

02 April 2009

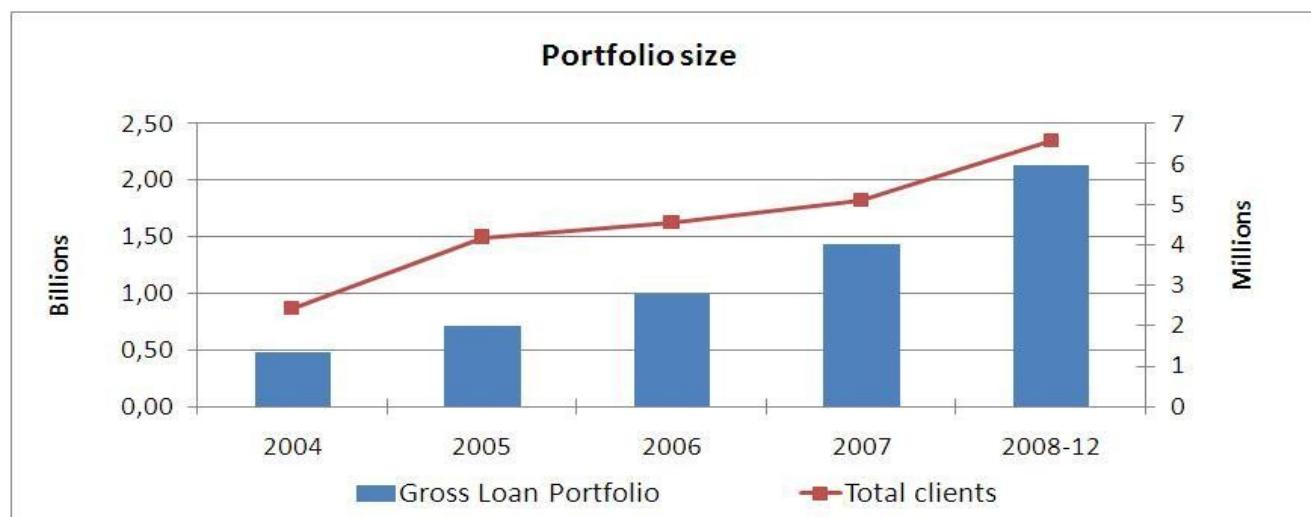
Financial crisis

First statistics from new portfolio database show strong performance of MFIs in 2008

During the first quarter of 2009 the team of Incofin has made great progress in the implementation of a sophisticated monitoring tool for the outstanding investments, called Factsheet Compiler. The Factsheet Compiler database was set-up from the MFI Factsheet, a reporting format by which all MFIs who receive funding from Incofin's Pool of Funds are regularly (monthly, quarterly) providing their financials and other institutional information to Incofin.

This progress allows Incofin to have aggregate information on all relevant aspect of the funded MFIs. Statistic information regarding portfolio quality, profitability, efficiency, solvency etcetera can now easily be retrieved for the whole set of 64 MFIs that are included in the database. Such reports are also available on specific segments, like for each of the Funds that Incofin manages (who all have their particular sub-set of MFIs that they fund), or for geographical regions.

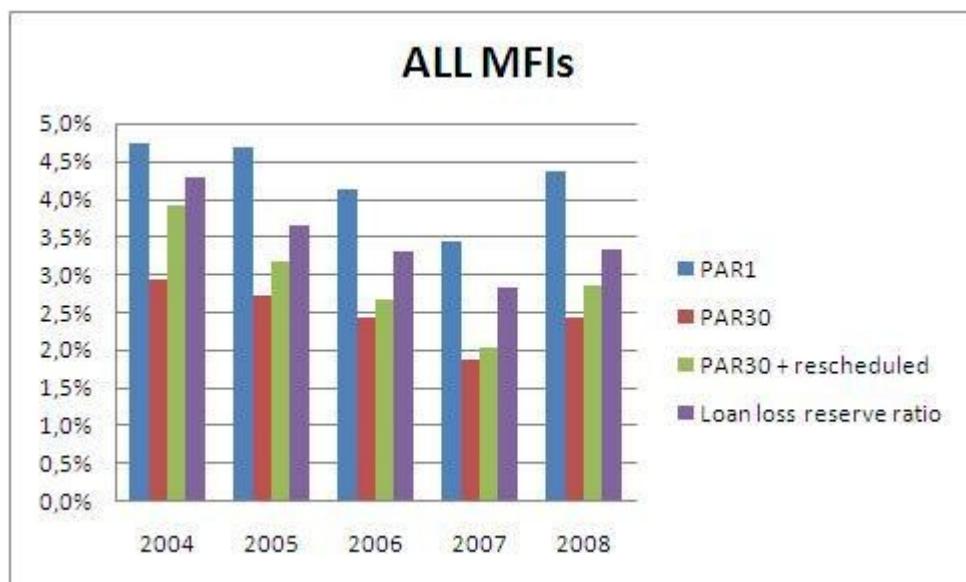
The investment analysts are currently doing more detailed review on the aggregate numbers, but in all we already see that 2008 still has been a good year in terms of sustained portfolio and profitability growth for MFIs in general. As the following graph clearly shows, growth of the MFIs continued in 2008, both in terms of portfolio size, which increased by 48% to just over 2 Billion euro for these 64 MFIs combined, as in terms of clients. These MFIs added 35% new clients to reach a total number of borrowers in excess of 6.5 million.



