2005 State of Microfinance Industry

in Eastern Europe and Central Asia (ECA)

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Executive Summary

In 2005 the microfinance industry in Eastern Europe and Central Asia saw an increase in banks' lending activities to micro and small entrepreneurs, together with the continual expansion towards lower-segment clients. The combined outreach of downscaling commercial banks and microfinance banks reached that of NGOs/NBFIs and is growing at a fast pace. However, it is still the credit unions who reach the largest number of clients as they manage more than half of all ECA borrowers. They also provide the smallest loans, although not in all countries. Where they are not allowed to mobilize member savings, credit unions serve similar or even higher segment of businesses compared to NGOs/NBFIs. The banks traditionally provide larger loans, especially downscaling commercial banks.

The majority of institutions continued the trend of further deepening the outreach. This was in particular observed in Central and Eastern Europe, in the countries with higher per capita income and highest financial sector development. There, the competition forced commercial banks to enter the microenterprise segment which in turn forced NGOs/NBFIs to search for new clients among lower-end microentrepreneurs.

While microfinance banks funded their growth from client deposits, NGOs/NBFIs continued to increase their funding base through commercial borrowings. Despite the improvement in leverage, most NGOs/NBFIs are still equity-funded with debt to equity ratio below 1.

Financial performance of ECA MFIs remained favorable with all microfinance banks and almost all NGOs/NBFIs being operationally self-sufficient. Positive adjusted return on assets was on average higher among NGOs/NBFIs compared to those of the banks which operated on lower profit margin. Positive profitability was observed mostly in low-inflation countries which indicates that few microfinance banks or NGOs/NBFIs in high-inflation countries account for the loss of the value of equity due to the increase in price levels. Those that did so were able to generate high revenues from serving small loans to female entrepreneurs in urban areas and where their personnel was more productive. Improvements in operational self-sufficiency were seen mostly among those MFIs that managed to lower their operating expenses thanks to improved staff productivity.

In general, the economic environment in the country of operations had great impact on the MFI performance. Operating costs were higher in the countries with lower level of financial sector development which was often coupled with high financial costs due to inflation and interest rates to which the cost of capital and borrowings were adjusted. At the same time yields of these MFIs were also higher which was possible because of few alternatives for microenterprises in countries with low financial sector development. However, the 2005 trend showed that two-thirds of NGOs/NBFIs and microfinance banks decreased portfolio yields due to the competitive pressure from other NGOs/NBFIs or banks.

Dimensions of Outreach

Loan Portfolio

At the end of 2005 the volume of microfinance activities of all types of institutions reached US$8 billion which means doubling the value in the last two years.

The most numerous among all institutions are still credit unions which handled the largest volume of microfinance operations, even though a number of them temporarily decreased due to the transition period of Romanian credit union system. Credit unions predominantly operate in CEE and Russia/Ukraine and except for Romania where the system is undergoing transformation to comply with EU regulations, they are strong and growing quickly - the Ukrainian and Russian credit unions, for example, doubled the portfolio during the year.

Credit unions are followed by microfinance banks with half the size of loan portfolio. Downscaling banks continue to hold a comparable portfolio to NGOs/NBFIs.

Table 1: Total Gross Loan Portfolio by Institutional Type (in US$)

	N	Total gross loan portfolio US$	Average gross loan portfolio US$	Median gross loan portfolio US$
Credit unions	5,499	4,571,774,743	831,383	83,682
Microfinance banks	17	2,038,139,329	119,890,549	97,965,640
Downscaling banks	47	980,827,165	22,291,526	11,344,751
NGOs/NBFIs	164	707,462,935	4,313,798	1,140,145
ECA total	**5,727**	**8,298,204,172**		

The impressive amount of credit union operations is attributable to the sheer number of very small outlets. Microfinance banks on the other hand achieved scale by establishing a few very large institutions. The bulk of them (except two) managed the loan portfolios over US$10 million compared to only 15 percent of NGOs/NBFIs with portfolios larger than US$10 mostly located in the Balkans. The largest NGO/NBFI was 10 times smaller than the largest microfinance bank and the smallest institutions started from just a few thousand dollars. The biggest differences could be seen in Central Asia with the largest player in whole ECA and the biggest number of very small ones.

Downscaling banks had much smaller operations than microfinance banks but had the highest growth rates. During the year they almost doubled their loan portfolio and were the only type of microfinance institution that accelerated growth compared to previous years. This is a reflection of their young age and the increasing attention of international development institutions which continue to provide funding for portfolio growth. In total, the downscaling banks attracted US$400 million of new funding.

Figure 1: Cumulative growth of gross loan portfolio by institutional type

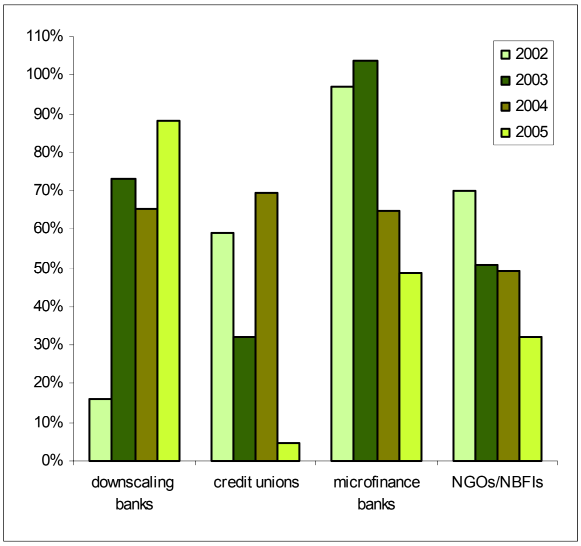
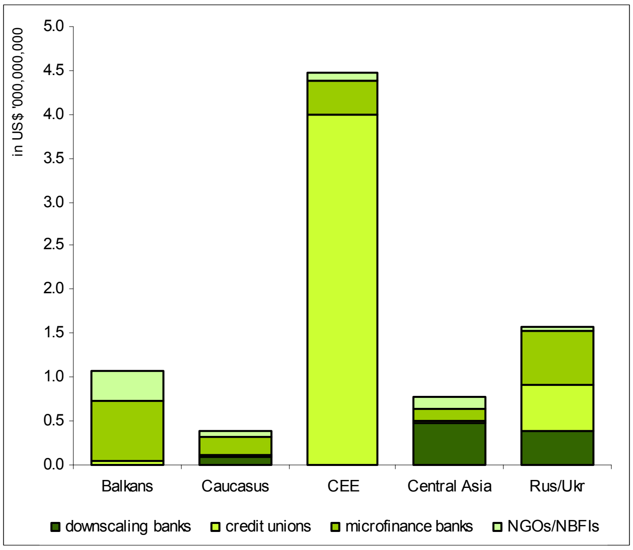


Figure 2: Total gross loan portfolio by institutional type and sub-region



NGOs/NBFIs significantly slowed down their expansion during the year and noted the lowest growth rate in the last four years. The increase of almost US$200 million was made possible tthrough the inflow of commercial loans which financed 60% of the growth.

Higher growth rates were observed among younger MFIs where outreach growth was coupled with employee numbers growth as well as with the increase in staff productivity. Therefore, the biggest number of quickly growing MFIs was seen in the Caucasus and Central Asia where the largest number of young MFIs is located.

Additionally, the biggest growths (both of loan portfolio and borrowers) were observed among those MFIs which markedly increased the loan size. It seems that growth took place at the expense of outreach depth as the expansion of young MFIs was directed towards the segment of larger entrepreneurs.

Microfinance banks led among all institutions in the volume of loan portfolio increase. They brought US$700 million to the region which is over a half of the total ECA portfolio increase.

Among the quicker growing were the younger and smaller banks with bigger loans but also those that were deepening their outreach. Growth of portfolio and borrowers was coupled with savings growth which are the major source of funds for on-lending.

Active Borrowers

Similarly to previous years credit unions continued to dominate the market in CEE and Russia/Ukraine. In the other two sub-regions – the Balkans and Caucasus - NGOs/NBFIs are more prevalent. Only in Central Asia microfinance banks served as many borrowers as NGOs/NBFIs thanks to the presence of two large banks in Mongolia. Downscaling banks, despite their increasing presence, still had quite modest outreach to clients.

Table 2: Total number of active borrowers by institutional type

	N	Total number of active borrowers	Average number of active borrowers	Median number of active borrowers
Credit unions	5,499	2,684,800	488	228
Microfinance banks	17	619,948	36,468	29,371
Downscaling banks	47	187,064	4,251	3,475
NGOs/NBFIs	164	650,915	3,947	1,409
ECA total	**5,727**	**4,142,727**		

Two trends were observed in watching growth rates - decelerating outreach growth (except for microfinance banks) and slower outreach growth compared to loan portfolio growth rates. The latter suggests that institutions are moving towards serving larger loans, but in fact this trend was only observed among the MFIs that had the largest increase of the portfolio. As the next section will show, the majority of institutions of all types deepened their outreach, now reaching more lower-end clients.

Figure 3: Cumulative growth of the number of active borrowers by institutional type

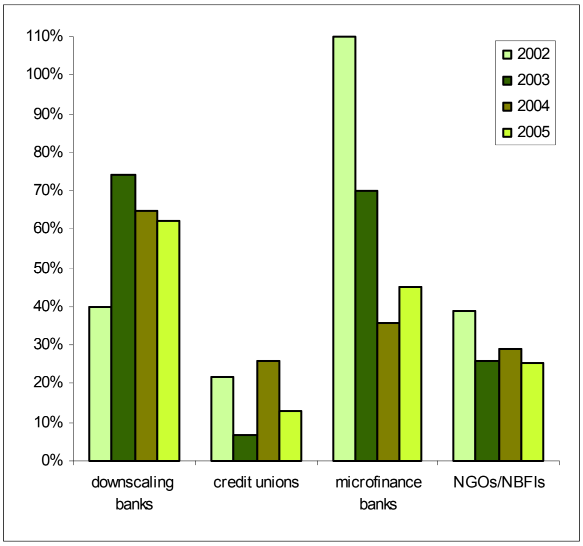
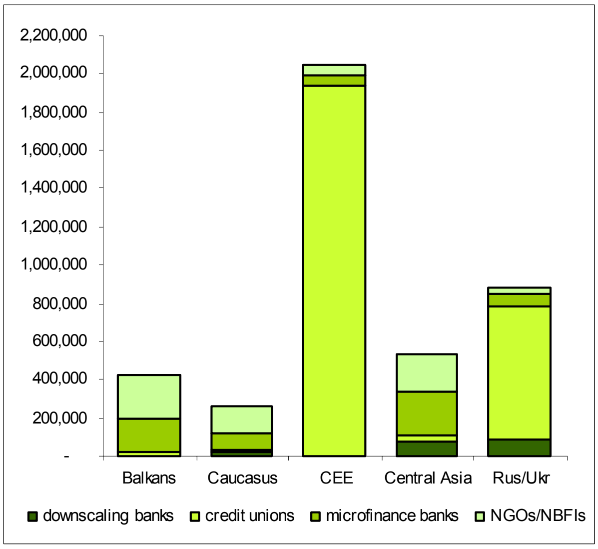
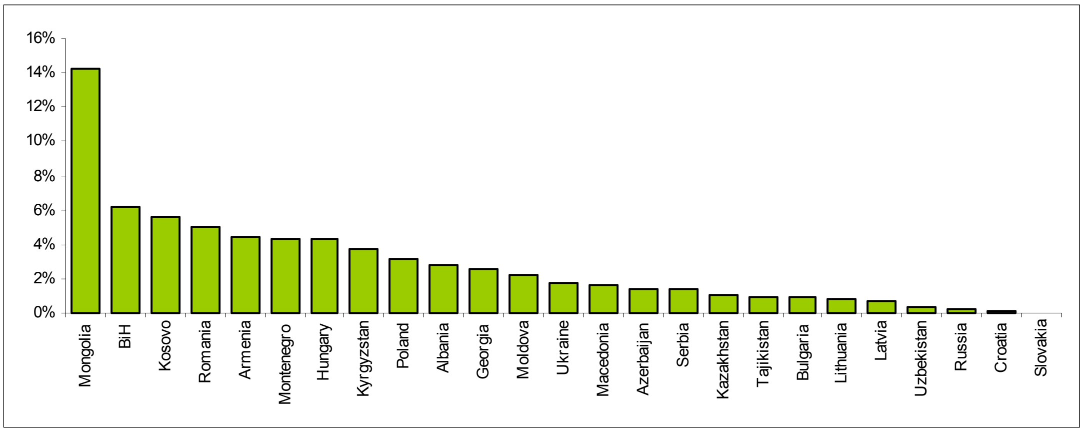


Figure 4: Total number of active borrowers by institutional type and sub-region



The average penetration rate among the economically active population in the whole ECA region remained at the same level of up to 3 percent, the highest in CEE thanks to credit union activity in Poland. Among NGOs/NBFIs the highest share of population was served in Bosnia and Herzegovina and Montenegro where it reached 5 and 4 percent respectively. In Mongolia microfinance banks actually reached up to 14 percent of the population aged 15-65 but it was the only case while the other banks did not exceed 4 percent.

