE (India)
- Spandana (India)
- Khushhali Bank (Pakistan)
- Banco Solidario (Ecuador)
- Compartamos (Mexico)
- Mibanco (Peru)
- Banco del Trabajo (Peru)

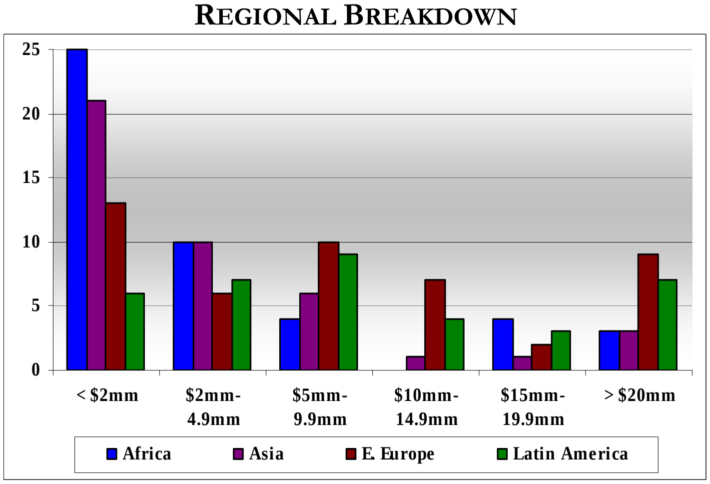
MFIs with portfolio greater than US$100 million

- TEBA Bank (S. Africa)
- ACLEDA Bank (Cambodia)
- Bank Rakyat Indonesia
- Khan Bank (Mongolia)
- KMB (Russia)
- ProCredit Bank Bulgaria
- ProCredit Bank Georgia
- ProCredit Bank Kosovo
- ProCredit Bank Romania
- ProCredit Bank Ukraine
- ProCredit Bank Serbia
- UPI Bank Sarajevo (Bosnia)
- Banco Los Andes (Bolivia)
- Banco ProCredit (El Salvador)
- Banco Solidario (Ecuador)
- BancoSol (Bolivia)
- Banco de Trabajo (Peru)
- Compartamos (Mexico)
- Mibanco (Peru)
- PRODEM (Bolivia)

REGIONAL DIFFERENCES AMONG MFIS

Clear regional differences speak volumes about the overall development of microfinance in each region. Asia shows the largest outreach with the smallest portfolio when we compare that region's percentage of worldwide aggregate portfolio with percentage of worldwide borrowers; as it did in 2004 (Figures 1 & 2). The region has ten MFIs that serve over 100,000 clients; almost twice the number from any other region. Additionally, Asia shows considerable diversity with many institutions of different sizes across the spectrum. However, because loans are so small in Asia, many MFIs require relatively small amounts of equity; often less than US $ 2 million (Figure 5).

FIGURE 5: NUMBER OF MFIS BY TOTAL EQUITY, REGIONAL BREAKDOWN

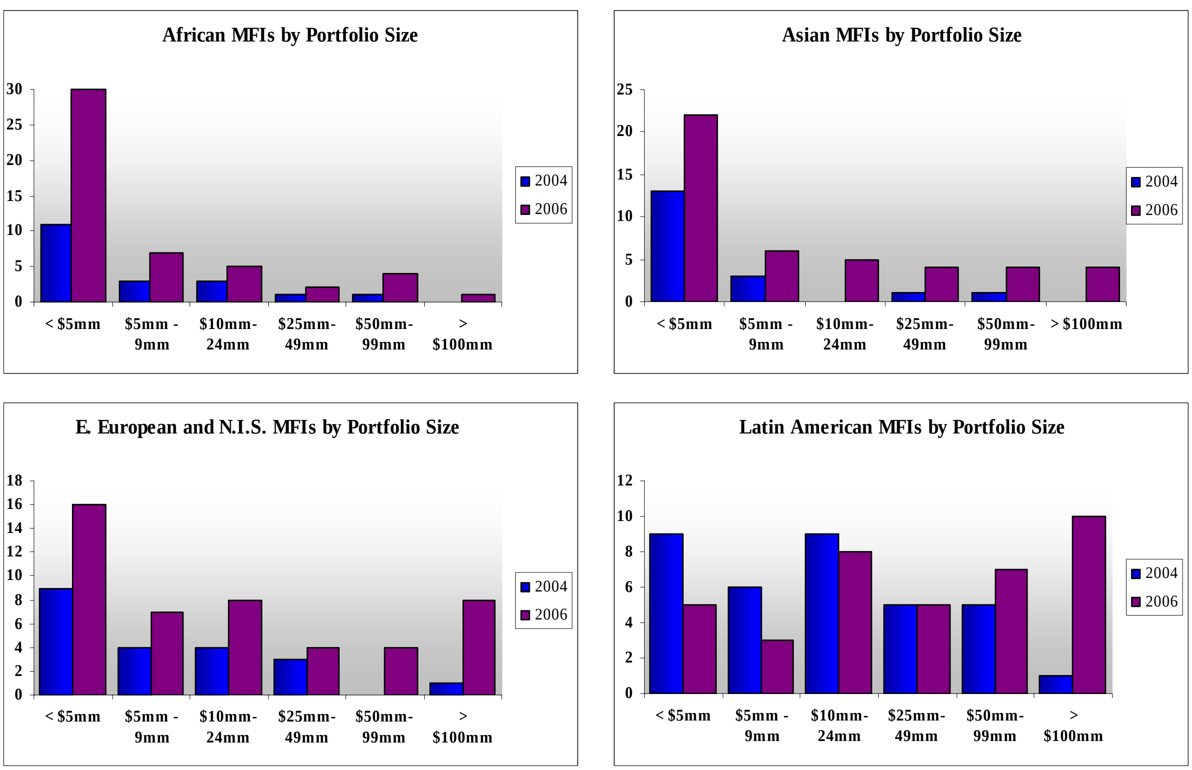


In Africa, 34 of 52 MFIs (well over half) serve fewer than 15,000 clients. From 2004 to 2006 Africa showed the most growth in small institutions when compared to other regions (183 percent increase, see Annex 2). It may be difficult for external equity funds to invest in such small institutions, which typically have total equity of no more than US $2 million. Very small investments are difficult for equity funds to manage profitably.

The Eastern Europe and Central Asia region shows more MFIs (32 of 49) serving fewer than 15,000 clients (Annex 2). Given that MFIs in this region account for 26 percent of the worldwide MFI assets, one can conclude that these institutions operate similar to niche banks serving microenterprises and small businesses (Figure 2).

Latin America exhibits a fairly broad distribution of institutions, somewhat biased towards larger institutions, with 16 institutions serving more than 50,000 clients. It is striking that Latin America has seen a noticeable shift toward larger institutions (greater than US $50 million). In Latin America, the number of small MFIs was cut almost in half, decreasing 44 percent in two years (Figure 6); most of this change results in MFIs growing out of the smaller categories. Additionally, this observation supports the conclusion that greater barriers to entry have developed as the industry has matured in this region; smaller entrants can less easily compete with established MFIs.

