CARIBBEAN MICROFINANCE ALLIANCE

MFI PERFORMANCE REPORT **2013**

Caribbean MicroFinance Alliance

ACKNOWLEDGMENT

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FOREWORD

Launched in January 2011, the Caribbean MicroFinance Alliance (CMFA) is a network of Caribbean microfinance institutions who are working to increase the visibility of microfinance in the region. Our mission is to contribute to the provision of effective and sustainable microfinance services to Caribbean micro entrepreneurs by supporting MFIs in improving their outreach and financial performance. Our current membership comprises 24 organizations located across nine (9) Caribbean countries. These include institutions that are directly involved in the provision of microfinance services and those that provide services that support microfinance providers or contribute to a positive enabling environment for microfinance.

Since 2011, the CMFA has produced a yearly Performance Report on the microfinance sector in the Caribbean region. The report provides a broad assessment of the size and financial performance of the CMFA membership, together with benchmarks taken from the Latin America and Caribbean region. The current 2013 report is based on the financial statements and statistical information of the following nineteen (19) member institutions:

- Access Financial Services (Jamaica)
- COK Sodality Co-operative Credit Union (Jamaica)
- Coöperatieve Spaar- En Kredietbank Godo G.A (Suriname)
- Finatrust de Trustbank (Suriname)
- First Heritage Co-operative Credit Union (Jamaica)
- Grenada Public Service Co-operative Credit Union (Grenada)
- Grenville Co-operative Credit Union (Grenada)
- Institute of Private Enterprise Development (Guyana)
- La Inmaculada Credit Union (Belize)
- Micro Credit Limited (Jamaica)
- National Development Foundation (Dominica)
- National Entrepreneurship Development Company (Trinidad & Tobago)
- National Farmers and General Workers Co-operative Credit Union (St. Lucia)
- National People's Co-operative Bank (Jamaica)
- Spaar-En Kredietcooperatie De Schakel G.A. (Suriname)
- St. Catherine Co-operative Credit Union (Jamaica)
- St. Thomas Co-operative Credit Union (Jamaica)
- Sure Financial Services (Jamaica)
- Works Co-operative Society Credit Union (Trinidad & Tobago)

The CMFA Secretariat
October 2014

1.0. RATIONALE FOR PRODUCING A PERFORMANCE REPORT

The CMFA intends to play a leadership role in the development of microfinance services in the Caribbean region, and this includes promoting the sharing of information and increased transparency among the institutions involved in the sector. It is also our intention to establish a uniform basis for comparative analysis with industry standards.

Trends in the microfinance sector have led to increased awareness of how important financial viability is for microfinance institutions (MFIs) and for their performance assessment. This report makes use of industry-recognized performance indicators to assess the results of CMFA MFI members.

This document draws considerably on the CGAP[1] methodology and related directives. CGAP is a leader in the field of standardizing the microfinance industry. CGAP directives were documented and analyzed by the Small Enterprise Education and Promotion Network[2] (SEEP), which is made of 50 international organizations involved in the field of small business development and microfinance worldwide. In addition, benchmarks used for the purpose of comparison with a large sample of MFIs from the Latin America and Caribbean region were obtained from the Mix Market website[3], which is the main source of financial and social performance data on MFIs.

The financial and statistical data provided by CMFA MFI members is the determinant factor in the quality of the information produced in the performance report. All data received from members have been validated in order to ensure that quality standards are respected.

Effective collaboration by CMFA members is of the utmost importance to ensure the statistical value of the survey. We therefore hope that all CMFA members will participate in the survey in the future.

The CMFA MFI Performance Report 2013 is intended to be an effective reference tool for MFI managers throughout the Caribbean. Data from the report will provide an opportunity to increase the efficiency of decision-making through financial analysis adapted to industry standards[4].

1. Consultative Group to Assist the Poor, http://www.cgap.org
2. SEEP, Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring, March 2005..
3. http:/www.mixmarket.org
4. The CMFA also produces a customized performance report for each member institution that participates in the survey.

2.0. PERFORMANCE INDICATORS

The report presents data on a total of thirty-three (33) indicators that are among the most widely used in the microfinance industry. These indicators can be grouped into five (5) categories.