Figure 5: Penetration rates among economically active population (16-65 years old)



Depth of Outreach

Both the downscaling and microfinance banks serve higher end clients by providing larger loans than credit unions or NGOs/NBFIs.

Credit unions on average provide the smallest loans but they are quite diverse depending on the sub-region. In Russia and Ukraine they provide considerably small loans, while in Central Asia and the Caucasus they exceeded those of NGOs/NBFIs. The credit unions in these sub-regions concentrate more on providing financial services to larger entrepreneurs, in many cases in rural areas.

Table 3: Average depth of outreach by institutional type and sub-region

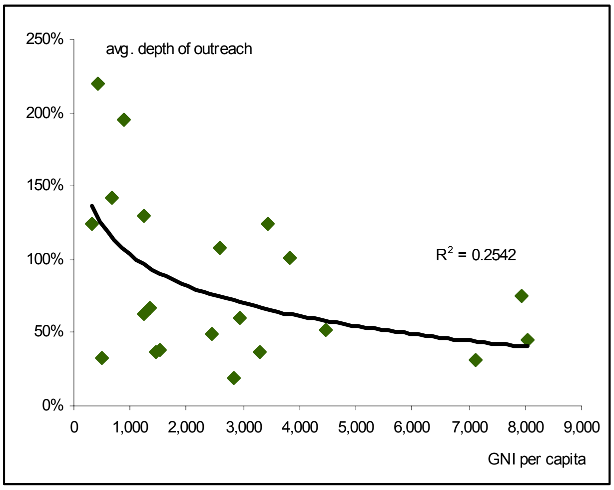
	Credit unions	NGOs/NBFIs	Microfinance banks	downscaling banks
Balkans	71%	74%	160%	
Caucasus	151%	60%	198%	350%
CEE	18%	99%	165%	
Central Asia	133%	95%	194%	395%
Russia/Ukraine	34%	37%	335%	200%
ECA average	**31%**	**82%**	**194%**	**318%**

In higher income countries NGOs/NBFIs have deeper outreach, which shows that they work with really tiny enterprises who do not have access to mainstream bank services.

In lower income countries on the other hand, where the spectrum of financially excluded clients is wider, and among them better off clients, MFIs provide services to both low and high-end segment of entrepreneurs.

The vast majority of institutions (80 percent) continued the previous year's trend of deepening the outreach. This downscaling trend was most evidently seen among microfinance banks and NGOs/NBFIs where more than two thirds of them deepened the outreach and the degree of change was much more serious than in the previous year. This was observed in particular in CEE where the depth of outreach is the shallowest among NGOs/NBFIs. The biggest number of MFIs that deepened the outreach was also seen in the Balkans and CEE where the outreach deepened the most. These sub-regions are characterized by the

Figure 6: NGOs/NBFIs – correlation between depth of outreach and county's GNI per capita



highest financial sector development[1] and highest per capita income. There, NGOs/NBFIs are under competitive pressure from banks which are intensively looking for new market segments because of high competition and saturation of the corporate financial services sector.

Table 4: Average depth of outreach change by institutional type

	04-05 depth of outreach change	03-04 depth of outreach change
Credit unions	-0.1%	41.8%
NGOs/NBFIs	-8.2%	-5%
Microfinance banks	-12.4%	-2%
Downscaling banks	-4.3%	-24.5%

The more slowly growing NGOs/NBFIs deepened the outreach more. Among the MFIs which deepened the outreach the average growth rate of the loan portfolio was 30% while for the ones that increased the size of the loan portfolio, average growth was 115%.

Figure 7: NGOs/NBFIs - average depth of outreach change by sub-region

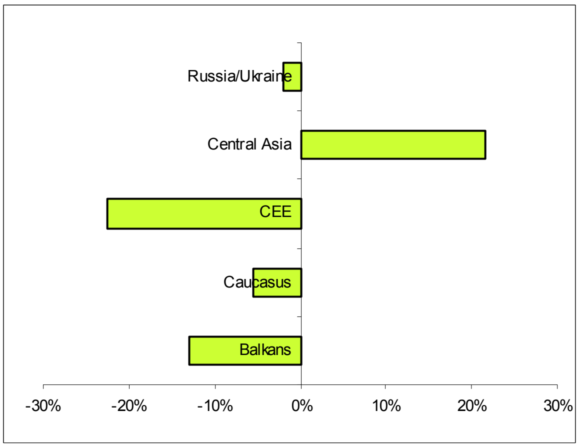
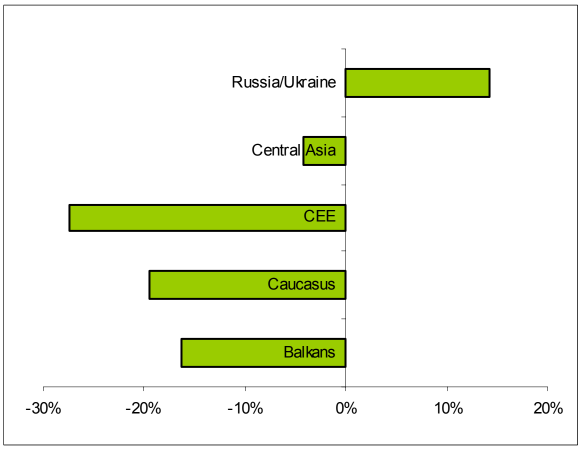


Figure 8: Microfinance banks - average depth of outreach change by sub-region



[1] Expressed as liquid liabilities (M3) to GDP (IMF statistics)

Types of clients

Women

Except for CEE, women still constitute the majority of borrowers of NGOs/NBFIs, but their share slightly decreased compared to the previous year. More than half of the institutions decreased the share of women among their clients and only 13 percent increased it. The increase was usually among the MFIs with a low share of women last year. Conversely, among MFIs with a high share of women clients, the number of them did not change or decreased. It looks like MFIs are moving towards reaching more gender-balanced clientele.

Figure 9: NGOs/NBFIs - gender distribution of active borrowers

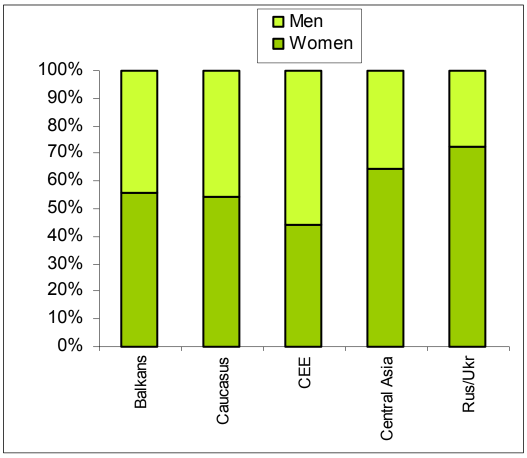
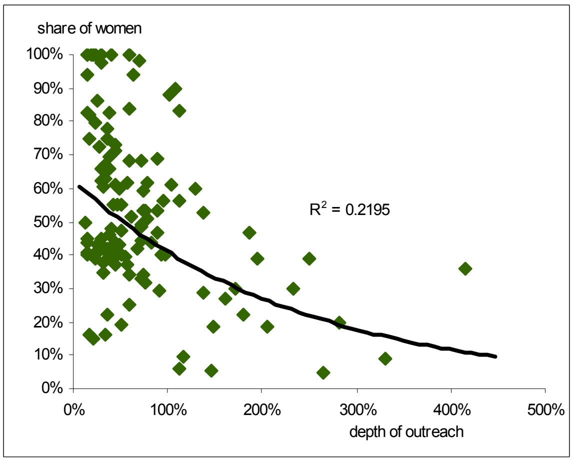


Figure 10: NGOs/NBFIs – correlation between depth of outreach and women share



Institutions that served women offered smaller loans and in consequence had deeper outreach. They operated more often in urban areas. This indicates a different nature of female-run enterprises which is shown in different financing needs. Female enterprises are more frequently seen in urban areas and are engaged in trade and services.

Table 5: NGOs/NBFIs – average share of women borrowers among MFIs with various rural presence

rural borrowers share	share of women borrowers
0-25%	60%
25-50%	53%
50-75%	48%
75-100%	33%

Urban and rural clients

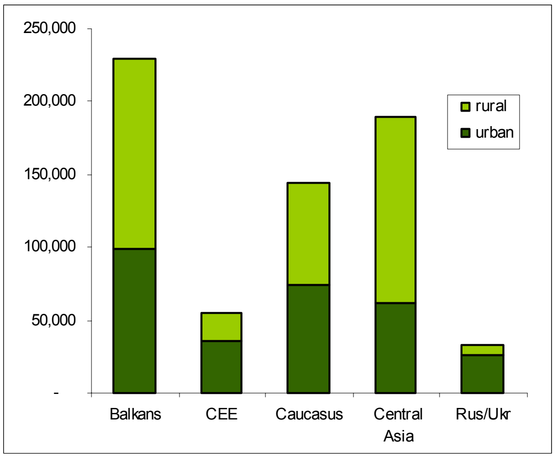
While in 2004 rural clients constituted half of the borrowers of NGOs/NBFIs, in 2005 their share increased to 53 percent with the biggest share seen in Central Asia and the Balkans.

More than half of non-bank MFIs offered agricultural loans prevailing in the Balkans and the Caucasus but not in Central Asia, where the youngest MFIs operate, offering standard products for all types of activities.

One of the factors contributing to the development of agricultural loans in the Balkans was the donor intervention in the form of concessional funds provided for on-lending for agricultural purposes.

Although the majority of NGOs/NBFIs deepened the outreach, MFIs that offered agricultural loans did so to a lesser extent. This might be a result of the fact that agricultural lending requires larger loans because of the need to invest lump sums either in small equipment or the inputs in the certain point of time.

Figure 11: NGOs/NBFIs – distribution of urban and rural borrowers by sub-region



Product types

The other types of loans offered by NGOs/NBFIs, apart from business and agricultural loans, include consumer loans and housing loans.

Table 6: NGOs/NBFIs – characteristics of different product types

	business loans	agricultural loans	consumer loans	housing loans
share of MFIs offering the loan	100%	56%	21%	14%
avg. size of disbursed loan – group methodology	40%	44%	37%	126%
avg. size of disbursed loan – individual methodology	146%	142%	80%	202%

Understandably, loans for housing purposes (house renovation or mortgage loans) are the largest among all types of loans and are most often disbursed individually. Consumer loans for short-term immediate needs are also mostly disbursed via individual methodology.

Funding Structure

NGOs/NBFIs

Almost all NGOs/NBFIs (78%) use borrowed funds for on-lending, but for the majority they continue to be on a low level as indicated by the average capital to assets of 60%.

This is because the majority of MFIs in the region have a small asset base and as a rule small and young MFIs are usually equity-funded by donor grants as they have not yet gained the capacity to attract and manage external debt. As the ECA industry matures it moves away from grant funding towards higher leverage (Fig. 12).

Figure 12: Average funding sources of NGOs/NBFIs (2003 – 2005)

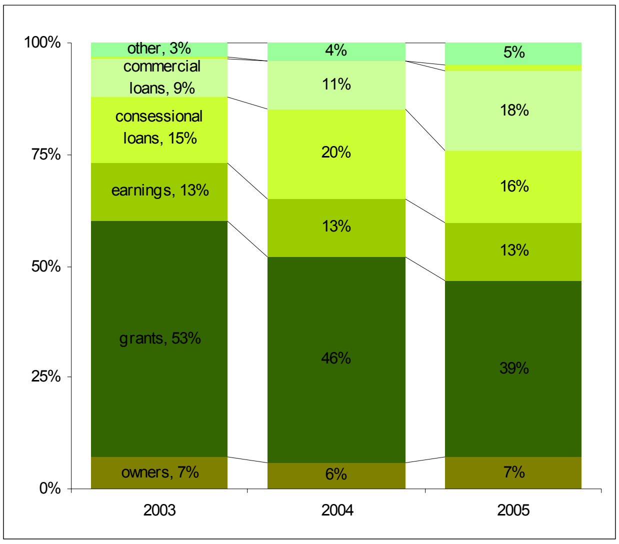
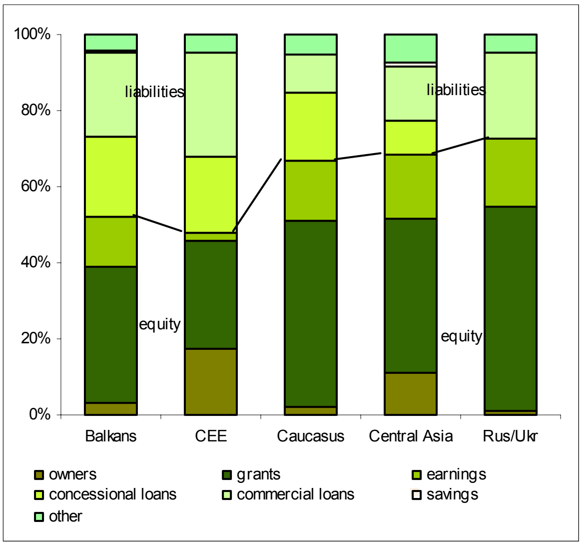


Figure 13: Average funding sources of NGOs/NBFIs by sub-region



Equity

Among equity items – owner's equity, grants, retained earnings – grants are the major source of funds, especially among small MFIs. Grants are an important source of funding in the early stages of MFI existence, when it is important to build the equity base. As the MFI grows it starts using other sources which often come in the form of concessional loans rather than equity donations.