FIGURE 6: NUMBER OF MICROFINANCE INSTITUTIONS
REGIONAL CHANGE BY PORTFOLIO SIZE

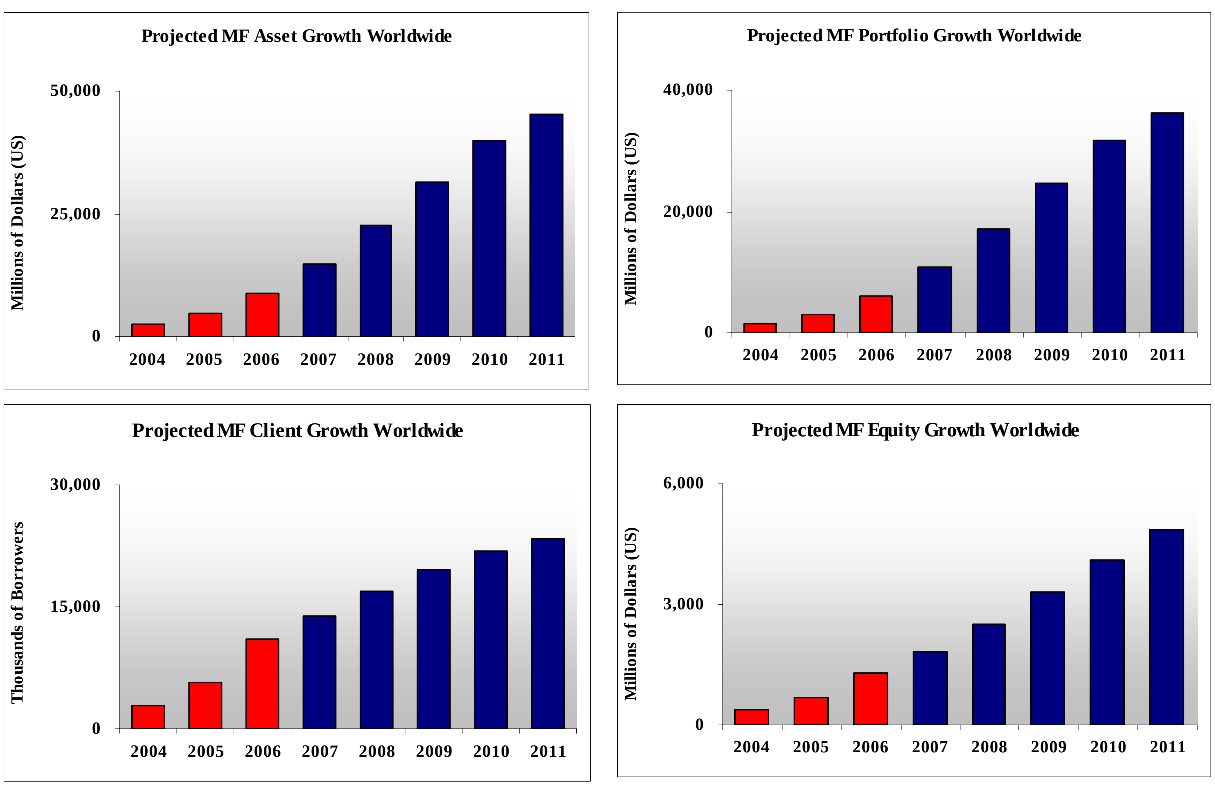


FIVE YEAR INDUSTRY OUTLOOK

Evidence of explosive growth, such as we have here, raises the question of how long the growth can continue, and how large microfinance will become. To derive these projections, the authors began by calculating the cumulative annual growth rate (CAGR) from the 2004 study to this 2006 study for each of the four metrics used to measure the industry: portfolio outstanding, total assets, total equity, and borrowers served. Specifically, that CAGR was calculated using only the organic growth measurable between the two studies; thus, the growth rate we begin with is based only on the growth of the same 71 MFIs used to evaluate organic microfinance growth.[5] These MFIs are listed in Annex 4 as "Included in 2004." Then we extended that growth rate into the future, assuming that it will taper each year by anywhere between 2 percent and 15 percent depending on the metric considered; different taper rates correspond to varying growth rates observed since 2004 and industry expectations such as increasing leverage (measured as equity-to-assets) and increasing efficiency (measured as portfolio-to-assets) over time. We used that new (tapered) yearly growth rate to calculate level of loans outstanding or assets etc., in a given year. We also calculated a series of informal ratios to track the trajectory of the projected change.

The results are presented here (Figure 7) and show steep growth in total assets and portfolio outstanding while both clients served and total equity, to a lesser extent, begin to level out. For more detailed information about our assumptions please see Annex 3. We must stress that these are mechanistic projections that do not intend to account for the economics underlying industry growth.

FIGURE 7: MICROFINANCE INDUSTRY – 5 YEAR PROJECTIONS



[5] Only MFIs with complete information for both 2004 and 2006 were included in the 71; thus some MFIs marked as "Included in 2004" in Annex 4 are not included in the 71 MFIs used for organic growth calculations.

If current organic growth were to continue according to our assumptions, close to the observed rates over the past two years, the totals for the 222 institutions in this study would reach US $36 billion in outstanding loans to 23 million clients in 2011. Such growth would require total assets of over US $45 billion and nearly US $5 billion in total equity, including new investor equity (potentially US $1.5 billion by 2009) and retained earnings (Annex 3).

Though this seems imposing when we consider the state of the commercial microfinance industry currently, it is still well within other projections about the total demand for microfinance worldwide. For example, Blue Orchard and CGAP have estimated the total worldwide demand for microfinance at US $100 billion from roughly 500 million households.[6]

MICROFINANCE INVESTMENT FUNDS

Foreign investment in microfinance has also blossomed over the past two years as more and more MFIs achieve both profitability and strong growth, and more private investors recognize microfinance as an investment opportunity. As of August 7, 2006 the MIX lists 75 specialized microfinance investment funds, of which the authors estimate 48 are 'private' funds that currently have made or are prepared to make equity investments in MFIs, and at least 12 are bilateral or multi-lateral development agencies. While at least five of these funds are new within the past year or so, we expect that the number of recent entries is higher and that both the number and size of funds will continue to grow rapidly. CGAP and ADA (Appui au Développement Autonome) estimate that these funds have invested US $1.2 billion in MFIs directly or in other funds that invest in MFIs; in this sense this number does include some "double counting."[7] Although the authors were only able to collect a small amount of data about where, regionally, these funds invest, the small sample indicated that approximately 20% of the total capital is invested in Eastern Europe and Central Asia, 8% in Asia, 20% in Africa, 32% in Latin America, and 20% in other funds. Each of the Council members currently have made at least one and up to seventeen equity investments in MFIs in all four regions for a total commitment of US $144 million. Information about the investments of the current CMEF members is available online.[8]

III. MFI OWNERSHIP STRUCTURE

The composition of ownership is of utmost importance for the healthy functioning of an MFI. Ownership structure has a direct bearing on the locus of control over the entity and hence decision-making. As such, ownership profoundly influences mission and direction. It also has significant effects on stability and continuity over time, access to funding in crisis or for growth, and public confidence in the entity. This section reports on the results of questionnaires concerning shareholder composition completed by 25 MFIs from around the world; Council members hold investments in 15 of these MFIs, down from all 18 in 2004.