This growth was combined with profitability, since net profits grew by 45% on average in 2008. Profitability indicators also continue strong with Return On Assets (ROA) stable at 4.0%, and Return On Equity (ROE) slightly on the up from 18.6% to 20.3%. The latter increase is likely explained by the rise in leverage that on average increases from 3.9 to 4.2 in the course of 2008.

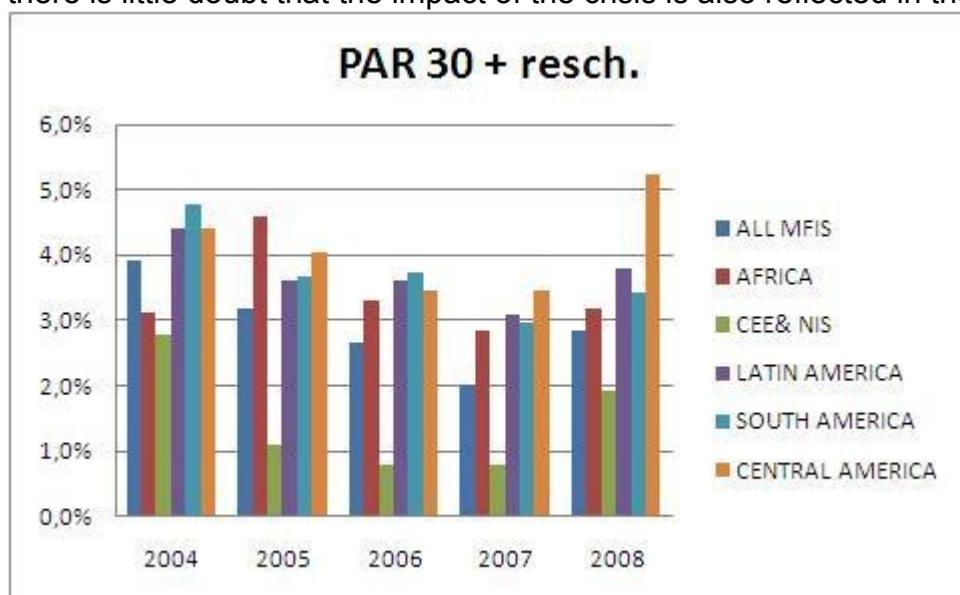
As the financial crisis has truly become evident on a global scale, there is vivid interest to learn how the portfolios of MFIs will keep up to its effects. By and large, as can be seen in the following graph, the impact has not yet been substantial on the quality of the MFIs'

portfolios.



The trend that can be noticed in the above graph is one of decreasing arrears between 2004 and 2007 which changes into a slight increase in 2008. We think however that it is too early to say if the 2008 would hold relation to the financial crisis. We have to point out that in 2008 there were some country specific events that lead to deterioration of certain MFIs. Examples include unusual rescheduling in Georgia in the aftermath of the conflict with Russia, or a spike in arrears shortly after the political violence that affected Kenya in early 2008. The Kenyan example deserves special mention too for the remarkable recovery that has been achieved in the second half of the year.

If we break down the statistics to a regional level, one region in particular stands out, namely Central America. Because of close relations to the US, where the crisis impacted earliest, the economy of that region was affected early in the cycle. Whereas in previous years there was hardly any difference in portfolio quality between South and Central America, in 2008 the difference has been outspoken. Even if the particular situation of Nicaragua has influenced this marked increase of Portfolio at Risk in Central America, there is little doubt that the impact of the crisis is also reflected in these figures.



Even if the full impact of the financial crisis lies still ahead for microfinance institutions, at Incofin we consider that our portfolios will show strong resilience, because of the importance that we have always given to selecting MFIs that focus on business finance and less on other types of small ticket finance, such as micro consumer loans. Especially those MFIs that have concentrated on the lower end of the microfinance market (with tiny loan amounts) and that have mainly stuck to micro-enterprise lending will continue to fare well. MFIs that venture into consumer lending or housing loans are likely to be confronted with more severe challenges, as these portfolios tend to deteriorate quicker when there is a general economic downturn. Also the higher end of microfinance business finance, such as small and especially medium sized enterprises (with larger loan amounts), is more vulnerable, as these businesses are more closely tied to the overall economy.

All things considered it is important to point out that even if the arrears in microfinance portfolios have started an upward path, the overall levels are still quite comfortable, and the performance of 2008 regarding PAR (2.9%) is equal to the five year average of the period 2004 – 2008. Having said that, and returning to the comments at the beginning, we still have to do more specific analysis on these statistics. The important feature of the new monitoring tool is that it allows having these data on aggregated basis, and regularly updated as regular reporting from the MFIs will seamlessly be fed into the database as from now on.

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