Table 7: NGOs/NBFIs - differences in funding structure by loan portfolio size

Gross loan portfolio	avg. capital/asset ratio	avg. grants/asset ratio	avg. debt/equity ratio
<US$2M	74%	59%	0.52
US$2-5M	62%	42%	1.17
US$5-10M	54%	33%	1.42
>US$10M	36%	15%	2.32
ECA average	**60%**	**39%**	**1.26**

Owner's equity is already utilized by 40 percent of the MFIs, which are registered as limited liability companies or other commercial entities, although the number of them is growing slowly (10 percent more MFIs compared to previous year). A majority of the users decreased the share of owner's equity which indicates that it is more of founding capital than an account through which owners invest in their companies. Those MFIs that increased owners' equity were mainly membership-owned institutions that through the increase of client base sold new membership shares.

Retained earnings are used in a funding base by almost all MFIs, but especially those very productive and with higher use of commercial debt. These are the MFIs that have to post steady profitability in order to increase their credit worthiness to the commercial lenders.

Although the use of reinvested earnings is quite high, it has stayed on the same level for the last 3 years. Only half of the institutions increased the earnings share in a total funding base.

Liabilities

The use of borrowed funds, although still quite low is increasing. As larger and older institutions have better access to debt financing the overall industry growth contributes to the increase of the average debt to equity ratio.

Half of all NGOs/NBFIs already use commercial funding. Those MFIs that use commercial funds, in most cases stopped using concessional sources. This indicates that for large and mature MFIs commercial sources have become the most important source of funding. Interestingly, some of them still receive grants (although in small amounts) to fund the loan portfolio for special target groups.

Figure 14: NGOs/NBFIs - Correlation between the capital/asset ratio and commercial funding/assets ratio

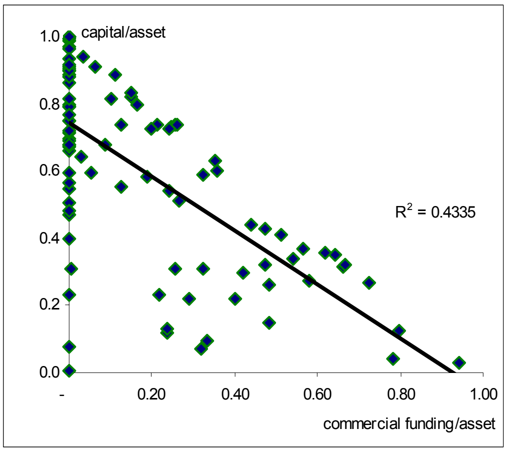
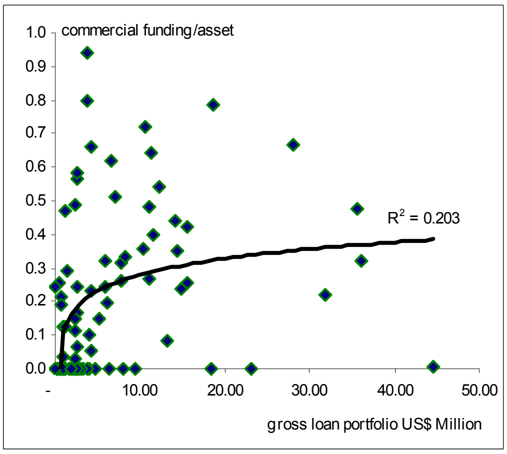


Figure 15: NGOs/NBFIs - Correlation between commercial funding/assets ratio and gross loan portfolio



Those NGOs/NBFIs which use commercial debt are older and larger and have more productive staff.

Table 8: Characteristics of NGOs/NBFIs using and not using commercial funding

Averages	NGOs/NBFIs using commercial funds	NGOs/NBFIs not using commercial funds
age	8 years	6 years
gross loan portfolio	US$ 9.1 million	US$2.7 million
number of borrowers	8,000	3,300
depth of outreach	92%	62%
staff productivity	97	73
capital/asset ratio	46%	75%
grants/asset ratio	26%	54%

Nearly 70 percent of NGOs/NBFIs increased the share of commercial funds. These were the institutions that decreased their operating expenses, in particular administrative expenses, by increasing productivity. Higher financial costs connected with debt servicing were absorbed by the institutions thanks to savings made on operating expenses.

In the sub-regions, the CEE and Balkan MFIs which host the biggest number of large MFIs showed the best leverage and the use of commercial funds (Figure 13).

The majority of commercial debt comes from international investment funds and is denominated in hard currency.

Among NGOs/NBFIs which borrow in foreign currency such liabilities constitute on average well over half of the total borrowings and over 30 percent of total assets creating significant risk that in case of currency devaluation they will not be able to meet their obligations or will incur significant losses. Out of possible risk mitigation techniques many MFIs pass the risk of foreign exchange fluctuations onto clients by indexing client loans to hard currencies. In rare cases MFIs use back-to-back loans with local banks.

Local currency lending is still limited to 24 NGOs/NBFIs (15 percent) which report having loans from local banks and which, on average fund over 20 percent of the assets of these MFIs. The leaders in this respect are Bosnian MFIs which receive loans from local banks, some of which realize their microfinance strategy by providing funds to MFIs for on-lending to microenterprises rather than providing direct services to the end clients.

Microfinance banks

Microfinance banks exhibit a totally different funding structure with high and increasing leverage through deposit collection.

The average debt to equity ratio reached 8.6 with the average growth rate of 70 percent. Banks that were larger were more leveraged as they financed their growth from borrowed funds, mainly client savings.

Figure 16: Average funding sources of microfinance banks

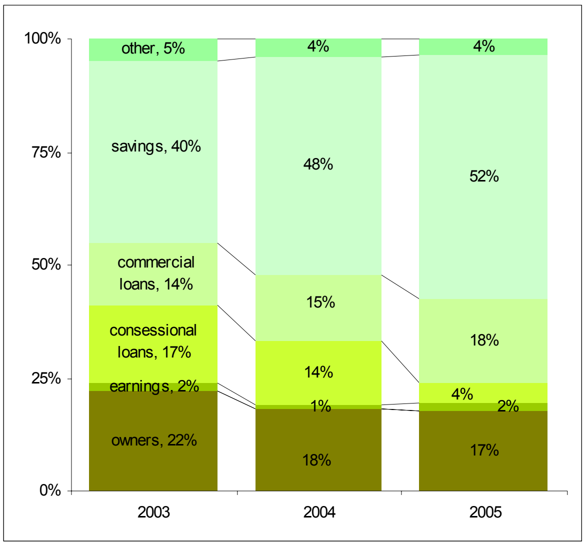


Table 9: Microfinance banks – differences in funding structure by loan portfolio size

Gross loan portfolio	avg. capital/asset ratio	avg. debt/equity ratio	avg. savings/assets
<US$10M	74%	0.4	20%
US$10-50M	22%	4.0	35%
US$50-150M	10%	9.4	60%
>US$150M	8%	13.4	64%
ECA average	**19%**	**8.6**	**52%**

Equity

The equity of microfinance banks funded on average 19 percent of the assets. The major equity item constituted owners' equity in the form of shares.

As will be seen in the next chapter, microfinance banks operate on a very thin profit margin therefore the share of earnings in funding assets is very small.

Liabilities

Client savings are the major funding source and their use grows with the growth of the institution. Other types of debt – concessional and commercial loans - played a much smaller part and their average level was even lower than for NGOs/NBFIs.

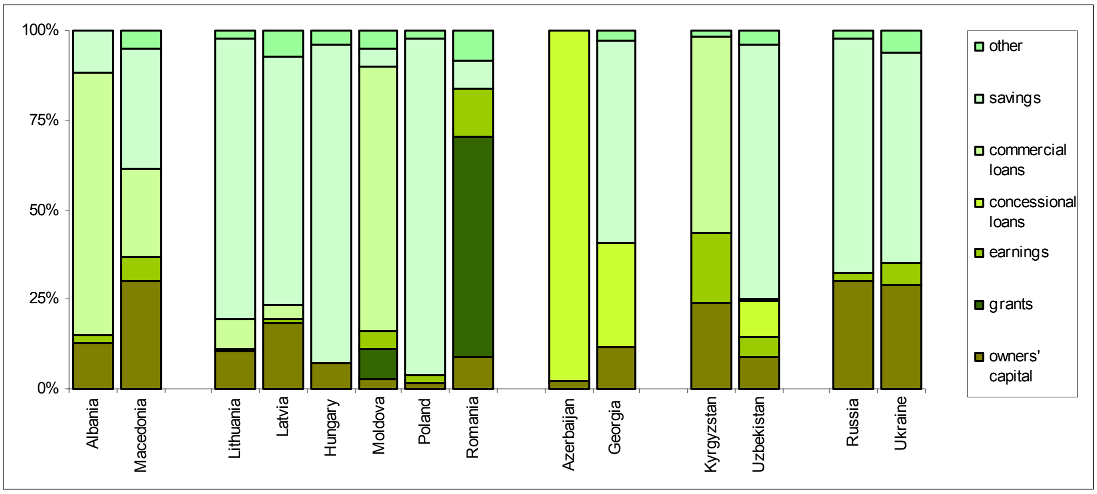
Credit Unions

Those credit unions that are able to collect client deposits use these as a primary source of funding for their lending activities. However, in each country the level of client savings used differs depending on the maturity of the institutions as well as on the country settings.

For instance, in several countries of Central and Eastern Europe such as Lithuania, Latvia and Poland as well as in Russia and Ukraine the savings level compared to total assets ranges from 60 to 94% while in Central Asia it is near zero, except for Uzbekistan where a significant TA effort was put towards saving mobilization of these newly emerged MFI type.

Additionally, credit unions resort to commercial sources of funds to supplement members' savings which are often provided by their networks or second-tier institutions whose role is to intermediate funds flow to credit unions.

Figure 17: Funding sources of credit unions



Financial Performance[2]

NGOs/NBFIs

Sustainability and Profitability

Similarly to the previous year NGOs/NBFIs showed better profitability and sustainability than microfinance banks.

Table 10: Average profitability of NGOs/NBFIs and microfinance banks

	Avg. Operational Self-sufficiency (OSS)	Avg. Adjusted Return on Assets (AROA)
NGOs/NBFIs	134%	1.3%
Microfinance banks	118%	0.2%

The majority of NGOs/NBFIs were operationally self-sustainable (88%) which indicates that recovery of operating costs is not a major issue in the ECA region. This is a result of the fact that the institutionist school of thought is followed whereby the MFIs aim at achieving the double bottom-line and see achieving self-sufficiency as a means of reaching scale and meeting social goals. Therefore, NGOs/NBFIs mostly set up sustainable interest rates, although the level of cost recovery depends very much on a country context.

Despite such good operational performance as seen above the adjusted profitability looks worse as only 60 percent of NGOs/NBFIs achieved positive adjusted return on assets.

It shows that while most institutions manage to earn sufficient revenues to cover their operational expenses, fewer are able to bear the full, market-based cost of external funding they attract and also account for the erosion of capital due to inflation and taxes.[3]

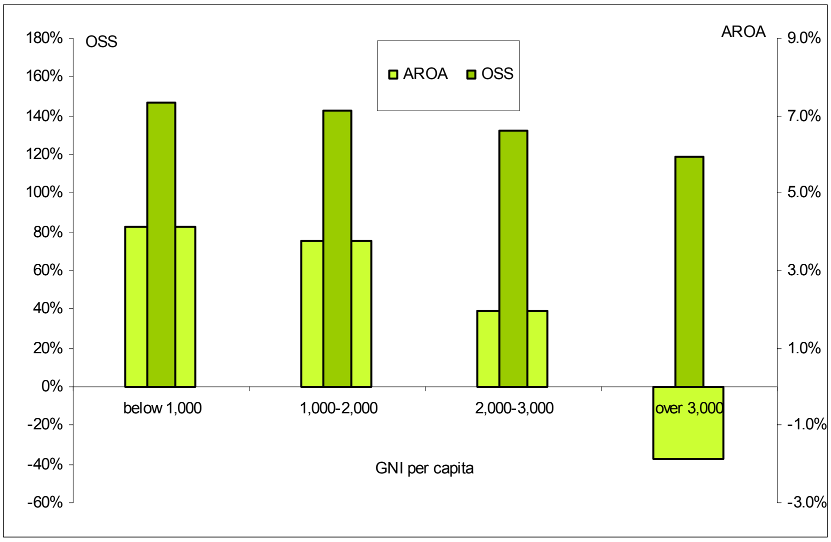
The economic, political and regulatory environment plays a paramount role in MFI performance.

In higher income countries sustainability and adjusted profitability were lower which shows that it is more difficult for MFIs in richer countries to generate excess revenues over expenses. In more advanced economies clients have more choices, as financial services markets are more competitive. MFIs struggle with earning revenues that will be high enough to cover both operational and financial costs. In lower income countries on the other hand clients are more inclined to pay the price for microfinance services as the other options available to them are even more expensive.