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[6] "Microfinance Investment Funds: Looking Ahead." KfW Financial Sector Development Symposium. http://microcapital.org/downloads/resourcepapers/KfW-MFIFLookingAhead.pdf August 4, 2006
[7] CGAP Focus Note No. 30 "The Market for Foreign Investment in Microfinance." August, 2005.
[8] CMEF web address: www.cmef.com

Of the 25 MFIs included six are located in Africa, seven in Asia, five in Eastern Europe , and seven in Latin America. The current distribution closely reflects the worldwide equity distribution (Figure 1), perhaps slightly overweighting Africa at the expense of Eastern Europe.

The ownership structures of 25 institutions that responded to the survey are reported (anonymously) in Table 4. At first glance, the range of ownership patterns appears quite mixed, with the number of shareholders ranging from one to 112, and the types of shareholders including a wide variety of players, both local and international: NGOs, private social and commercial investors, public sector investors, individuals, and staff members of the organizations. Some investors are specialized in microfinance, while others are making their sole foray into the field.

TABLE 4 – OWNERSHIP STRUCTURES FOR 25 MFIS

	Original NGO	Local NGO	Intl' Pvt Social	Intl' Pvt Comm.	Intl' Public	Local Pvt	Local Ind.	Local Public	ESOP/ Staff	Not Known	Total Investors
1	1 (47%)		3 (53%)								4
2	1 (50%)		2 (39%)				1 (1%)		1 (10%)		5
3				1 (75%)	1 (25%)						2
4			1 (17%)	1 (17%)	4 (66%)						6
5			1 (53%)	1 (17%)	2 (30%)						4
6		1 (10%)	2 (24%)		3 (37%)	1 (29%)					7
7			2 (100%)								2
8			2 (96%)							1 (4%)	3
9		12 (5%)	8 (47%)			5 (35%)	87 (13%)				112
10			1 (28%)				32 (72%)*				33
11			2 (9%)			4 (90%)				1 (1%)	7
12			1 (1%)		1 (8%)	1 (65%)		1 (10%)		1 (16%)	5
13	1 (40%)		1 (18%)	1 (10%)						1 (32%)	4
14						1 (100%)					1
15			2 (41%)			1 (35%)				1 (25%)	4
16			1 (71%)			1 (29%)	1 (.01%)				3
17	1 (32%)		2 (12%)		3 (44%)					(12%)	7
18	1 (19%)	2 (10%)	3 (31%)			6 (28%)	1 (5%)	3 (6%)	1 (1%)		17
19	1 (46%)				1 (24%)			1 (30%)			3
20	1 (15%)		1 (14%)			3 (40%)	(9%)*		2 (22%)^		7
21			1 (13%)				4 (66%)*	1 (6%)	1 (15%)		7
22		2 (16%)	4 (55%)			2 (28%)	2 (1%)				10
23						1 (100%)					1
24						2 (37%)	801 (50%)+	1 (13%)			4
25	1 (90%)		1 (10%)								2
Frequency	8	4	20	4	7	9	9	5	4	6	

**Includes clients

* Number of investors is unknown

+ Equity shares are publicly listed

^ Includes both ESOP and general public

In part because of the origins of the information (i.e. because of the Council's makeup), international private social investors are the most frequent type of investor, present in 20 of the institutions. International public sector investors (IFC, FMO, etc.), which often cooperate closely with private funds, are also very prevalent, appearing as owners in seven of the surveyed MFIs. In 12 of the institutions, there is a lead shareholder that owns at least 50 percent. This lead investor often was the prime motivator in the MFI's formation, or purchased the founder's stake, and commands a corresponding importance in the affairs of the institution. Twenty-two of the 25 respondents have some form of foreign investment in their ownership structure. Additional players in ownership of MFIs include management, staff (through a variety of ESOP structures) and, in certain Asian institutions not represented in this study, clients. Ownership shares of management and staff are typically small.

In the course of updating this study, we were able to locate and obtain information on all of the original 18 institutions from the 2004 study which allows us to make accurate comparisons year-to-year. The first 18 MFIs in the table were included in the previous study. When compared to the previous survey, the number of MFIs with international public owners (usually bi-lateral and multi-lateral development agencies) has been reduced from ten to six. Given the growth of the industry, this would seem to indicate that private sources of capital are indeed supplanting, or will replace, public direct investment in commercial microfinance, a crucial step on the path to accessing large pools of private, investment capital. For the sake of comparison, institutions that were considered international private, social investors in 2004 are treated the same way in this study although many of these social investors have adopted a much more commercial outlook; ProCredit Holdings/IPC probably leads the way in terms of increased emphasis on commercialization. Finally, the median number of owners has dropped according to our updated data from five in 2004 to four in 2006. This indicates that ownership stakes are consolidating to some extent and that owners are taking larger positions in commercial MFIs; this could signal both increasing investor confidence and increased understanding of the growth potential of this industry.

One of the most important dimensions of ownership involves the relative roles of local and international players. While many prominent industry participants find themselves biased towards local ownership for a number of practical and philosophical reasons, international investors have brought important assets and discipline to some MFIs. Of the respondent group of 25 MFIs, ten reported that international investors held a majority of their shares, and 13 had majority local ownership. (Two had insufficient information.) Only three institutions were entirely locally owned, while five were entirely (or nearly entirely) internationally owned. In spite of early expectations that local capital would supplant international investors in microfinance, these results indicate that this has not happened over the past two years.

The 2004 *Characteristics of Equity Investments in Microfinance,* published by the CMEF, discusses the nuances of international and local ownership. In addition, that study examines closely four common models of MFI ownership: transformed NGOs, international ownership where local investors play almost no role, subsidiaries of local banks, and locally owned institutions that count a large number of local individuals and employees as owners. Of course ownership is intimately tied to governance in commercial MFIs. CMEF has also produced a consensus statement, entitled *The Practice of Corporate Governance in Shareholder-Owned Microfinance Institutions,* which succinctly and practically examines governance challenges facing MFIs and offers recommendations on how to confront these issues and implement proper governance.

ANNEX 1: AGGREGATE MICROFINANCE GROWTH COMPARISON 2004 - 2006

Regions	Total Assets (US $ millions)		Difference	Percent Change	Total Equity (US $ millions)		Difference	Percent Change
	2004	**2006**			**2004**	**2006**		
Africa	336	1,032	696	207%	73	239	166	228%
Asia	249	6,028	5,779	2321%	48	402	354	738%
E.Europe & CA	874	3,537	2,663	305%	83	441	358	431%
Latin America & Caribbean	1,032	3,191	2,159	209%	159	465	306	192%
Total	**$2,491**	**$13,787**	**$11,296**	**453%**	**$363**	**$1,547**	**$1,184**	**326%**

Regions	Loan Portfolio (US $ millions)		Difference	Percent Change	Number of Borrowers		Difference	Percent Change
	2004	**2006**			**2004**	**2006**		
Africa	214	652	438	205%	707,000	2,098,000	1,391,000	197%
Asia	130	3,269	3,139	2415%	1,078,000	5,968,000	4,890,000	454%
E.Europe & CA	377	2,314	1,937	514%	146,000	874,000	728,000	499%
Latin America & Caribbean	827	2,482	1,655	200%	966,000	2,526,000	1,560,000	161%
Total	**$1,549**	**$8,717**	**$7,168**	**463%**	**2,897,000**	**11,466,000**	**8,569,000**	**296%**

