

## Depth of Outreach and Financial Self-Sufficiency

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The following is a series of observations on ‘deep reaching’ MFIs and sustainability using the MBB 9 data set for point-in-time analysis. Such MFIs, for the purpose of this brief, are those that have an average balance per borrower of less than 20% of GNP per capita, in relative terms, or less than 150 USD, in the absolute. These data offer two ways to look at the story:

- 1/ What are the factors driving the sustainability of ‘deep outreach’ MFIs, and
- 2/ What distinguishes self-sufficient and non self-sufficient MFIs that reach a ‘lower end’ market?

### FSS MFIs: ‘Low end’ vs. other target markets

1/ Sustainable MFIs that serve ‘lower end’ markets reach, on average, half again as many borrowers as other MFIs. This is an important point given that their resources are barely a third those of MFIs serving other markets. Hence, from an access perspective, they do a better job of making their resources meet their goals.

2/ ‘Deep outreach’ sustainable MFIs have very high levels of profitability / sustainability - higher than those of sustainable institutions serving other markets. Before considering the rent seeking nature of these institutions, it is worth taking a second look at their funding structure. These MFIs have the lowest leverage and access the lowest levels of deposits of all institutions (segmented by target market). By funding themselves through equity, the growth strategy (or market reality of access to funds) of these institutions may well rely on re-capitalization through retained earnings.

3/ Peeling back the reasons for this high profitability, two observations stand out:

a/ Sustainable ‘low end’ MFIs earn more than their target market peers. Higher portfolio yields (as opposed to, say, asset allocation) drive this, both in nominal and real terms.

b/ These same institutions also have more costly operations, whether measured relative to total assets or to their gross loan portfolio. They do, however, lower already small loan loss provision expenses by maintaining significantly better portfolio quality.

4/ On the efficiency front, the picture is mixed and perspective makes the difference. The resources used per dollar of portfolio are quite high, but this is expected given the size of their loans. Counting heads (i.e. borrowers) shows a much more efficient set of institutions, serving each borrower at half the cost, on average, of sustainable institution serving other market segments.

5/ Similar to the efficiency remarks, with client numbers in their favor, ‘low end’ sustainable institutions have more productive human resources, serving half again as many borrowers with each employee as ‘broad’ or ‘high end’ sustainable MFIs.

### ‘Low end’ MFIs: FSS vs. Non FSS

1/ Sustainable ‘deep outreach’ MFIs reach a much greater number (6x) of borrowers with their services than their Non FSS peers. They do this with a much larger resource base, as well.

2/ Non FSS ‘low end’ MFIs do not earn as much total revenue as their FSS peers, even though they charge more to their clients, as proxied by their portfolio yields. This could be attributed to the fact that they allocate fewer assets to the portfolio, diluting the high yield in their asset base. It would be difficult, then, to attribute the difference in sustainability for these MFIs reaching this same market to their product pricing. On the contrary, the sustainable ones have much lower yields.

3/ Costs and efficiency mark the divide between FSS and Non FSS ‘deep outreach’ MFIs. The Non FSS institutions are much more costly in their operations - be it in comparison to their asset base or in administering their portfolios. The difference is significant and should not be understated. The Non FSS MFIs spend three times as much in operations for each dollar outstanding.

FSS v Non FSS	FSS MFIs			Non FSS MFIs		
	Broad	High End	Low End	Broad	High End	Low End
<b>Scale / Outreach</b>						
Age	9	8	12	7	7	8
Number of Active Borrowers	96,896	34,927	149,027	7,989	2,814	25,483
Gross Loan Portfolio (USD)	47,491,741	44,538,503	16,550,660	4,323,942	7,017,999	2,218,100
Total Assets (USD)	98,642,975	65,440,571	22,886,907	6,390,737	8,832,988	3,815,744
<b>Financial Management</b>						
Capital/Assets	39.3%	22.4%	47.5%	50.7%	33.6%	48.9%
Commercial Funding Liabilities Ratio	72.4%	108.9%	74.5%	53.5%	48.9%	31.0%
Deposits to loans	35.2%	90.1%	16.8%	27.7%	29.5%	12.3%
Gross Loan Portfolio / Total Assets	75.7%	65.4%	69.1%	71.9%	78.3%	58.0%
<b>Profitability / Sustainability</b>						
Adjusted Return on Assets (AROA)	5.2%	4.1%	7.7%	-5.7%	-4.3%	-16.8%
Adjusted Return on Equity (AROE)	17.0%	19.9%	32.1%	-12.5%	-12.4%	12.8%
Operational Self-Sufficiency (OSS)	134%	146%	153%	98%	117%	81%
Financial Self-Sufficiency (FSS)	124%	135%	136%	83%	84%	74%
<b>Revenues</b>						
Adjusted Financial Revenue Ratio	29.6%	20.3%	36.8%	25.1%	21.8%	31.8%
Adjusted Profit Margin	17.7%	22.9%	23.5%	-26.5%	-19.8%	-69.8%
Yield on Gross Portfolio (nominal)	39.8%	30.1%	46.4%	34.7%	26.3%	56.4%
Yield on Gross Portfolio (real)	34.9%	23.3%	40.9%	25.1%	18.7%	49.0%
<b>Expenses</b>						
Adjusted Total Expense Ratio	23.8%	15.9%	27.3%	30.7%	26.2%	48.7%
Adjusted Financial Expense Ratio	5.9%	5.3%	7.0%	7.2%	9.0%	6.8%
Adjusted Loan Loss Provision Expense Ratio	1.8%	1.9%	1.3%	2.8%	2.2%	2.5%
Adjusted Operating Expense Ratio	16.1%	8.7%	19.0%	20.8%	15.0%	39.5%
Adjusted Personnel Expense Ratio	9.0%	5.4%	10.1%	11.1%	8.7%	21.0%
Adjusted Administrative Expense Ratio	7.0%	4.5%	9.4%	9.7%	6.4%	19.1%
<b>Efficiency / Productivity / Risk</b>						
Operating Expense / Loan Portfolio	22.0%	13.8%	27.7%	30.6%	18.9%	77.5%
Personnel Expense / Loan Portfolio	12.5%	8.4%	16.9%	16.4%	11.0%	41.6%
Adjusted Cost per Borrower (USD)	144	132	60	191	617	116
Borrowers per Staff Member	117	121	185	104	46	171
PAR > 30 days	3.6%	5.0%	1.5%	4.3%	1.9%	4.2%

Source: *MicroBanking Bulletin* no. 9, July 2003. Refer to the *Bulletin* or website for an explanation of terms and definitions used in this Brief ([www.mixmbb.org](http://www.mixmbb.org)).

Notes on calculations: These data are calculated based on straight averages. The averages produced for the MBB publications are the result of data organized by peer grouping and by indicator, where the outlying observations within each resultant group are dropped. As a result, the attached results may be more influenced by the inclusion of outliers.