[2] The findings in this section are based on financial data from 101 institutions: 17 microfinance banks and 83 NGOs/NBFIs. For the purpose of comparative analysis their statements have been adjusted as recommended by the SEEP Network Financial Services Working Group in 'Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring', USAID, 2005

[3] The formula for OSS includes operating (personnel and admin), provisioning and financial costs while AROA formula adds the cost of adjustments for inflation, cost of borrowings, in-kind subsidies, provisioning as well as the taxes paid.

Figure 18: Profitability of NGOs/NBFIs by country's level of income (GNI per capita)



Similar conclusions are obtained from the analysis of the other factors on the macro level. Lack of country's political freedom[4] brings about the same effect on MFI sustainability and profitability as the country's per capita income.

Neither sustainability nor adjusted profitability were affected directly by financial sector depth.

Table 11: NGOs/NBFIs - influence of political context on performance

Political Rights Index	AROA	OSS
1 – most free	-2.5%	103.0%
2	-0.74%	117.4%
3	-0.87%	127.0%
4	4.44%	137.1%
5	6.22%	153.7%
6	1.06%	141.3%
7 - least free	15.29%	171.6%

What were the differences between those that reached sustainability and those that did not?

It was found that those NGOs/NBFIs that have not reached operational self-sufficiency, had higher expenses, in particular administrative expenses and were not as able to effectively manage the loan repayments since they had far more overdue loans in their portfolios compared to their sustainable counterparts.

[4] Freedom House index of political rights ranks the countries from 1 – most free to 7 – least free (see Annex II for more info)

Table 12: Differences between operationally sustainable and unsustainable NGOs/NBFIs

Averages	OSS <100%	OSS >100%
N	10	73
Total expense ratio	35.7%	25.9%
Admin expense ratio	11.1%	7.7%
Loan loss provision expense	4.5%	1.2%
PAR>30 days	3.9%	1.5%

Differences in adjusted profitability were seen between MFIs in countries of different inflationary pressure.

The adjustment in particular affected equity-funded MFIs in high-inflation countries. The results below show that when adjusted for the loss of value of equity due to the increase in price levels, many MFIs post negative profitability (AROA below 0) which was in particular visible in countries where inflation exceeds 5%[5].

Figure 19: Profitability of NGOs/NBFIs by country's inflation level

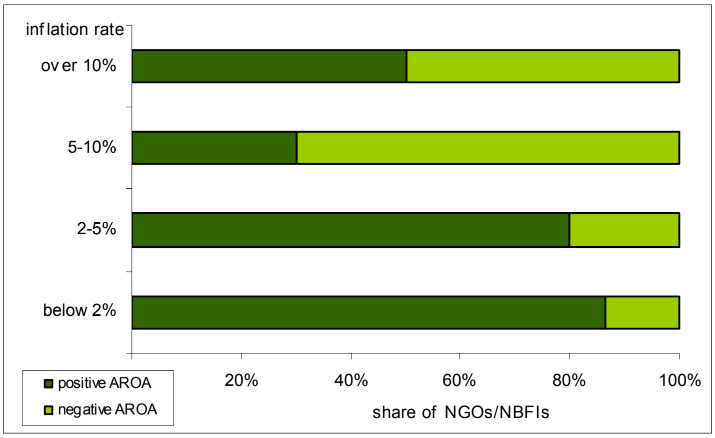


Table 13: Average profitability of NGOs/NBFIs by sub-region

	Adjusted Return on Assets (AROA)
Balkans	2.8%
CEE	-3.1%
Caucasus	3.7%
Central Asia	3.0%
Russia/Ukraine	-1.2%
ECA average	**1.3%**

What were the factors in high-inflation countries (over 5%) that allowed some MFIs to be profitable?

Table 14: Characteristics of profitable and unprofitable MFIs in high-inflation countries

Averages	MFIs with positive AROA	MFIs with negative AROA
N	13	22
depth of outreach	36%	100%
women clients	62%	43%
rural borrowers	33%	69%
financial revenue ratio	43%	26%
nominal yield	50%	33%
real yield	37%	21%
cost per borrower	$168	$544
staff productivity	95	53

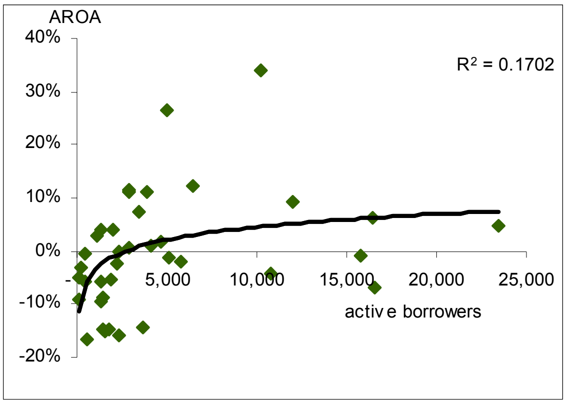
[5] Country classification by inflation rates (source: 2005 IMF statistics):
below 2%: Armenia, Kosovo, Macedonia, Montenegro
between 2: and 5%: Albania, Bosnia and Herzegovina, Croatia, Kyrgyzstan, Poland, Tajikistan
between 5% and 10%: Azerbaijan, Bulgaria, Kazakhstan, Romania, Uzbekistan
over 10%: Georgia, Moldova, Mongolia, Russia, Serbia, Ukraine

Profitable MFIs in high-inflation countries were serving the lower segment of urban women. This is a market for very short-term, working capital loans for trade and services with higher interest rate than long-term investment loans. Additionally, the solidarity group methodology allows MFI staff to be almost twice as productive and serve almost twice as many clients while bearing the same operating cost.

Interestingly, profitable and unprofitable MFIs in these countries did not differ in the cost structures.

Although no difference was seen between the average outreach of profitable and unprofitable MFIs, the other evidence suggests that most MFIs with fewer than 3,000 active borrowers were unprofitable.

Figure 20: NGOs/NBFIs correlation between profitability and scale of outreach in high-inflation countries



Differences between profitable and unprofitable MFIs in low-inflation countries were less visible as there were only a handful of them scattered around the region and no common characteristics were found for them.

Throughout the year, half of the MFIs improved their OSS while only one third improved AROA. Among those which improved the OSS were smaller MFIs, with deeper outreach, less efficient but the ones which improved productivity.

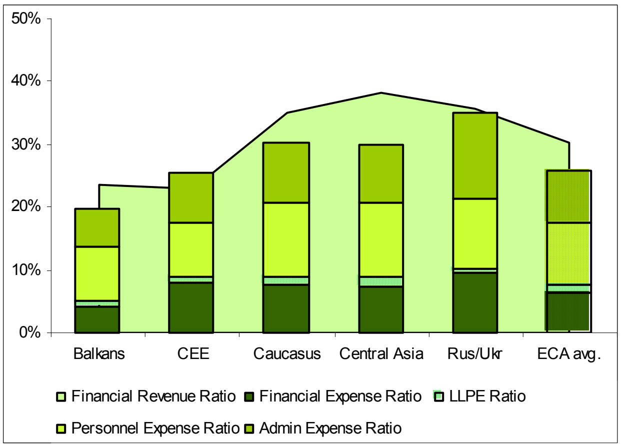
Among AROA improvers there were more often MFIs with deeper outreach. The average depth of outreach of an AROA improver equaled 51% compared to 87% for those which AROA worsened.

Expenses

The level of total expenses depends on two types of factors – macro (environmental) conditions as well as institutional characteristics.

The economic conditions quite strongly influenced the expense level which is seen in differing averages for different sub-regions. Among them the level of financial sector development[6] had an impact on almost all cost categories (Table 16). This indicates how important it is to take into account county economic setting while analyzing the MFI performance.

Figure 21: NGOs/NBFIs – average revenue and expense structure by sub-region



[6] As the indicator of financial development and monetary policy the ratio of total liquid liabilities M3 to GDP is used taken from IMF 2005 statistics. (see Annex II). Countries were divided into two sub-groups of high financial sector development (Balkans, CEE except Romania, Rus/Ukr) and low financial sector development (Caucasus, Central Asia).
Countries with M3 to GDP over 30% include: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, Bulgaria, Poland, Moldova, Russia, and Ukraine.
Countries with M3 to GDP below 30% include: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Romania, Tajikistan.

Table 15: NGOs/NBFIs – average expense level by county's financial sector development

	countries with low financial sector development[7]	countries with high financial sector development	**ECA average**
total expense ratio	31.4%	23.0%	**27.1%**
financial expense ratio	7.6%	5.6%	**6.5%**
operating expense ratio	22.4%	16.1%	**19.2%**
personnel expense ratio	12.4%	8.5%	**10.0%**
admin expense ratio	10.0%	7.6%	**8.0%**

The institutional factors played secondary role. Although MFIs generally had different cost structures depending on the size, target market and methodology, only the target market (measured by depth of outreach and women borrowers) influenced the total expense ratio regardless of the economic factors. Larger MFIs were able to be more cost-effective and have leaner cost structure but the differences between small and large MFIs within the same sub-region were not observed.

Financial expenses make a significant share of expenses among MFIs which use debt to finance the operations in countries with high deposit interest rates or among those that are equity funded in high-inflation countries[8]. Here, financial expenses can add up to more than half of the total expenses.

The average unadjusted cost of borrowed funds in the region equaled 6% and was the highest in CEE countries and Russia and Ukraine where local currency borrowings were more prevalent (up to 21%).

Financial expenses grew higher in more than half of the MFIs, mostly in the Balkans, where there was the largest number of MFIs which increased the use of commercial funds. This is likely to increase further in the coming years as the use of borrowed funds becomes higher.

In other countries where there are restrictions on foreign capital inflow and more control over financial sector the cost of funding for the MFIs was higher[9].

Table 16: NGOs/NBFIs – average unadjusted cost of borrowings by sub-region

	Unadjusted cost of borrowings
Balkans	4.5%
CEE	9.3%
Caucasus	5.9%
Central Asia	6.6%
Russia/Ukraine	9.2%
ECA average	**6.2%**

[7] ibidem

[8] Financial expense ratio is adjusted for the local cost of funds using deposit rate (IMF statistics) and the loss of value of capital using inflation rate (World Bank statistics)

[9] Economic Freedom Index (Heritage Foundation www.heritage.org/index), component #5 (Capital Flows and Foreign Investment) was correlating with financial expense ratio. The higher the barriers to capital flows the higher financial expenses incurred by MFIs were.

Figure 22: NGOs/NBFIs – personnel expense ratio by depth of outreach

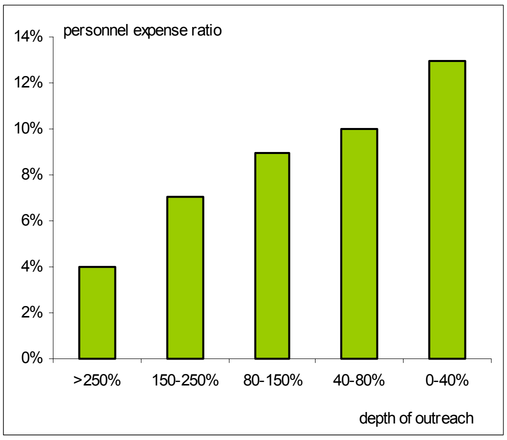
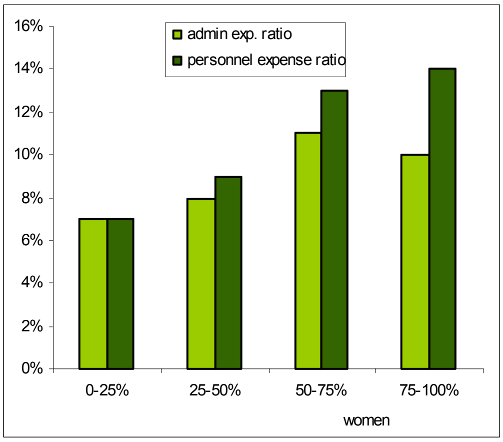


Figure 23: NGOs/NBFIs – administrative and personnel expense by share of women borrowers



In most cases operating expenses constitute the biggest share of cost. Both personnel and admin expenses were greatly correlated with each other as they were both influenced by economic factors, mostly by fiscal burden, monetary policy (inflation) and corruption[10] as well as financial sector depth. In all cases lower development and lack of economic freedom contributed to higher operating expenses. Only administrative expenses benefited from low privatization as the cost of property rent was lower in those countries which did not execute property rights.

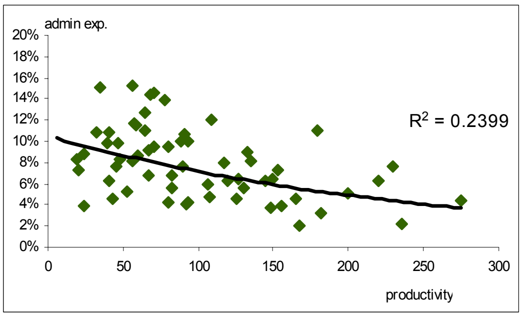
Apart form the economic conditions, personnel expense was influenced by the depth of outreach and the share of women among borrowers.

Administrative expenses were also affected by the share of women among clients.

Additionally, in countries of well developed financial sector staff productivity influenced admin costs - more productive MFIs were able to keep admin expenses at a low level.

Compared to last year, 60 percent of NGOs/NBFIs decreased their operating expenses which in more than half of the cases led to improved self-sufficiency, even though it was also coupled with the decrease of financial revenues.