ANNEX 2: OBSERVED CHANGES FROM 2004 TO 2006, BY NUMBER OF MFIS

2006 Portfolio Distribution by Regions

	< $5mm	$5mm - 9mm	$10mm-24mm	$25mm-49mm	$50mm-99mm	> $100mm
Africa	30	7	5	2	4	1
Asia	21	6	5	4	4	3
E.Europe	16	7	8	4	4	8
Latin America	5	3	8	5	7	10
Total	**72**	**23**	**26**	**15**	**19**	**22**

2004 Portfolio Distribution by Regions

	< $5mm	$5mm - 9mm	$10mm-24mm	$25mm-49mm	$50mm-99mm	> $100mm
Africa	11	3	3	1	1	1
Asia	13	3	0	1	1	0
E.Europe	9	4	4	3	0	1
Latin America	9	6	9	5	5	1
Total	**42**	**16**	**16**	**10**	**7**	**3**

Change in Portfolio Distribution by Regions

	< $5mm	$5mm-9mm	$10mm-24mm	$25mm-49mm	$50mm-99mm	> $100mm
Africa	173%	133%	67%	100%	300%	100%
Asia	62%	100%	500%	300%	300%	200%
E.Europe	78%	75%	100%	33%	400%	700%
Latin America	-44%	-50%	-11%	0%	40%	900%
Total	**71%**	**44%**	**63%**	**50%**	**171%**	**1000%**

2006 Equity Distribution by Region

	< $2mm	$2mm-4.9mm	$5mm-9.9mm	$10mm-14.9mm	$15mm-19.9mm	> $20mm
Africa	25	10	4	0	4	3
Asia	21	10	6	1	1	3
E.Europe	13	6	10	7	2	9
Latin America	6	7	9	4	3	7
Total	**65**	**33**	**29**	**12**	**10**	**22**

2004 Equity Distribution by Region

	< $2mm	$2mm-4.9mm	$5mm-9.9mm	$10mm-14.9mm	$15mm-19.9mm	> $20mm
Africa	6	6	2	0	1	0
Asia	8	5	2	0	1	0
E.Europe	7	8	5	2	0	0
Latin America	6	10	3	3	2	1
Total	**27**	**29**	**12**	**5**	**4**	**1**

Change in Equity Distribution by Region

	< $2mm	$2mm-4.9mm	$5mm-9.9mm	$10mm-14.9mm	$15mm-19.9mm	> $20mm
Africa	317%	67%	100%	0%	300%	200%
Asia	163%	100%	200%	100%	0%	200%
E.Europe	86%	-25%	100%	250%	200%	800%
Latin America	0%	-30%	200%	33%	50%	600%
Total	**141%**	**14%**	**142%**	**140%**	**150%**	**2100%**

2006 Client Distribution by Region (in thousands)

	< 5	5 -14.9	15-24.9	25-49.9	50-99.9	> 100
Africa	17	17	3	4	4	6
Asia	9	10	2	7	7	10
E.Europe	21	11	6	10	0	1
Latin America	11	5	4	9	10	6
Total	**55**	**43**	**15**	**30**	**21**	**23**

2004 Client Distribution by Region (in thousands)

	< 5	5 -14.9	15-24.9	25-49.9	50-99.9	> 100
Africa	8	4	0	5	0	2
Asia	4	4	1	3	4	2
E.Europe	12	6	2	1	0	0
Latin America	7	7	10	5	5	1
Total	**31**	**21**	**13**	**14**	**9**	**5**

Change in Client Distribution by Region (in thousands)

	< 5	5 -14.9	15-24.9	25-49.9	50-99.9	> 100
Africa	100%	275%	200%	-20%	400%	200%
Asia	75%	150%	100%	133%	75%	550%
E.Europe	58%	83%	200%	900%	0%	100%
Latin America	-14%	-43%	-60%	80%	100%	500%
Total	**55%**	**90%**	**15%**	**114%**	**133%**	**420%**

ANNEX 3: FIVE-YEAR GROWTH PROJECTIONS AND ASSUMPTION INFORMATION

Industry Outlook

	2004	2005	2006	2007	2008	2009	2010	2011
Number of MFIs	124	155	193	231	265	291	308	316
Total Portfolio Outstanding	1,549	3,088	6,150	10,707	17,035	24,548	31,691	36,160
Number of Borrowers	2,895	5,644	11,003	13,907	16,881	19,648	21,886	23,284
Total Equity	363	687	1,291	1,841	2,515	3,285	4,094	4,855
Total Assets	2,489	4,712	8,907	14,759	22,539	31,488	39,897	45,365

Growth Curves

	2005	2006	2007	2008	2009	2010	2011
Number of MFIs	33.80%	24.76%	19.76%	14.76%	9.76%	5.76%	2.76%
Total Portfolio Outstanding	89.10%	89.10%	74.10%	59.10%	44.10%	29.10%	14.10%
Number of Borrowers	31.39%	31.39%	26.39%	21.39%	16.39%	11.39%	6.39%
Total Equity	48.61%	48.61%	42.61%	36.61%	30.61%	24.61%	18.61%
Total Assets	78.71%	78.71%	65.71%	52.71%	39.71%	26.71%	13.71%

Some Macro Indicators/ Ratios

			2006	2007	2008	2009	2010	2011
P	Portfolio Outstanding	P/A	69.05%	72.54%	75.58%	77.96%	79.43%	79.71%
E	Total Equity	P/E	4.76	5.82	6.77	7.47	7.74	7.45
A	Total Assets	E/A	14.49%	12.47%	11.16%	10.43%	10.26%	10.70%
B	Number of Borrowers	Leverage	689.93%	801.66%	896.11%	958.52%	974.64%	934.34%
		B/E	8.52	7.55	6.71	5.98	5.35	4.80

Equity Breakdown

	2006	2007	2008	2009	2010	2011
Projected Equity	1,291	1,841	2,515	3,285	4,094	4,855
ROE	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
Retained Earnings	1,291	1,407	2,007	2,742	3,581	4,462
External Financing		434	508	544	513	393
Sum		**434**	**942**	**1,486**	**1,999**	**2,392**

ASSUMPTIONS FOR PROJECTIONS

For all these projections, with the exception of 'Number of MFIs,' we started with the observed cumulative annual growth rate (CAGR) observed in the original 124 MFIs or the organic growth rate. We recognize that commercial microfinance is currently only a small subset of all microfinance institutions worldwide; however, we have assumed that the commercial nature of these institutions will attract more capital than is available from philanthropic or purely social sources and will have incentive to improve efficiency, increase competition for clients, and acquire or merge with underperforming MFIs in order to cut costs and increase scale. For this reason and given the worldwide demand estimates, we believe that the industry could plausibly still be growing between 10% and 20% per year five years in the future. We also assume that leverage will increase slightly over time and that more of the assets controlled by these institutions will fund the loan portfolio (as opposed to fixed assets, such as branch offices) as greater scale and efficiency are achieved. For this reason we have calculated five informal ratios that track the progress of our projected growth. Portfolio as a percent of assets tracks efficiency and dedication to increasing the scale of the loan portfolio. Portfolio/Equity, Equity/Assets and Leverage (1/(Equity/Assets)) all separately track the leverage of the industry which indicates both greater acceptance of the industry by traditional financial institutions and more maturity on the part of the MFIs.