INSTITUTIONAL SIZE (9)

Number of Active Clients/Members
Number of Branches/Points of Service
Total Staff
Total Assets
Total Deposits
Gross Loan Portfolio
Average Deposit Balance
Number of Outstanding Loans
Average Loan Balance

GROWTH (4)

Annual Growth in Clients/Members
Annual Growth in Total Assets
Annual Growth in Deposits
Annual Growth in Gross Loan Portfolio

FINANCIAL RATIOS (8) [5]

Operational Self-Sufficiency Ratio
Operating Expense Ratio
Yield on Portfolio
Capital Ratio
Transformation Ratio
Portfolio at Risk > 30 days
Write off Ratio
Return on Assets

SOCIAL INDICATORS (3)

Proportion of Women Clients/Members
Proportion of Women Employees
Proportion of Women on the Board and Committees

MICRO CREDIT PORTFOLIO (9)

Number of Active Loans – Micro Credit
Gross Loan Portfolio – Micro Credit
Proportion of Micro Credit in Total Gross Loan Portfolio
Average Loan Balance – Micro Credit
Number of Micro Credit Loan Officers
Productivity of Micro Credit Loan Officers
Portfolio at Risk > 30 days – Micro Credit Portfolio
Proportion of Women in Micro Credit Portfolio
Proportion of Rural Clients in Micro Credit Portfolio

5. The mode of calculation and interpretation of the financial ratios is presented in the Appendix.

3.0. MICROFINANCE PORTFOLIO PERFORMANCE

This report uses nine (9) indicators to measure the performance of CMFA MFI members with regards to their microfinance portfolio. Based on the data provided by 19 MFI members, the profile and evolution of microfinance activities in 2013 can be established as follows:

- A total of 23,979 clients were being served with micro credit – an increase of 37% over 2012.
- Gross loan portfolio for micro credit stood at US$21.8 million – increasing by 26.4% compared to the previous year.
- Micro credit represented 18.7% of the total gross loan portfolio of reporting MFIs – compared to 17.4% in 2012. This demonstrates that many of the institutions are not dedicated solely to micro credit. Many of them are credit unions, cooperatives or business development funders for which micro credit is a small part of their portfolio.
- The average outstanding balance for micro loans was US$1,051 – a decrease of 7.7% over 2012.
- CMFA MFI members had an average of 8 loan officers dedicated solely to micro credit. Each officer managed 134 loans on average. This was significantly below the industry recommended level of 150-250 micro loans per officer, a range which is ideal so that the loan officers manage enough loans to be profitable to the institution.
- Portfolio at risk (PAR30) for micro credit stood at 19.8% on average. This figure was an improvement over 2012 but still significantly above the industry recommended target of 5%.
- 62.6% of micro credit clients were women and 60.3% lived in the rural areas (defined as any area outside the country's main town). Both figures were quite satisfactory with regards to international standards.

TABLE 1 MICROFINANCE PORTFOLIO PERFORMANCE FOR CMFA MFI MEMBERS (N=19)

PORTFOLIO INDICATORS	31 DEC. 2011	31 DEC. 2012	31 DEC. 2013	CHANGE
Number of Active Loans – Micro Credit	16,113	17,497	23,979	+37.0%
Total Gross Loan Portfolio – Micro Credit ('000 USD)	15,026	17,222	21,768	+26.4%
Proportion of Micro Credit in Total Gross Loan Portfolio	16.8%	17.4%	18.7%	+7.1%
Average Loan Balance – Micro Credit (USD)	1,125	1,138	1,051	-7.7%
Number of Micro Loan Officers (average)	8	9	8	-12.1%
Productivity of Micro Loan Officers (average[6])	93	115	134	+16.4%
PAR 30 Days – Micro Credit (average[6])	22.1%	23.4%	19.8%	-15.5%
% Women Clients in Micro Credit Portfolio (average[6])	57.4%	58.1%	62.6%	+7.7%
% Rural Clients in Micro Credit Portfolio (average[6])	60.9%	63.1%	60.3%	-4.3%

6. Average values provided in Table 1 are simple arithmetic averages (un-weighted) for reporting MFIs.

4.0 COMPARATIVE PERFORMANCE ANALYSIS

Table 2 below provides average and median results[7] for the 2013 financial year for nineteen (19) CMFA MFI members. The results are presented for twenty-four (24) selected performance indicators along with benchmarks established by the MIX Market based on median values for 37 credit unions and 297 financial institutions in the Latin America and Caribbean Region.[8] The figures below refer to the institutions in their entirety and are not specific to their micro credit portfolio. The highlights of the performance assessment are as follows:

INSTITUTIONAL SIZE AND GROWTH

- MFIs operated an average of 7 branches, compared to 8 for credit unions and 12 for all financial institutions in the region.
- MFIs had a total of 703,029 clients or an average of 37,002 clients per MFI. Year-to-year growth in client base was 9.8% in 2013 compared to 2012.
- On average, CMFA reporting institutions declared total assets of US$28.3 million, total deposits of US$20.8 million and gross loan portfolios of US$20.6 million.
- Year-to-year growth in assets, deposits and gross loan portfolio was 12.5%, 9.5% and 12.6%, respectively.
- MFIs had an average staff complement of 79 employees. The corresponding figure for all institutions in the region was 136; it was 92 for credit unions.
- Average deposit balance for MFIs stood at US$843, compared to US$807 for the group of comparison in the region (US$562 for credit unions).
- MFIs carried an average of 6,920 loans with an average outstanding balance of US$3,444. The number of loans was significantly lower than the peer group, while the loan size was significantly higher.

FINANCIAL RATIOS

- CMFA MFI members showed an operational self-sufficiency of 118% on average, which was slightly better than the regional benchmark of 111.6%. A ratio above 160% is consistent with international best practice.
- The operating expense ratio stood at an average of 20.6% - similar to the benchmark of 20.7% for all institutions in the region (9.6% for credit unions).
- The yield on portfolio was 25.1% on average, slightly above the regional benchmark of 24.8% (13.6% for credit unions).
- The capital ratio stood at 25.5% on average, slightly above the regional benchmark of 24.2% (15% for credit unions).
- The transformation ratio was 76.3% on average, below the regional benchmark of 80.3%.
- Portfolio at risk (PAR30) stood at an average of 15.2%, far above the regional benchmark of 4.6% (4.4% for credit unions).
- The write off ratio at 1.9% on average was also above the regional benchmark of 1.3% (0.3% for credit unions).
- The return on assets (ROA) was 0.9% on average compared to 1.1% for credit unions and 2.0% for all institutions in the region.

7. The CMFA average values provided in Table 2 are simple arithmetic averages (un-weighted) for 19 reporting MFIs.
8. Benchmark figures were extracted from the MIX Market data base on October 20, 2014.

SOCIAL PERFORMANCE

- Women accounted for 54.3% of the client/member base on average among CMFA institutions. This compared to 47.1% for credit unions and 57.5% for all institutions in the region.
- Women accounted for 67.1% of employees on average among CMFA member MFIs. This compared to 56.3% for credit unions and 51.1% for all institutions in the region.
- Women accounted for 33.8% of the board and committee members of CMFA member MFIs on average. This compared to 38.8% for credit unions and 33.3% for all institutions in the region.

TABLE 2 COMPARATIVE PERFORMANCE ANALYSIS FOR CMFA MFI MEMBERS (AS OF 31 DECEMBER 2013)

PERFORMANCE INDICATORS	CMFA		BENCHMARKS*	
	AVERAGE	MEDIAN	CREDIT UNIONS	ALL INSTITUTIONS
INSTITUTIONAL SIZE				
Number of Active Clients	37,002	15,629	27,366	47,445
Number of Branches-Points of Service	7	4	8	12
Total Staff	79	39	92	136
Total Assets ('000 USD)	28,349	13,720	32,907	18,552
Total Deposits ('000 USD)	20,848	9,068	20,933	n/a
Average Deposit Balance (USD)	843	346	562	807
Gross Loan Portfolio ('000 USD)	20,590	12,550	28,700	15,002
Number of Outstanding Loans	6,920	4,687	9,185	13,984
Average Loan Balance (USD)	3,444	3,132	3,186	1,025
GROWTH				
Annual Growth in Clients-Members	9.8%	7.8%	n/a	n/a
Annual Growth in Total Assets	12.5%	12.6%	n/a	n/a
Annual Growth in Deposits	9.5%	10.7%	n/a	n/a
Annual Growth in Gross Loan Portfolio	12.6%	14.0%	n/a	n/a
FINANCIAL RATIOS				
Operational Self-Sufficiency Ratio	118.0%	113.2%	111.1%	111.6%
Operating Expense Ratio	20.6%	12.3%	9.6%	20.7%
Yield on Portfolio	25.1%	14.4%	13.6%	24.8%
Capital Ratio	25.5%	13.8%	15.0%	24.2%
Transformation Ratio	76.3%	76.3%	83.6%	80.3%
Portfolio at Risk > 30 Days	15.2%	11.1%	4.4%	4.6%
Write-off Ratio	1.9%	0.8%	0.3%	1.3%
Return on Assets	0.9%	1.0%	1.1%	2.0%
SOCIAL PERFORMANCE				
Proportion of Women Clients/Members	54.3%	51.8%	47.1%	57.5%
Proportion of Women Employees	67.1%	69.5%	56.3%	51.1%
Proportion of Women on the Board and Committees	33.8%	29.4%	38.8%	33.3%

n/a – not available

*Benchmarks are median figures from 37 credit unions and 237 financial institutions reporting to the MIX Market from Latin America and the Caribbean.