Figure 24: NGOs/NBFIs – correlation between administrative expense ratio and staff productivity in countries with more developed financial sector



[10] ibidem

Revenues - portfolio yields

Financial revenues of an MFI chiefly rely on yields on the loan portfolio which is the largest revenue-generating asset.

Portfolio yields primarily depend on the cost levels involved in running the operations, in particular on operating efficiency that is the cost of managing the loan portfolio, which, as seen earlier, is greatly influenced by economic conditions in the country. As the expenses were higher in countries with lower financial sector development portfolio yields were higher there too. In most advanced countries, with high financial sector development like Albania, Bosnia and Herzegovina, Croatia, where competition from mainstream commercial banks is stronger, the yields averaged 27% compared to 46% in Central Asian republics and in the Caucasus.

Figure 25: NGOs/NBFIs – correlation between nominal portfolio yield and operating efficiency

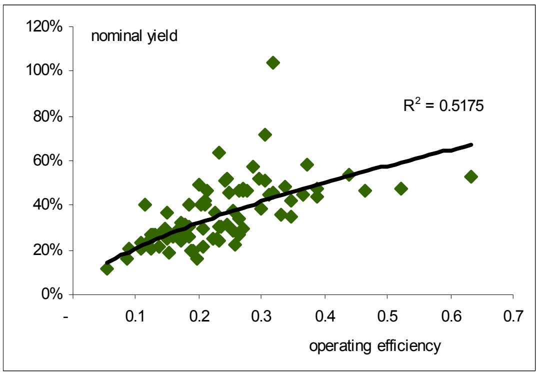


Figure 26: NGOs/NBFIs – average nominal portfolio yield by country's financial depth (M3/GDP)[11]

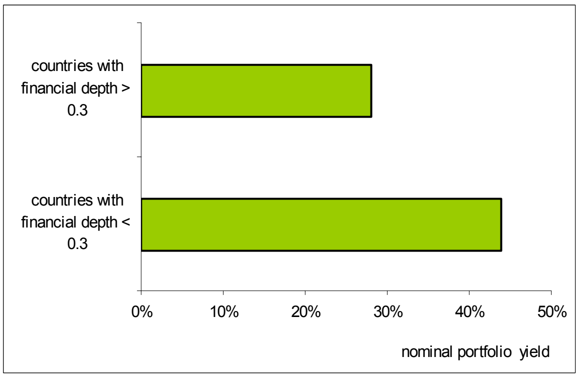


Table 17: NGOs/NBFIs – average nominal portfolio yield by sub-region

	2005 Nominal Portfolio Yield	Avg. 04/05 Change	Share of MFIs with Decreased Yield
Balkans	26%	-3.2%	75%
CEE	30%	16.65%	40%
Caucasus	41%	-2.3%	56%
Central Asia	47%	0.3%	53%
Russia/Ukraine	45%	-6.8%	75%
ECA average	**36%**	**6.0%**	**61%**

Among MFIs operating in similar environment, the other factors influencing yields were the same as those influencing expenses, including the depth of outreach, number of women borrowers and staff productivity.

During 2005 two-thirds of the NGOs/NBFIs decreased portfolio yields which was possible in most cases through the decrease of operating expenses. Even though in half of the cases MFIs lowered the interest rates by more than their cost reduction allowed them to and in consequence operational self-sufficiency deteriorated it still stayed above 100 percent and AROA remained positive. Decreasing portfolio yields allowed those MFIs to offer more competitive products and attract more clients.

[11] As the indicator of financial development and monetary policy the ratio of total liquid liabilities M3 to GDP is used taken from IMF 2005 statistics. (see Annex II). Countries were divided into two sub-groups of high financial sector development (Balkans, CEE except Romania, Rus/Ukr) and low financial sector development (Caucasus, Central Asia).
Countries with M3 to GDP over 30% include: Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia, Bulgaria, Poland, Moldova, Russia, and Ukraine.
Countries with M3 to GDP below 30% include: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Romania, Tajikistan.

Productivity

Productivity of NGOs and NBFIs depends most of all on the size of the operations in terms of number of borrowers. Larger MFIs were more productive as they were generally more experienced and their personnel were able to handle higher caseloads. Additionally, the type of clients that the MFI served had an impact on the productivity as different client segments are served using different methodology: smaller loans are normally disbursed via a group lending methodology and therefore more clients can be managed by one loan officer.

Figure 27: NGOs/NBFIs – correlation between scale of outreach and staff productivity

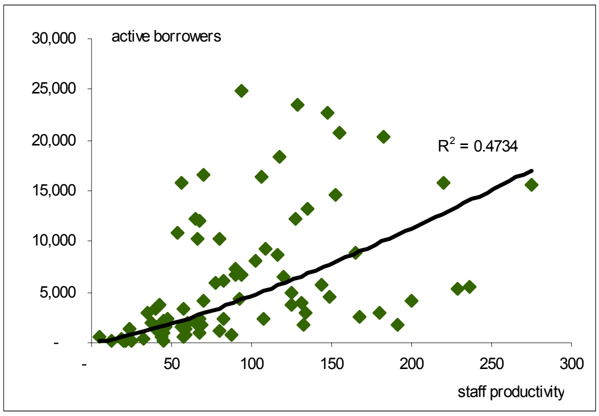
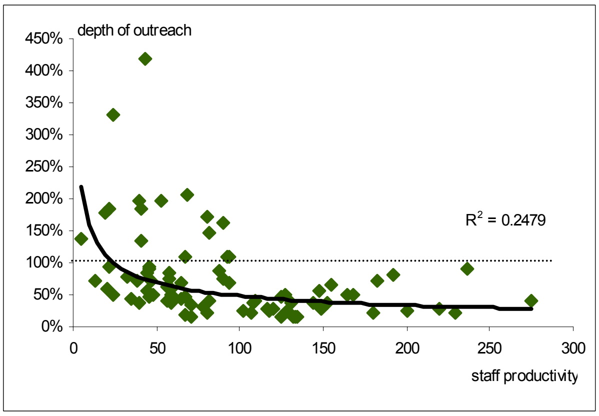


Figure 28: NGOs/NBFIs - correlation between depth of outreach and staff productivity



Productivity levels were different for MFIs operating in different economic contexts. In countries with a more developed financial sector and with less restrictive law MFIs were on average more productive than their counterparts in more inhibited ones. The reason for that lies in the fact that in countries with a less developed financial sector microfinance institutions tend to provide lending services to a wider spectrum of entrepreneurs, including small businesses, which use collateral-guaranteed individual loans.

Sixty percent of the NGOs/NBFIs increased their productivity. The biggest increase in staff productivity was observed among the youngest MFIs. Institutions that increased productivity also increased self-sufficiency.

However, the MFIs which increased productivity during the year did not report a decrease in expenses more frequently than those with lower productivity.

Microfinance banks

Profitability

In 2005 the average profitability of microfinance banks remained unchanged from the previous year. Although all microfinance banks were operationally self-sustainable, half of the banks noted negative adjusted return on assets of up to 6 percent. Most banks recorded the drop of AROA, on average by more than 50 per cent, even though their operational self-sufficiency improved.

The OSS was higher for microfinance banks with more productive personnel. Environmental factors such as the level of country income or political freedom did not affect the sustainability levels as almost all banks operated in similar settings.

Figure 29: Microfinance banks – correlation between operational self-sufficiency and staff productivity

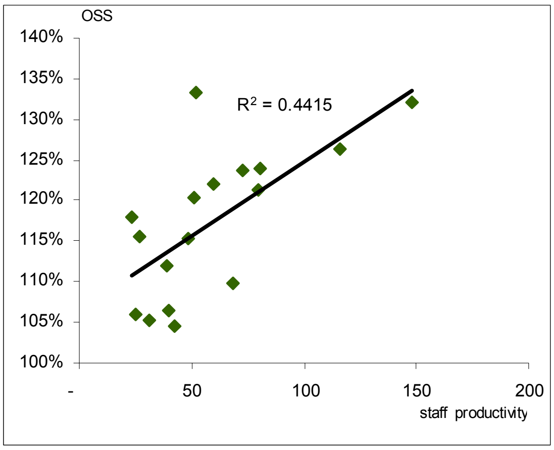
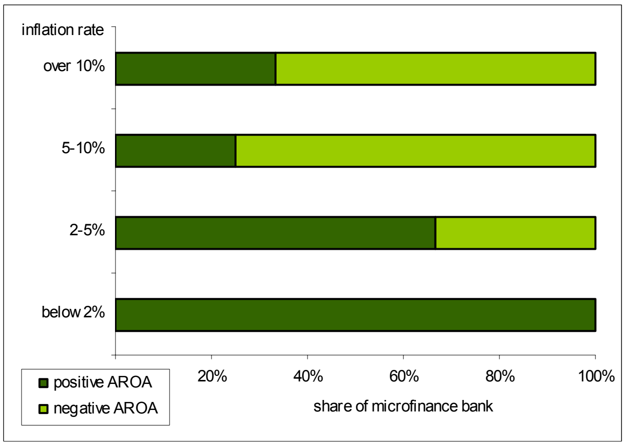
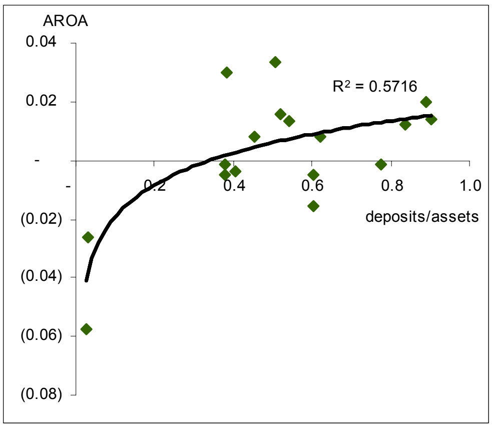


Figure 30: Profitability of microfinance banks by country's inflation level



The same impact of inflation on AROA was observed among microfinance banks as it was seen on the example of NGOs/NBFIs. In high inflation countries profitability after the adjustments was in most cases negative as banks did not account for the effect of inflation on their capital even though this effect is much smaller, due to high leverage of banks.

Figure 31: Microfinance banks – correlation between financial intermediation level and profitability



Profitable banks in high inflation countries were almost twice as productive and operated on a higher profit margin.

The other factors that influenced AROA included operating expenses and the use of borrowed funds – loans and client deposits. Microfinance banks that were engaged in higher financial intermediation were able to score higher returns.

Expenses

The largest cost item for microfinance banks, unlike for NGOs/NBFIs was the financial expenses which include the adjusted cost of leverage though borrowings and client deposits as well as the inflation adjustment of the real value of equity.

The nominal interest rate paid on deposits averaged 4.3 percent and was lower from the interest rate paid on borrowed funds (5.6 percent), confirming that client deposits are a cheaper funding source than loans. Because of the fact that the majority of microfinance banks are highly leveraged the adjustment of equity value for the effect of inflation was much lower than in case of mainly equity-funded NGOs/NBFIs.

Operating expenses on average reached only half of those observed among non-bank MFIs.

Personnel expense in microfinance banks ranged between 1.5 and 9 percent but no particular factors were found which influenced it. Almost all banks lowered their personnel expense. Administrative expenses were lower where banks were more productive. During the year almost all of the banks decreased the administrative costs but only half of them did so through the improvement in staff productivity.

Figure 32: Microfinance banks - average revenue and expense structure by sub-region

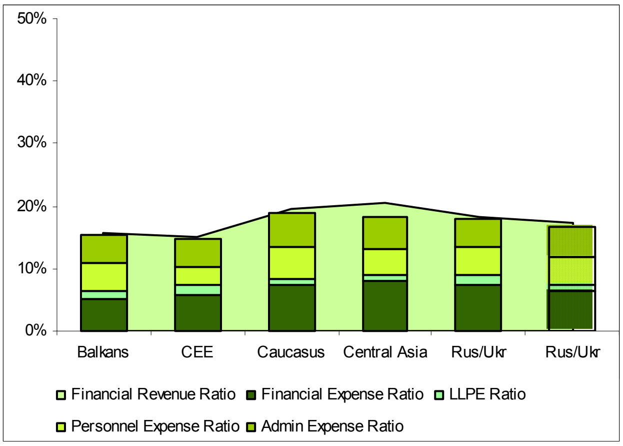
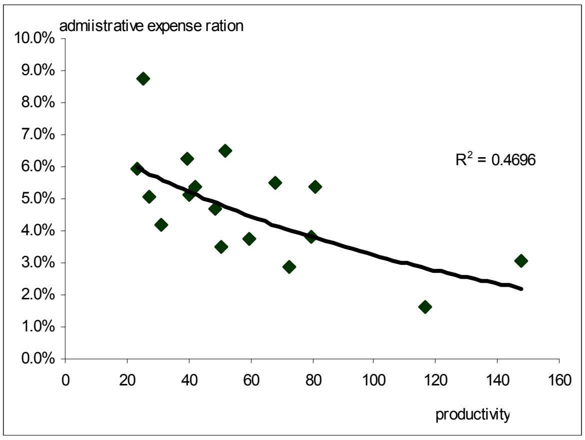


Figure 33: Microfinance banks – correlation between administrative expense ratio and staff productivity



Revenues

Revenues of microfinance banks depended very strongly on the expense levels and the factors that shaped these expenses, including inflation and deposit rates affecting financial expense, productivity that influenced administrative expense as well as personnel allocation ratio which had impact on productivity.