ANNEX 4: MFIs INCLUDED IN THIS STUDY BY REGION (PAGE 21 -24)

Africa (Includes the Middle East & N. Africa)

Name of Institution	Country	Included in 2004	Established	Type of Institution	Portfolio in US$ (Millions)	Number of Borrowers (Thousands)	Equity in US$ (Millions)	Assets in US$ (Millions)	Savings in US $ (Millions)	Equity/Assets
ACB [Akiba Commercial Bank Ltd]*	Tanzania	Y	1997	Bank	11.645	12.900	3.490	24.766	22.015	14.1%
ACSI (Amhara Credit and Savings Institution)	Ethiopia	Y	1995	NBFI	51.237	434.841	21.037	67.903	na	31.0%
ADCSI [Addis Credit and Saving Institution]*	Ethiopia		2000	NBFI	4.781	31.800	6.287	7.082	0.114	88.8%
AECA Avotra	Madagascar		1996	Other	na	na	na	na	na	na
AMC [Ahli Microfinancing Co.]	Jordan		1999	NBFI	4.046	2.000	4.151	4.449	0.000	93.3%
AVFS [African Village Financial Services]*	Ethiopia		1998	NBFI	0.385	4.900	0.349	0.546	0.031	63.9%
BG [BuusaaGonofaa]*	Ethiopia		1999	NBFI	0.246	5.600	0.562	0.732	0.087	76.8%
BOM [Banco Oportunidade de Mozambique]	Mozambique		2004	Bank	0.482	2.600	1.960	2.218	0.218	88.4%
CCA [Credit Communautaire d'Afrique]**	Cameroon	Y	1997	Rural Bank	4.457	6.600	0.553	7.953	3.744	7.0%
CDS *	Cameroon		1997	Other	5.263	11.100	0.845	10.783	6.200	7.8%
CEC/ RFMC**	Congo		2003	NBFI	0.002	0.080	0.004	0.004	0.000	100.0%
CERDUEB [Centenary Rural Dev. Bank, Ltd.]	Uganda	Y	1983	Bank	53.028	57.880	16.275	121.843	97.040	13.4%
Citi Savings and Loan	Ghana	Y	1992	NBFI	na	na	na	na	na	na
Commercial Microfinance Ltd. (CMF)	Uganda	Y	2000	NBFI	4.520	6.826	1.372	8.339	na	16.5%
Credit Indemnity (African Bank)	South Africa	Y	na	Bank	66.403	237.000	na	na	na	na
DECSI [Dedebit Credit and Savings Institution]*	Ethiopia		1997	NBFI	46.362	336.700	19.381	57.218	14.122	33.9%
EBS [Equity Bank, formerly Equity Building Society]	Kenya	Y	1984	Bank	81.232	110.100	22.001	158.130	108.240	13.9%
Eshet*	Ethiopia		2000	NBFI	0.855	9.700	0.371	1.118	0.099	33.2%
FATEN [Palestine for Credit & Development]	Palestine		1995	Other	2.383	4.400	5.787	11.077	0.000	52.2%
Faulu - KEN**	Kenya		1992	NBFI	7.206	15.000	4.901	10.538	4.824	46.5%
Finadev*	Benin	Y	2001	Other	13.167	14.400	2.538	13.697	0.000	18.5%
Finca	Uganda		1992	NBFI	5.794	42.500	1.414	8.424	2.433	16.8%
Gasha*	Ethiopia		1998	NBFI	0.773	8.400	0.581	1.416	0.038	41.0%
IDECE**	Congo		2001	NBFI	0.039	0.200	0.005	0.066	0.006	7.6%
Koshi Yomuti**	Nambia		2002	Other	0.030	0.400	0.024	0.052	0.002	46.2%
KPOSB [Kenya Post Office Savings Bank]**	Kenya		1978	Bank	1.551	2.100	15.896	161.435	125.399	9.8%
K-Rep*	Kenya	Y	2000	Bank	27.276	55.400	9.892	35.057	6.022	28.2%
Meklit*	Ethiopia		2000	NBFI	0.333	3.300	0.097	0.452	0.050	21.5%
Metemamen**	Ethiopia		2002	NBFI	0.058	1.500	0.208	0.209	0.000	99.5%
MFW (Microfund Women)	Jordan		1994	NBFI	5.080	17.300	5.329	7.003	0.000	76.1%
MicroKing	Zimbabwe	Y	2001	Bank	0.203	2.098	0.719	3.483	na	20.6%
MRFC [Malawi Rural Finance Co. Ltd]*	Malawi		1993	NBFI	12.257	183.000	17.457	21.176	0.590	82.4%
Mutual Alliance S&L*	Nigeria		1992	NBFI	0.175	2.500	0.757	1.535	0.687	49.3%
NovoBanco PCH	Mozambique	Y	2000	Bank	8.279	15.587	2.781	10.989	na	25.3%
NovoBanco PCH (formerly NossoBanco)	Angola	Y	2004	Bank	4.367	1.093	4.913	7.762	na	63.3%
OCSSC [Oromia Credit and Savings Share Co.]*	Ethiopia		1997	NBFI	10.136	87.000	7.142	13.252	0.656	53.9%
OIBM [Opportunity International Bank of Malawi]	Malawi		2002	Bank	2.134	5.000	1.694	7.491	4.548	22.6%
OMO [Omo Microfinance Institutions]*	Ethiopia		1997	NBFI	4.414	75.400	1.332	7.509	1.653	17.7%
PEACE [Poverty Eradication & Community Empowerment]	Ethiopia		1999	NBFI	0.896	7.800	0.578	1.313	0.122	44.0%
ProCredit Ghana (Sikaman)	Ghana	Y	2002	Bank	7.407	6.226	2.766	10.464	na	26.4%
Protea FSG*	South Africa		2003	NBFI	9.660	8.500	(0.827)	4.394	0.000	-18.8%
SAT / OI - SASL [Sinapi Aba Trust/ OI Savings and Loans]	Ghana		1994	NBFI	3.108	30.956	1.302	6.304	0.000	20.7%
Seawatch**	Zimbabwe		2000	Other	0.035	2.000	0.053	0.087	0.000	60.9%
SFPI [Specialized Finance and Promotional Institution]*	Ethiopia		1998	NBFI	1.192	11.400	0.812	1.649	0.053	49.2%
Shalupe**	Congo		2002	Other	0.018	1.300	0.025	0.037	0.010	67.6%
Sidama*	Ethiopia		1998	NBFI	1.061	9.900	1.494	2.175	0.001	68.7%
SIPEM**	Madagascar	Y	1990	NBFI	1.272	0.800	0.956	1.367	0.000	69.9%
SOCREMO [Banco de Microfinancas de Mozambique]	Mozambique	Y	1998	Bank	5.345	6.377	2.913	8.061	0.806	36.1%
Tchuma*	Mozambique		1998	NBFI	2.507	7.200	1.633	3.286	0.054	49.7%
TEBA**	South Africa	Y	2000	Bank	176.300	157.800	53.595	198.560	125.843	27.0%
UML [Uganda Microfinance Limited]	Uganda		1997	NBFI	11.325	31.145	4.165	16.468	3.629	25.3%
Wasasa*	Ethiopia		2000	NBFI	0.640	8.900	0.496	0.953	0.084	52.0%
Wisdom*	Ethiopia		1999	NBFI	2.178	19.900	2.196	3.073	0.380	71.5%
Zambuko Trust	Zimbabwe		1992	NBFI	0.069	4.500	0.143	0.181	0.000	79.0%
Total (Average)					**664**	**2,122**	**254**	**1,054**	**530**	**43.3%**