5.0. FINAL THOUGHTS

Overall, the 19 reporting institutions have seen significant growth in micro credit loans over the past two years with 9% growth in 2012 accelerating up to 37% growth in 2013. This rapid growth in many of the institutions was due in large part to tailored micro credit capacity-building provided to the 13 institutions participating in CARIB-CAP II, which led to improvements in product offerings, loan management and outreach in 2013.

While significant growth has occurred over the past two years, the micro credit sector in the Caribbean is still relatively small; the sector therefore offers potential for substantial expansion given the high percentage of micro entrepreneurs that are still not accessing credit. A recent study found that 90% of micro enterprises use savings to address their financing needs.[9] This may indicate that the pool of microfinance borrowers is not as large as previously thought; however it may also offer an opportunity for financial institutions to adjust their products to complement their clients' tendency towards savings.

As many MFIs look to greater outreach, they also need to urgently address portfolio at risk 30 days (PAR30), which is still too high as compared to their counterparts in Latin America. In order to meet this crucial benchmark for a healthy, efficient portfolio, MFIs will need to reduce PAR30 to 5% or less, which is consistent with international best practices. CARIB-CAP II has helped participating MFIs lower this indicator from more than 23% at the end of 2011 to under 15% at the end of 2013 (weighted). However, there is more to be done to improve loan collections and microfinance portfolio quality, among both CARIB-CAP II participants and others in the sector. Likewise, MFIs in the Caribbean need to continue increasing the number of loans per officer, currently at 134, and achieve a ratio closer to the benchmark of 200, so that they can reap the benefits of a robust, efficient portfolio.

The Caribbean Microfinance Forum, coupled with the training, services and resources provided by the CMFA, such as SMART Campaign assessments and financial education, have supported some of the positive changes in the sector and will continue to do so in the future. Through membership in the CMFA, and the knowledge-sharing benefits offered by the Alliance, MFIs can learn about international best practices and get connected to resources to help improve their operations.

9. Magnoni, Barbara; Derek Poulton and Danielle Sobol. Building Up Business: Microenterprise Demand for Credit in the Caribbean. 2014.

APPENDIX A

CALCULATION AND INTERPRETATION OF FINANCIAL RATIOS

Appendix

CALCULATION AND INTERPRETATION OF FINANCIAL RATIOS

RATIO	CALCULATION	INTERPRETATION
Operational Self-Sufficiency	Total operating income / (Operating expenses + Financial expenses + Depreciation + Loan loss provision)	Measures to what extent MFI revenue covers its costs. Indicates MFI capacity to sustain its operations. A ratio over 100% should be the target. A ratio above 160% is desirable.
Operating Expense Ratio	Total operating expenses / Average gross loan portfolio for the period	Measures the cost of every dollar lent. The lower the ratio, the most efficient MFI is. This ratio is important to determine the interest rate on loans.
Yield on Portfolio	Income earned on loan portfolio / Average gross loan portfolio for the period	Income generated by loans is key element to ensure MFI survival. This ratio should be compared to nominal interest rate & fee to establish "yield gap".
Capital Ratio	Equity / Total assets	Indicates MFI capacity to re-invest funds to support expansion of activities and to absorb operating losses. Ratio should be above 8%.
Transformation Ratio	Gross loan portfolio / Total assets	Measures to what extent MFI allocates available resources to the extension of credit. Ratio should be above 50%.
Portfolio at Risk 30 Days (PAR30)	Outstanding principal of loans in arrears > 30 days and rescheduled loans / Gross loan portfolio	Measures quality of loan portfolio and potential loan losses. Some MFIs prefer to use PAR 7 days. Ratio should be kept below 5%.
Write-off Ratio	Principal amount of loans written off / Average gross loan portfolio for the period	Depends on write-off policy of the MFI. Should be analyzed jointly with PAR in order to assess overall portfolio quality.
Return on Assets	Net income (loss) during the period / Average assets for the period	Measures MFI to yield a return on investment. This ratio should be positive.

Caribbean MicroFinance Alliance
11 East Avenue
Kingston 10, Jamaica
E-mail: *secretariat@caribbeanmicrofinancealliance.com*
Phone: 876-969-1228
Website: *caribbeanmicrofinancealliance.com*

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