Microfinance banks followed the same trend of decreasing interest rates as NGOs/NBFIs with two-third of the banks lowering their portfolio yield.

Figure 34: Microfinance banks – correlation between nominal portfolio yield and operating efficiency

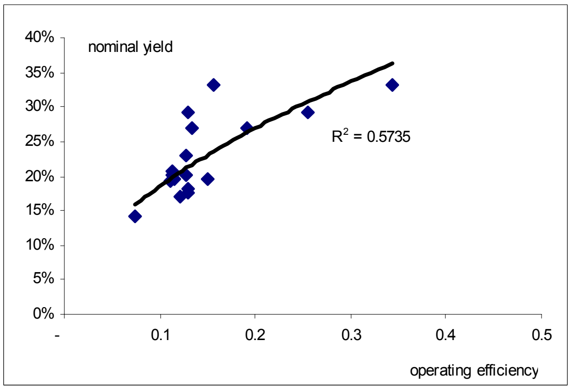


Table 18: Microfinance banks – average nominal portfolio yield by sub-region

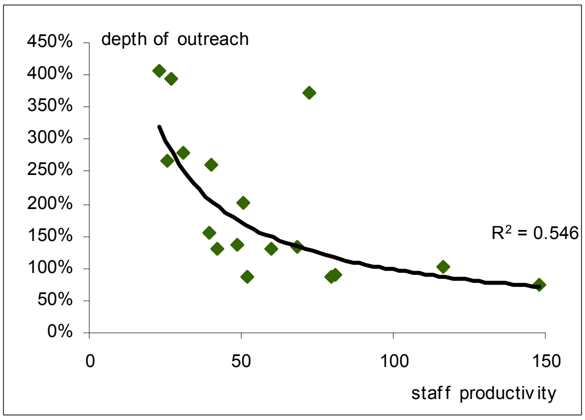
	2005 Nominal Portfolio Yield	Avg. 04/05 Change	Share of MFIs with Decreased Yield
Balkans	21%	2.2%	43%
CEE	19%	1.3%	50%
Caucasus	22%	2.7%	66%
Central Asia	32%	-15.7%	100%
Russia/Ukraine	20%	-10.9%	100%
ECA average	**23%**	**-1.7%**	**63%**

Productivity

In case of microfinance banks the target market influenced the productivity as banks providing smaller loans had more productive staff. Another interesting aspect of banks' productivity was the fact that higher productivity translated into higher OSS and AROA thanks to lower administrative expenses.

During 2005 microfinance banks that improved productivity managed to decrease interest rates but no changes were observed in profitability. These were the banks that already had positive profitability.

Figure 35: Microfinance banks - correlation between depth of outreach and staff productivity



Credit unions[12]

As seen in the earlier paragraphs, credit unions are very diverse in terms of their origins, types of clients serves, funding structures as well as financial performance. It was found that 80% of credit unions were sustainable and the majority of them had also positive returns on assets after the adjustments. Credit unions of CEE and Russia operated on a thin profit margin as compared to the other countries, like Kyrgyzstan where the institutions were much more profitable, even compared to other institutional types.

Table 19: Sustainability and Profitability of Credit Unions

		OSS	AROA
Balkans	Macedonia	120%	2.75%
CEE	Latvia	116%	0.1%
	Lithuania	110%	0.4%
	Poland	102%	0.4%
Central Asia	Kyrgyzstan	159%	8.3%
Russia/Ukraine	Russia	108%	1.1%

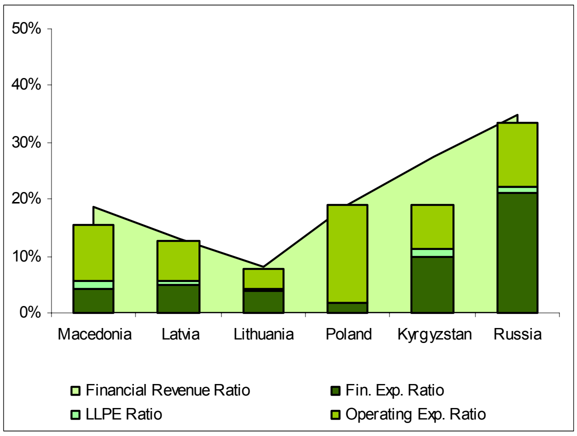
Revenues and Expenses

Revenue and expense structures of credit unions are highly diverse across the region, however, they are generally lower than those of NGOs/NBFIs in respective sub-regions.

Russian credit unions well exceeded the other countries because of high costs of local commercial funding.

Typically for their sub-regions, revenues of credit unions in Macedonia (Balkans) and Kyrgyzstan (Central Asia) well exceeded the expenses.

Figure 36: Credit unions - revenue and expense structure by sub-region



12 Data from many credit unions were not available, so we based our analysis on the examples of credit union movements in Macedonia, Latvia, Lithuania, Poland, Kyrgyzstan, Russia. While data from Latvia, Lithuania, Poland and Macedonia were available from all known credit unions, the sample from Kyrgyzstan and Russia is far from representative (7 CUs from Kyrgyzstan and 4 CUs from Russia). However, the sample gives at least some indication of the revenue and expense levels in these countries).
For the sake of the analysis those credit unions that do not collect member savings were included in the group of NGOs/NBFIs because of the similarities in the mode of operations.

Portfolio Quality

Owing to a very strict delinquency management, microfinance institutions of all types of institutions in ECA exhibit very high portfolio quality.

For NGOs/NBFIs an average portfolio at risk over 30 days does not exceed 2.5 percent but it has slightly increased compared to the previous year. The highest default rates were observed in CEE where for a number of MFIs delinquent loans took 10 percent of the loan portoflio. Surprisingly, CEE MFIs were also the ones with the lowest provisions, with levels below the value of the risk portfolio. For others, loan loss allowances well exceeded the value of portfolio at risk, in an extreme case 99 times. The high loan loss allowances are often explained by the regulations which require the MFIs to create provisions on a healthy portfolio.

Microfinance banks have much lower delinquency rates. Although they work mostly with individual clients who provide immovable collateral for their loans, the average provisioning level of the banks is comparable to that of NGOs/NBFIs which predominantly use social collateral.

Table 20: Average portfolio at risk and risk coverage by institutional type and sub-region

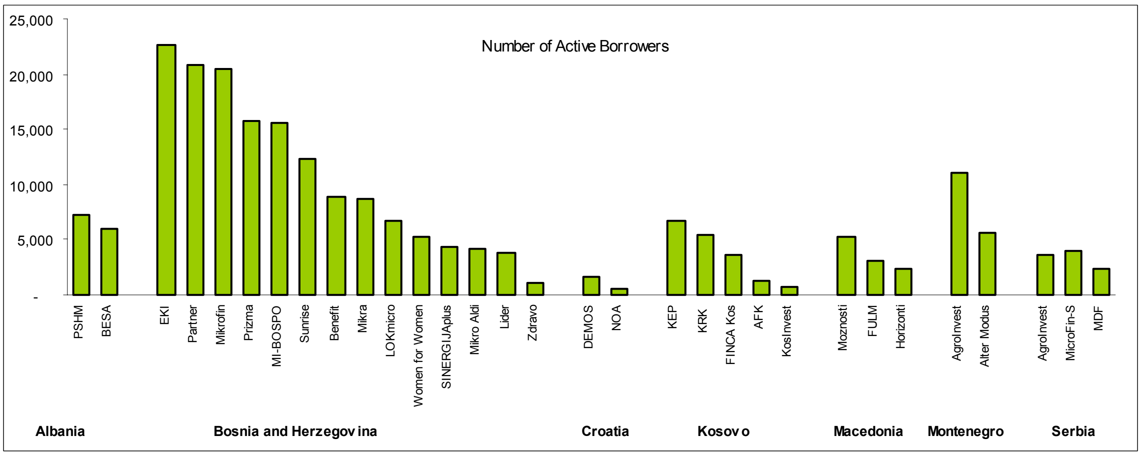
	NGOs/NBFIs		Microfinance banks	
	PAR>30 days	Risk coverage ratio	PAR>30 days	Risk coverage ratio
Balkans	1.6%	6.94	0.9%	4.01
CEE	4.8%	0.95	0.8%	3.60
Caucasus	2.0%	1.17	1.6%	1.86
Central Asia	1.4%	2.78	0.3%	0.35
Russia/Ukraine	1.0%	2.03	0.9%	3.50
ECA average	**2.0%**	**3.76**	**0.9%**	**3.26**

Annex I - Sub-Regional Outlook on NGOs/NBFIs

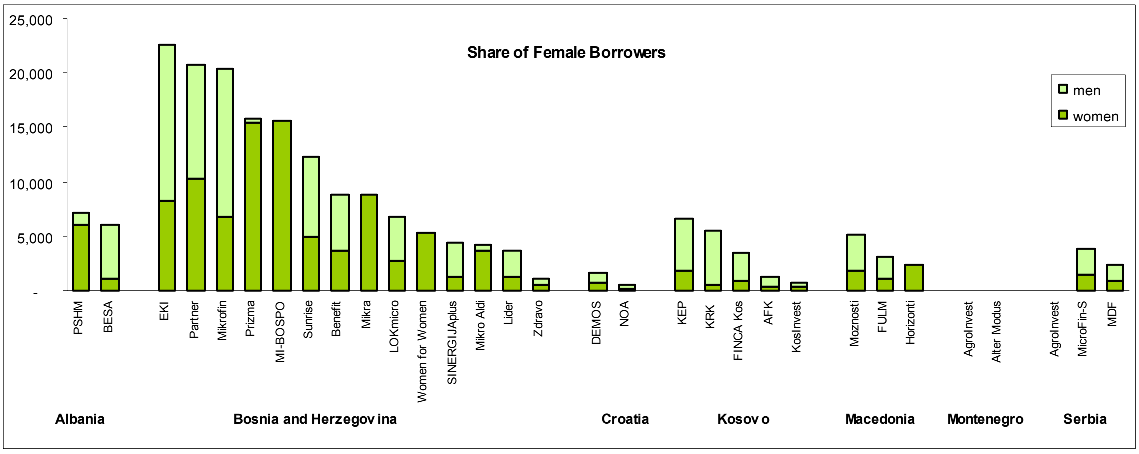
This section presents financial information only for the MFIs that publicly disclose their information (MFI own web site, printed publications, MIX Market). Financial information has been adjusted for the effect of inflation, subsidies and portfolio provisioning according to international standards as per "Measuring Performance of Microfinance Institutions; A Framework for Reporting, Analysis and Monitoring", AMAP, Sept. 2005

2005 Balkan Outlook

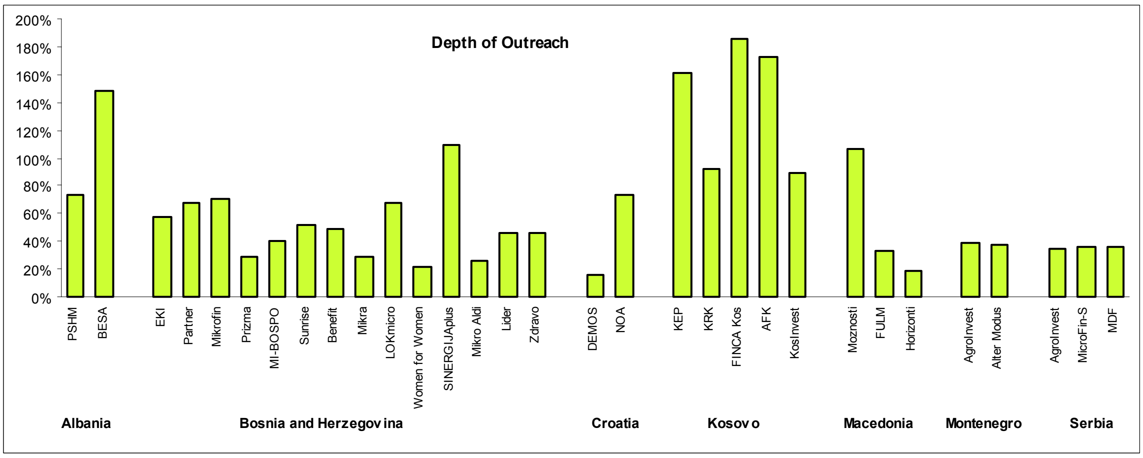
Active Borrowers



Women Borrowers



Depth of Outreach

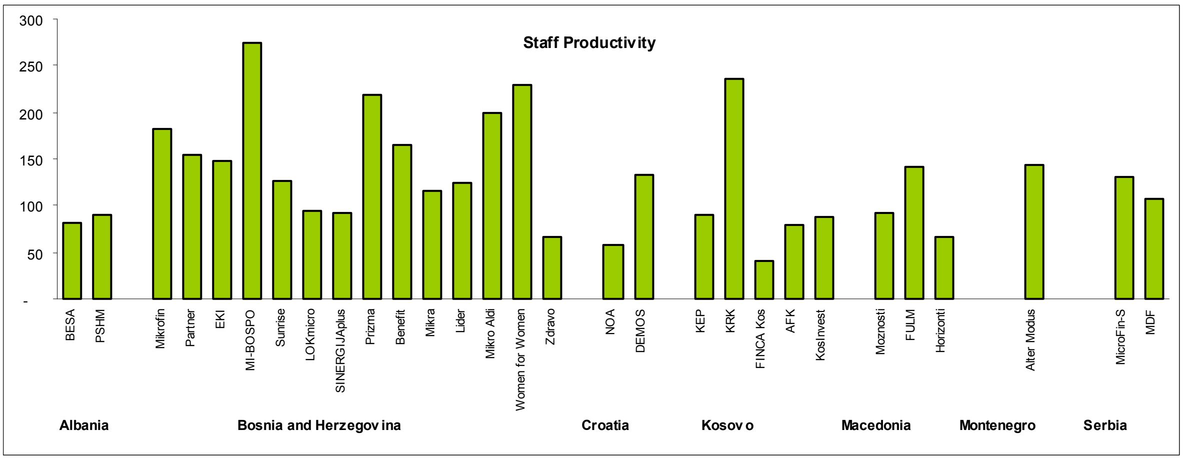


2005	Bosnia and Herzegovina	Croatia	Macedonia	Serbia
Moody's foreign currency rating – LT	Ba3 stable	A1 stable	-	-
Moody's foreign currency rating – LT	NP	P-1	-	-
Fitch foreign currency rating – LT	-	BBB-	BB positive	BB- stable
Fitch local currency LT	-	BBB+	BB positive	BB- stable