(No Asterisk) 2005 Data
* 2004 Data
** 2003 Data
*** 2002 Data
**** 2001 or Before Data

Asia Name of Institution	Country	Included in 2004	Established	Type of Institution	Portfolio in US$ (Millions)	Number of Borrowers (Thousands)	Equity in US$ (Millions)	Assets in US$ (Millions)	Savings in US $ (Millions)	Equity/Asset
ACLEDA [Assoc of Cambodian Local Economic Dev. Ager	Cambodia	Y	1993	Bank	99.900	140.900	31.954	123.871	61.901	25.8%
AMK [Angkor Mikroheranhvatho Kampuchea]	Cambodia		1999	NBFI	2.444	36.200	2.387	3.207	0.004	74.4%
AMRET [formerly EMT]	Cambodia	Y	1991	NBFI	11.600	121.700	4.730	15.570	0.193	30.4%
Bank Raykat Indonesia	Indonesia	Y	1985	Bank	2,321.540	3,313.532	259.418	4,483.680	na	5.8%
BASIX [Bhartiya Samruddhi Finance Ltd.]	India	Y	1997	NBFI	13.009	90.000	5.385	15.406	0.000	35.0%
BPR AK**	Indonesia		1991	Rural Bank	0.876	3.900	0.181	1.151	0.369	15.7%
BPR BMMS**	Indonesia		1998	Rural Bank	0.237	1.800	0.147	0.339	0.131	43.4%
BPR EAAB**	Indonesia		1998	Rural Bank	0.717	0.800	0.108	0.878	0.464	12.3%
BPR Kali*	Indonesia		1991	Rural Bank	na	1.000	na	na	na	na
BPR PKT**	Indonesia		1993	Rural Bank	1.007	1.300	0.166	1.182	0.161	14.0%
Cashpor MC	India		2002	Other	6.855	68.200	0.293	6.855	0.000	4.3%
CBB [Chhimek Bikas Bank Ltd.]*	Nepal		2001	Rural Bank	0.998	9.000	0.152	2.555	0.290	5.9%
CEB [Cambodia Entrepreneur Building Ltd.]	Cambodia		1995	NBFI	6.282	11.100	1.513	6.953	0.000	21.8%
CREDIT	Cambodia		2000	NBFI	2.563	11.500	2.126	2.933	0.087	72.5%
DD Bank [Deprosc Dev. Bank]	Nepal		2001	Rural Bank	1.727	12.900	0.217	2.584	0.062	8.4%
FICO [First Isabella Coop Bank]*	Philippines		1980	Rural Bank	3.884	7.800	1.414	6.332	3.155	22.3%
HKL [Hattha Kaksekar Ltd.]	Cambodia	Y	1996	NBFI	3.755	8.475	1.571	4.230	0.026	37.1%
IASC [Indian Assoc for Savings and Credit]	India		1998	NBFI	3.469	10.500	0.233	4.052	0.000	5.8%
IMFTL**	East Timor		2002	NBFI	0.759	3.000	1.945	2.914	0.960	66.7%
KBSLAB [Krishna Bhima Samruddhi Local Area Bank Ltd	India		1999	Bank	2.754	14.300	1.236	3.976	1.751	31.1%
Khan Bank	Mongolia		1991	Bank	104.921	177.600	14.174	166.552	134.591	8.5%
MGBB [Madhyamanchal Grameen Bikas Bank Ltd]	Nepal		1996	Rural Bank	4.102	38.645	0.906	7.034	1.400	12.9%
Nirdhan Utthan Bank	Nepal	Y	1993	Bank	5.909	50.100	0.523	9.410	0.203	5.6%
NLCL [Network Leasing Corporation Ltd.]***	Pakistan	Y	1995	NBFI	9.009	3.800	5.093	14.944	0.000	34.1%
OMB [Opportunity Microfinance Bank]	Philippines		2001	Bank	2.965	23.000	2.361	5.281	1.534	44.7%
PGBB [Western Region Grameen Bikas Bank]	Nepal		1994	Rural Bank	5.539	39.600	1.034	9.731	0.070	10.6%
Planters' Dev. Bank [formerly ME Dev. Bank]	Philippines	Y	na	Bank	326.772	na	na	659.449	na	na
PRASAC	Cambodia		1995	NBFI	11.459	82.500	9.346	13.089	0.394	71.4%
RB Philippines (16)*	Philippines		1956-1996	Rural Bank	66.538	168.500	15.828	98.149	80.832	16.1%
Ruhuna*	Sri Lanka		1998	Bank	25.415	103.800	4.200	31.203	18.590	13.5%
Sabaragamuwa*	Sri Lanka		1999	Bank	23.540	183.200	2.206	41.152	31.408	5.4%
SAMBALI****	Philippines	Y	1984	Bank	2.203	8.100	1.113	3.380	1.136	32.9%
Sanghamitra Rural Financial Services	India		1995	NBFI	3.480	112.000	1.089	3.679	0.000	29.6%
Sarvodaya Nano Finance	India		1996	NBFI	5.450	47.300	2.351	6.873	0.000	34.2%
Satin Creditcare	India		1990	NBFI	19.431	4.400	1.150	2.512	0.498	45.8%
SBB [Swabalamban Bikas Bank Ltd.]*	Nepal		2002	Bank	2.588	26.300	0.316	3.915	1.289	8.1%
SED [Small Enterprise Development Co.]*	Thailand		1988	Other	0.671	6.800	0.075	0.743	0.000	10.1%
SEEDS [Sarvodaya Economic Enterprise Dev. Services]	Sri Lanka	Y	1986	NBFI	27.964	62.700	4.692	38.268	12.358	12.3%
SEWA	India	Y	1974	Bank	4.904	17.193	na	na	na	na
SHARE	India	Y	1992	NBFI	40.218	369.000	5.194	97.084	0.000	5.4%
SKS [Swayam Krishi Sangam]	India		1997	NBFI	7.604	73.600	0.075	9.130	0.000	0.8%
Spandana	India		1998	NBFI	54.596	386.000	5.437	74.077	0.000	7.3%
TFS [Transcapital Financial Services]	Mongolia		2001	NBFI	0.686	1.100	0.500	0.862	0.355	58.0%
TPC [Thaneakea Phum Ltd.]	Cambodia		1994	NBFI	4.549	43.200	3.133	5.252	0.000	59.7%
VFC [VisionFund Cambodia] formerly MED program	Cambodia		2001	NBFI	3.445	25.300	2.945	4.140	0.000	71.1%
XacBank	Mongolia	Y	1998	Bank	30.007	50.100	7.742	48.062	27.334	16.1%
Total (Average)					**3,278**	**5,972**	**407**	**6,043**	**382**	**26.7%**

(No Asterisk) 2005 Data
* 2004 Data
** 2003 Data
*** 2002 Data
**** 2001 or Before Data

Eastern Europe and Central Asia

Name of Institution	Country	Included in 2004	Established	Type of Institution	Portfolio in US$ (Millions)	Number of Borrowers (Thousands)	Equity in US$ (Millions)	Assets in US$ (Millions)	Savings in US $ (Millions)	Equity/Assets
ACBA [Agricultural Cooperative Bank of Armenia]	Armeina		1996	Bank	50.919	45.574	17.118	81.354	15.734	21.0%
AFK [Agency for Finance Kosovo]	Kosovo		1999	Non-Profit	2.529	1.200	2.158	3.216	0.000	67.1%
AKMA [Ai-Ken Microcredit Agency]	Kyrgyzstan		1998	NBFI	na	na	na	na	na	na
Azeri Star Microfinance	Azerbaijan		2003	NBFI	0.621	3.851	0.592	0.672	0.000	88.1%
BBK Financial Group**	Georgia		2002	NBFI	0.431	0.500	0.116	0.503	0.000	23.1%
CredAgro NBCO [Non-Banking Credit Institution]	Azerbaijan		2001	NBFI	5.243	1.286	4.580	5.484	0.000	83.5%
CREDO*	Georgia		1997	NBFI	1.280	1.493	1.180	1.450	0.000	81.4%
EKI	Bosnia - Herzegovi	Y	1996	NBFI	31.847	22.600	8.011	34.280	0.000	23.4%
FINCA	Azerbaijan		1998	NBFI	7.334	23.467	4.882	8.090	0.000	60.3%
FM [Fundusz Mikro]	Poland		1994	NBFI	16.015	12.484	10.484	16.405	0.000	63.9%
FMFB-Afg [The First Microfinance Bank]	Afghanistan		2003	Bank	7.450	8.300	5.831	23.147	0.095	25.2%
FMFB-Pak [The First Microfinance Bank]	Pakistan		2002	Bank	6.068	16.900	11.514	24.295	10.887	47.4%
FMFB-Tjk [The First Microfinance Bank]	Tajikistan		2003	Bank	4.130	2.700	6.152	9.717	3.696	63.3%
FULM [Savings House FULM]	Macedonia		1999	NBFI	2.954	3.100	1.078	3.338	2.002	32.3%
IMON formerly NABWT [Intl Micro-Loan Fund]	Tajikistan		1999	NBFI	3.782	10.200	0.537	4.259	0.000	12.6%
KEP [Kosovo Equity Program]	Kosovo		1999	NBFI	13.086	6.613	9.521	14.084	0.000	67.6%
Khushhali Bank	Pakistan		2000	NBFI	32.177	227.200	31.461	103.120	0.000	30.5%
KLF	Kazakhstan		1996	NBFI	11.245	16.436	5.015	14.380	0.000	34.9%
KMB	Russia	Y	1999	Bank	449.392	36.082	33.109	559.435	72.190	5.9%
LOKmicro	Bosnia - Herzegovina		1997	NBFI	11.108	6.750	2.026	13.817	0.000	14.7%
MFBA [Microfinance Bank of Azerbaijan]	Azerbaijan		2002	Bank	18.044	5.455	6.730	21.779	0.532	30.9%
MI-BOSPO Tuzla	Bosnia - Herzegovi	Y	1996	NBFI	15.573	14.072	5.119	17.341	0.000	29.5%
Microinvest	Moldova		2003	NBFI	1.851	1.300	1.364	3.772	0.000	36.2%
Mikro ALDI	Bosnia - Herzegovina		1996	NBFI	2.675	4.200	1.070	2.913	0.000	36.7%
Moznosti [Savings House Moznosti]	Macedonia		1996	Other	15.769	5.200	6.973	16.652	1.110	41.9%
Normicro [Norwegian Microcredit Ltd.]	Azerbaijan		1998	NBFI	1.590	4.600	1.209	1.750	0.000	69.1%
OBM [Opportunity Bank A.D. Podgorica]	Serbia - Montenegro		1999	Bank	38.722	11.695	11.341	61.919	31.346	18.3%
OIS [Opportunity Intl Stedionica]	Serbia - Montenegr	Y	2002	Bank	7.916	2.758	10.448	11.390	0.291	91.7%
Orix leasing	Pakistan		1992	Other	1.255	4.700	0.017	1.233	0.000	1.4%
Partner	Bosnia - Herzegovi	Y	1997	NBFI	34.151	20.216	11.363	38.070	0.000	29.8%
Procredit - MDA [formerly Micro Enterprise Credit]	Moldova	Y	1999	NBFI	18.625	10.790	1.154	26.099	na	4.4%
ProCredit-ALB [formerly FEFAD]	Albania	Y	1996	Bank	97.927	29.123	21.210	226.005	186.965	9.4%
ProCredit-BGR	Bulgaria	Y	2001	Bank	264.056	38.108	30.386	351.929	106.052	8.6%
ProCredit-BIH [formerly Micro Enterprise Bank]	Bosnia - Herzegovi	Y	1997	Bank	94.949	29.371	13.833	121.328	24.841	11.4%
ProCredit-GEO	Georgia	Y	1998	Bank	135.025	38.074	25.138	185.190	56.089	13.6%
ProCredit-KOS [formerly Microenterprise Bank*]	Kosovo	Y	2000	Bank	200.664	41.592	20.622	448.514	220.066	4.6%
ProCredit-MKD	Macedonia		2003	Bank	56.451	12.781	12.286	90.163	26.672	13.6%
ProCredit-ROM [formerly MIRO]	Romaina	Y	2002	Bank	105.425	21.260	15.000	152.406	38.754	9.8%
ProCredit-UKR [formerly MF. Bank]	Ukraine	Y	2001	Bank	172.447	28.714	20.859	210.680	60.126	9.9%
ProCredit-YUG [formerly MF Bank Yug.]	Serbia - Montenegr	Y	2001	Bank	217.803	48.622	29.048	323.504	125.407	9.0%
RFC Rural Finance Corporation]**	Moldova		1997	NBFI	na	0.200	na	na	na	na
SAS [Sugdagroserv]*	Tajikistan		2002	NBFI	0.877	0.100	0.265	na	na	na
SEF Intl. Universal Credit Organization-Armenia*	Armeina		1998	NBFI	1.142	1.700	1.073	2.422	0.000	44.3%
SINERGIJA*	Bosnia - Herzegovina		1997	NBFI	8.399	3.300	2.616	12.399	0.000	21.1%
TAT	Kazakhstan		1991	NBFI	2.034	0.501	2.254	3.362	0.394	67.0%
TISE	Poland	Y	1991	NBFI	5.452	na	6.563	6.824	na	96.2%
UPI Bank, Sarajevo*	Bosnia - Herzegovina		1990	Bank	129.841	44.800	23.163	266.226	45.772	8.7%
VFCF [VF Credo Found.] formerly World Vision Intl' Geor	Georgia		1997	NBFI	1.280	1.500	1.180	na	na	na
WKPF [W. Kazakhstan Public Fund]	Kazakhstan		1999	Other	0.175	0.100	0.219	na	na	na
Total (Average)					**2,308**	**872**	**438**	**3,525**	**1,029**	**35.5%**

(No Asterisk) 2005 Data
* 2004 Data
** 2003 Data
*** 2002 Data
**** 2001 or Before Data