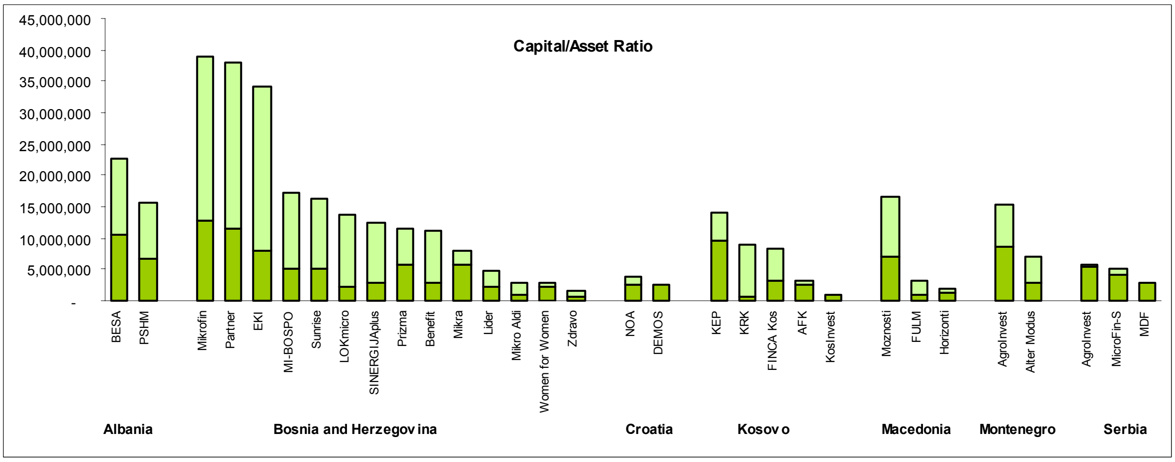
2005	Albania	Bosnia and Herzegovina	Croatia	Kosovo[2]	Macedonia	Montenegro[3]	Serbia
population (million)	3.1	3.9	4.4	1.9	2.0	0.6	7.5
GDP (USD Bn)	8.4	9.4	38.5	2.5	5.8	1.9	
GDP growth (%)	5.5	5.3	4.3	-0.2	4	4.1	
GNI per capita (US$)	2,580	2,440	8,300	1,227	2,830		3,280
inflation rate (%)	2.4	1.8	3.3	-3.0	0.5		
deposit rate[1] (%)	5.09	3.56	1.71	3.1	6.6		
financial sector development (M3/GDP)[4] (%)	69.23	58.16	73.00[5]	49.00	40.00[5]	73.00	35.02

Sources: World Bank At a Glance tables, 1. IMF, 2. Central Banking Authority of Kosovo, 3. Central Bank of Montenegro 4. IMF 2005 data, 5. Country's central bank