Latin America & The Caribbean Name of Institution	Country	Included in 2004	Established	Type of Institution	Portfolio in US$ (Millions)	Number of Borrowers (Thousands)	Equity in US$ (Millions)	Assets in US$ (Millions)	Savings in US $ (Millions)	Equity/Assets
Apoyo Integral	El Salvador	Y	1990	Other	16.682	20.989	3.529	19.680	0.000	17.9%
Banco ADEMI	Dom. Rep.	Y	1983	Bank	78.131	33.145	13.581	97.179	62.071	14.0%
Banco Los Andes ProCredit [formerly Caja los Andes]	Bolivia	Y	1995	Bank	146.448	74.220	18.356	181.413	79.205	10.1%
Banco ProCredit [formerly Confia]	Nicaragua	Y	2000	Bank	67.209	52.073	13.416	81.200	24.813	16.5%
Banco ProCredit [formerly Financiera Calpia]	El Salvador	Y	2001	Bank	102.455	66.617	17.522	130.564	64.462	13.4%
Banco ProCredit [formerly Financiera Ecuatorial SFE]	Ecuador	Y	2001	Bank	73.318	29.531	9.942	83.399	20.133	11.9%
Banco Solidario	Ecuador	Y	1995	Bank	207.033	153.452	23.740	297.622	197.587	8.0%
Bancosol *	Bolivia	Y	1992	Bank	108.673	71.600	18.671	175.651	96.893	10.6%
Bandesarollo Microempresa (Banco de Desarollo)	Chile	Y	1989	Bank	0.543	na	0.661	1.336	na	49.5%
BANGENTE [Banco de la Gente Emprendedora]	Venezuela	Y	1997	Bank	25.952	29.818	4.150	29.622	9.294	14.0%
Banque Union Haitienne	Haiti	Y	na	Bank	na	3.665	na	na	na	na
BANTRA [Banco del Trabajo]	Peru		1994	Bank	315.289	450.182	38.142	366.867	228.003	10.4%
Caja Nor	Peru		1995	NBFI	29.839	21.727	5.161	41.381	29.887	12.5%
Cajas Rural de Ahoro y Credito [12]	Peru	Y	1994	NBFI	148.477	97.429	28.907	221.942	na	13.0%
Carribbean MF - GRD	Grenada	Y	na	NBFI	na	na	na	na	na	na
Carribbean MF - LCA	St Lucia	Y	na	NBFI	na	na	na	na	na	na
Compartamos	Mexico	Y	1990	NBFI	180.630	453.131	80.481	213.654	0.000	37.7%
Credi Fe Desarollo Microempresorial	Ecuador	Y	1999	Other	79.702	50.142	1.789	81.655	0.000	2.2%
Eco Futuro Fondo Financiero Privado	Bolivia	Y	1999	NBFI	19.065	15.064	2.523	23.593	17.071	10.7%
EDPYME Crear (all [6])	Peru	Y	1992-1998	NBFI	116.188	130.321	25.000	143.552	0.000	17.4%
El Comercio	Paraguay	Y	1978	NBFI	13.420	11.343	3.787	17.956	na	21.1%
FIE [Fondo para el Fomento a Iniciativas Economicas]	Bolivia	Y	1985	NBFI	73.849	56.400	9.965	86.886	32.697	11.5%
FIELCO [Financiero El Comercio]***	Paraguay		1998	NBFI	13.393	27.113	3.787	17.956	11.987	21.1%
Finamerica [Financiero America]	Colombia	Y	1993	NBFI	37.656	26.723	7.274	42.884	26.991	17.0%
Fincomun [Servicios Financieros Comunitarios]****	Mexico	Y	1994	NBFI	21.413	33.736	6.731	39.008	12.935	17.3%
FINDESA [Financiera Nicaraguense de Desarollo]	Nicaragua	Y	1993	NBFI	57.844	29.561	8.256	76.442	21.070	10.8%
Finsol	Honduras	Y	1997	NBFI	15.839	17.213	5.976	16.826	na	35.5%
FIS [Fondo de Inversion Social]	Argentina		1999	Other	na	2.500	na	na	na	na
Genesis Empresarial	Guatemala		1988	Other	31.953	55.184	6.868	34.829	0.000	19.7%
Independencia [Financiera Independencia]*	Mexico	Y	1993	NBFI	12.533	95.000	11.258	45.209	0.000	24.9%
INDES	Chile	Y	1997	Microleasing	6.986	1.651	3.065	8.876	na	34.5%
Interfisa***	Paraguay	Y	1995	NBFI	21.114	41.942	2.812	28.432	24.460	9.9%
MiBanco	Peru	Y	1992	Bank	207.424	154.451	42.953	250.504	147.645	17.1%
Micro Credit Nacional (ProCredit)	Haiti	Y	na	Bank	7.693	8.532	na	11.668	na	na
Microfin DFL (Includes Caribb. MF Grenada, St Lucia)	Trinidad & Tobagc	Y	2002	Bank	2.934	2.215	1.051	3.693	na	28.5%
Oportunidad Microfinanzas	Mexico		2003	Other	0.254	2.000	(0.171)	0.464	0.000	-36.9%
PRODEM [Fondo Financiero Privado PRODEM]	Bolivia	Y	1986	NBFI	108.944	68.792	12.164	138.733	74.528	8.8%
PROSPERIDAD	Mexico		2002	NBFI	0.426	1.500	0.123	0.535	0.000	23.0%
Real Microcredit ABN/AMRO	Brazil	Y	2002	Bank	5.205	8.238	na	na	na	na
SOGESOL [Societe Generale Haitienne de Solidarite]	Haiti	Y	2000	NBFI	4.853	6.800	0.919	7.780	0.000	11.8%
Solucion [Solucion Financiera de Credito del Peru]	Peru	Y	1996	Other	82.232	81.700	26.159	117.208	80.548	22.3%
Vision de Finanzas	Paraguay	Y	1992	NBFI	40.318	40.315	6.525	54.815	43.698	11.9%
Total (Average)					**2,482**	**2,526**	**465**	**3,191**	**1,306**	**16.1%**

(No Asterisk) 2005 Data
* 2004 Data
** 2003 Data
*** 2002 Data
**** 2001 or Before Data

Council of Microfinance Equity Funds

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ABOUT THE STUDY

This study reports on the state of the commercial microfinance industry and examines the worldwide growth of the industry since 2004 based upon the previous study, produced by CMEF, *Characteristics of Equity Investments in Microfinance Institutions* published in April of that year. The authors analyze and discuss several distinct types of growth affecting the industry, make future projections based on the growth over the past two years, and review the ownership structures of a sample of MFIs. To the Council's knowledge, no other research reports have explicitly tracked the growth of commercial institutions such as this one has. It is the Council's hope that this report will benefit all parties involved and interested in microfinance as a means to improving the financial well-being of low-income workers throughout the developing world.

ABOUT THE COUNCIL

The Council of Microfinance Equity Funds is a membership organization of private entities that make equity and other investments in MFIs in the developing world. Council members seek both social and financial returns from their investments in these MFIs. The Council's purpose is three-fold: 1) to articulate and disseminate the knowledge and expertise of the Council's members among themselves and to other MFI stakeholders; 2) to present guidelines and principles for effective investment in MFIs; and 3) to conceive a future strategy for the role of investment capital in microfinance. The Council was conceived in 2002 and officially launched in 2003. ACCION International serves as coordinator of the Council's activities.

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