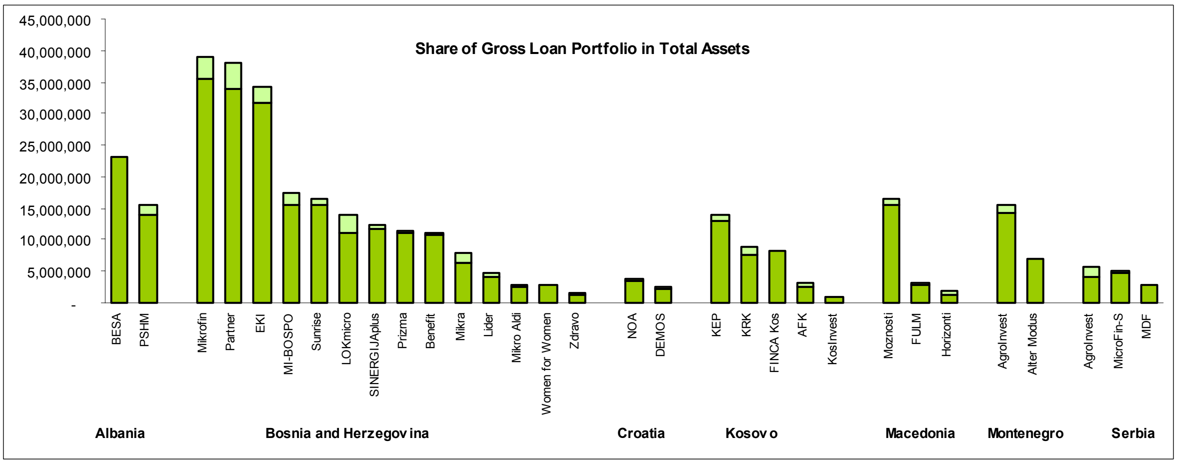
Productivity



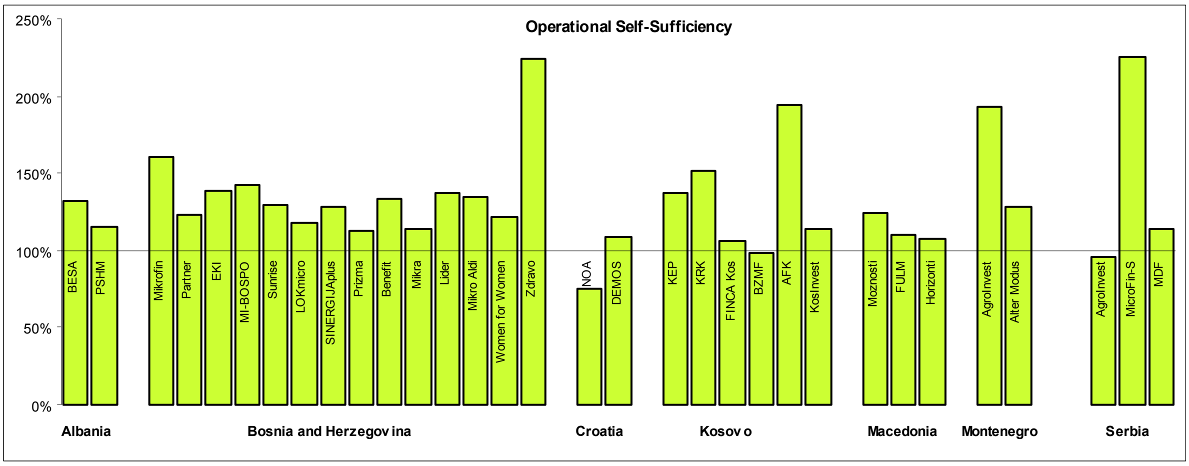
Capital/Asset Ratio



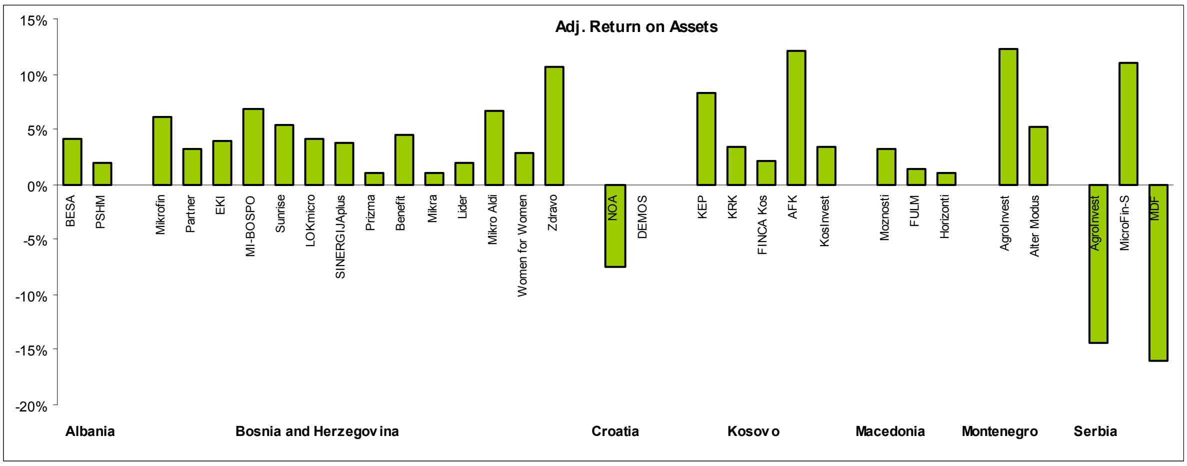
Gross Loan Portfolio/Total Asset Ratio



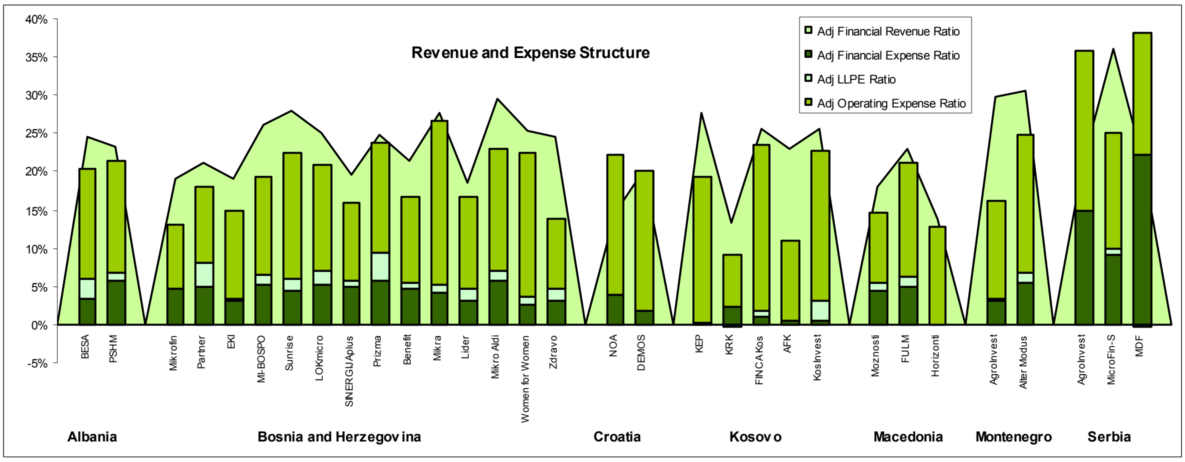
OSS



AROA



Revenue and Expense Ratios



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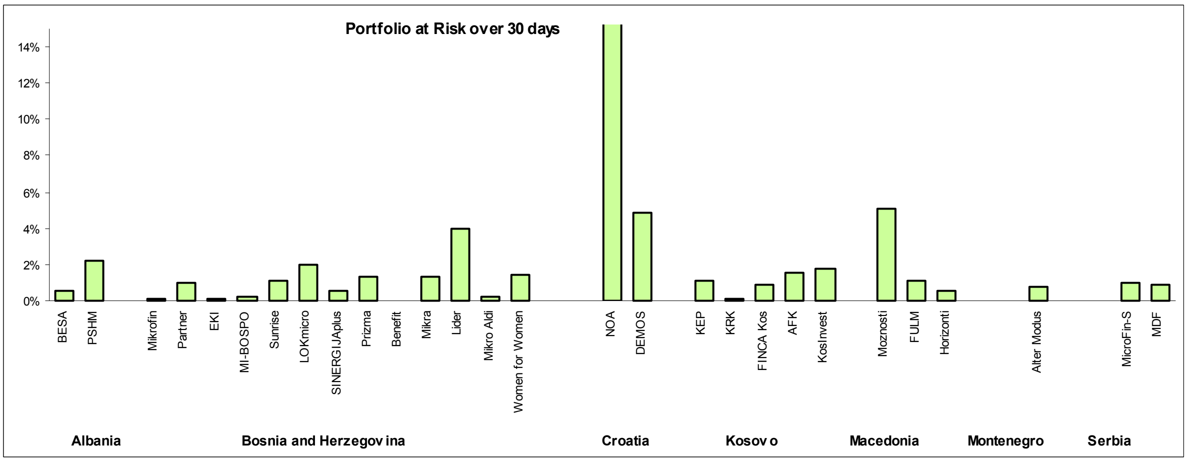
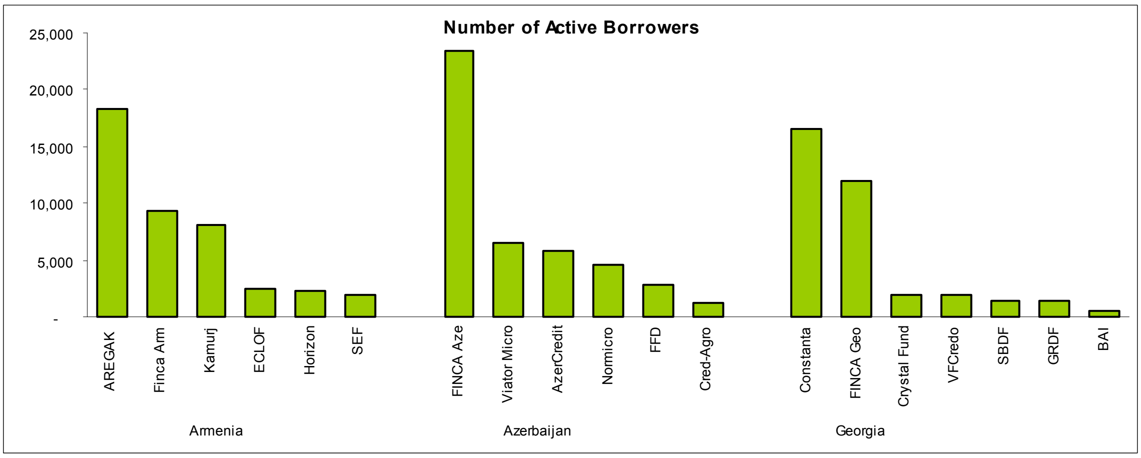
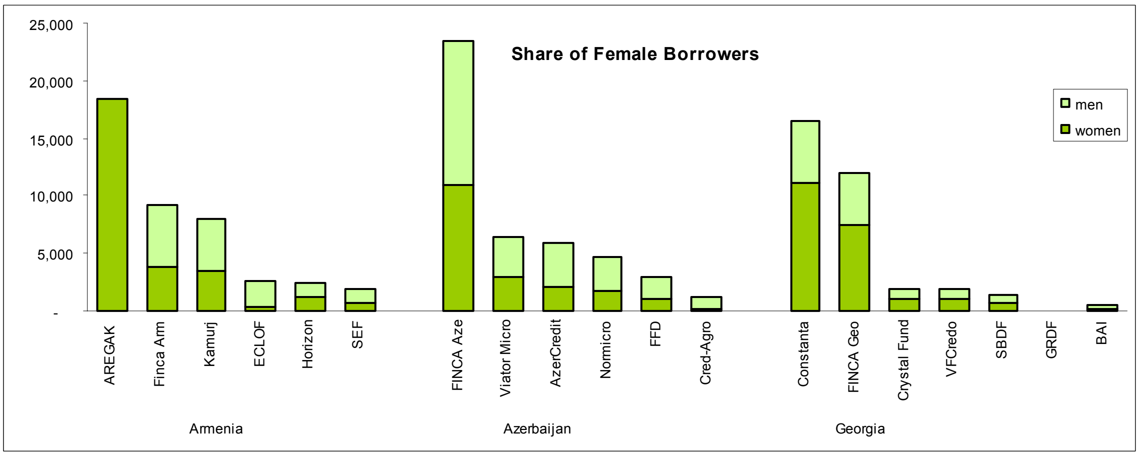


2005 Caucasus Outlook

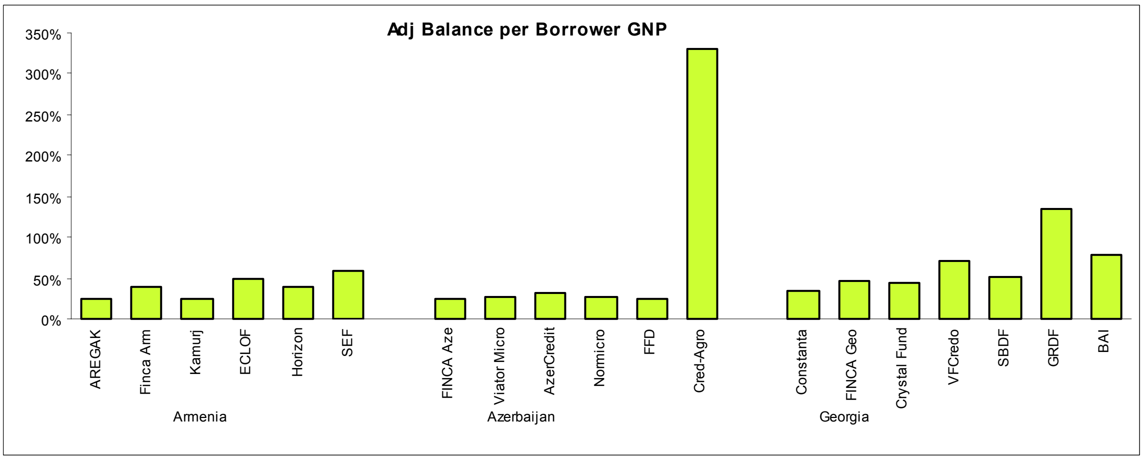
Active Borrowers



Women Borrowers



Depth of Outreach

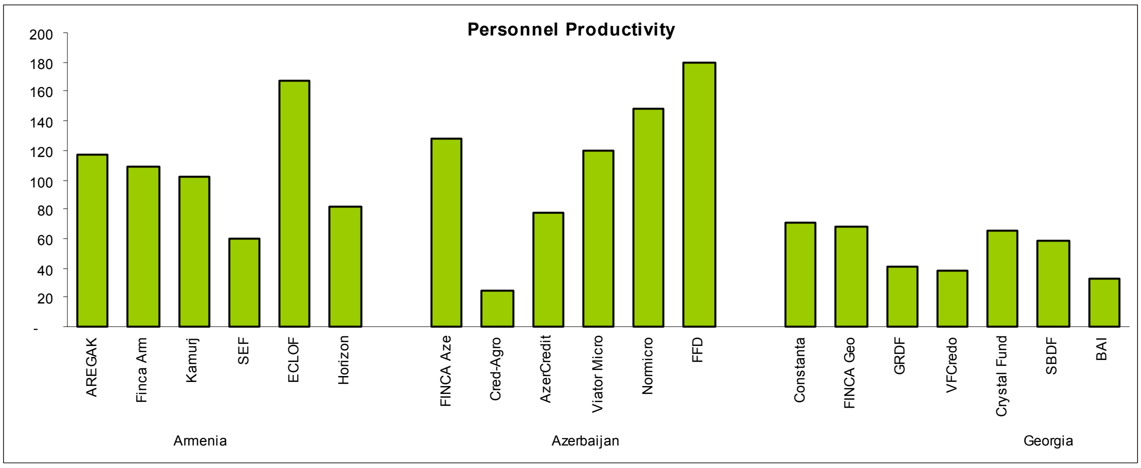


2005	Armenia	Azerbaijan	Georgia
Moody's foreign currency rating – LT	-	-	-
Moody's foreign currency rating – ST	-	-	-
Fitch foreign currency rating – LT	BB-	BB	-
Fitch local currency rating - LT	BB-	BB	-

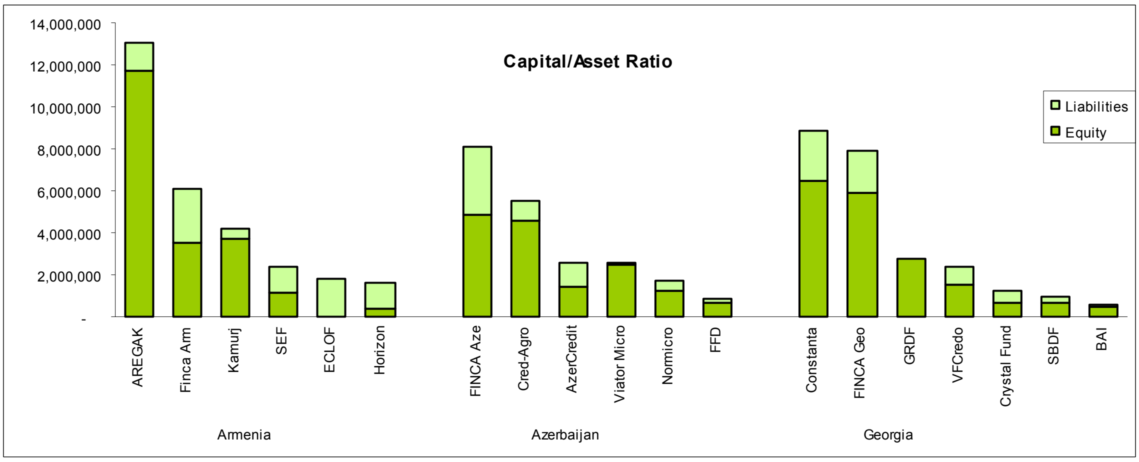
2005	Armenia	Azerbaijan	Georgia
population (million)	3.0	8.4	4.5
GDP (USD Bn)	4.9	12.6	6.4
GDP growth (%)	14.0	26.2	9.3
GNI per capita (US$)	1,470	1,240	1,350
inflation rate (%)	0.6	9.6	8.2
deposit rate[1] (%)	5.81	8.52	7.55
financial sector development (M3/GDP)[2] (%)	16.29	15.48	16.61

Sources: World Bank At a Glance tables , 1. IMF, 2.IMF 2005 data

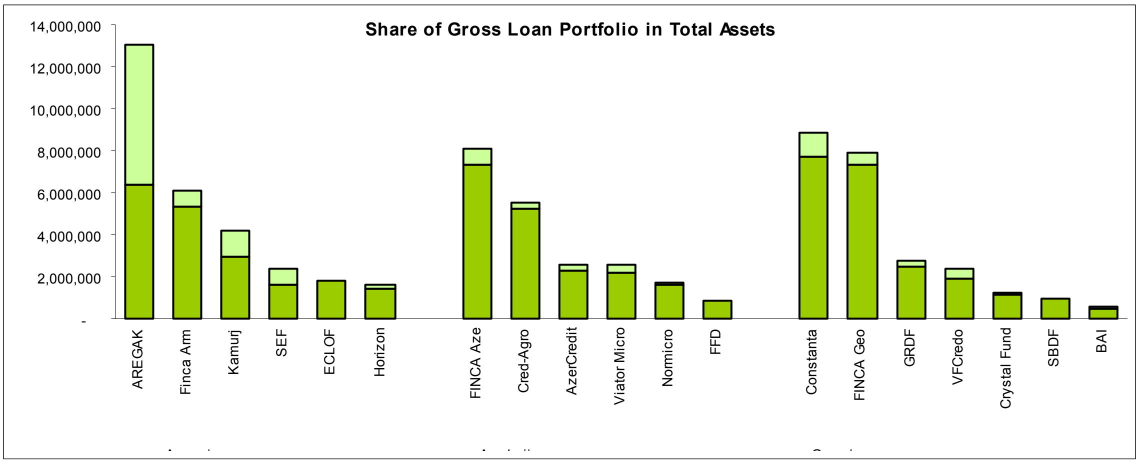
Productivity



Capital/Asset Ratio



Gross Loan Portfolio/Total Asset Ratio



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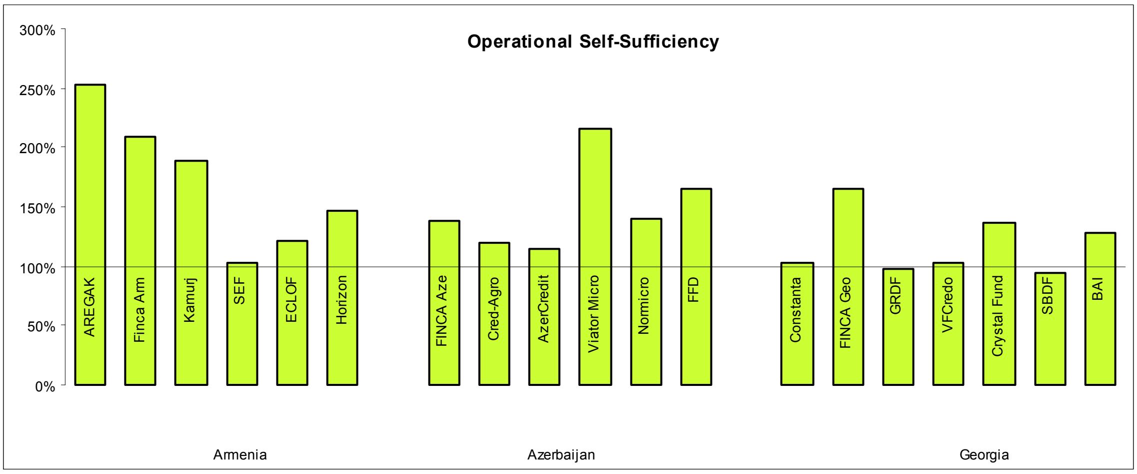
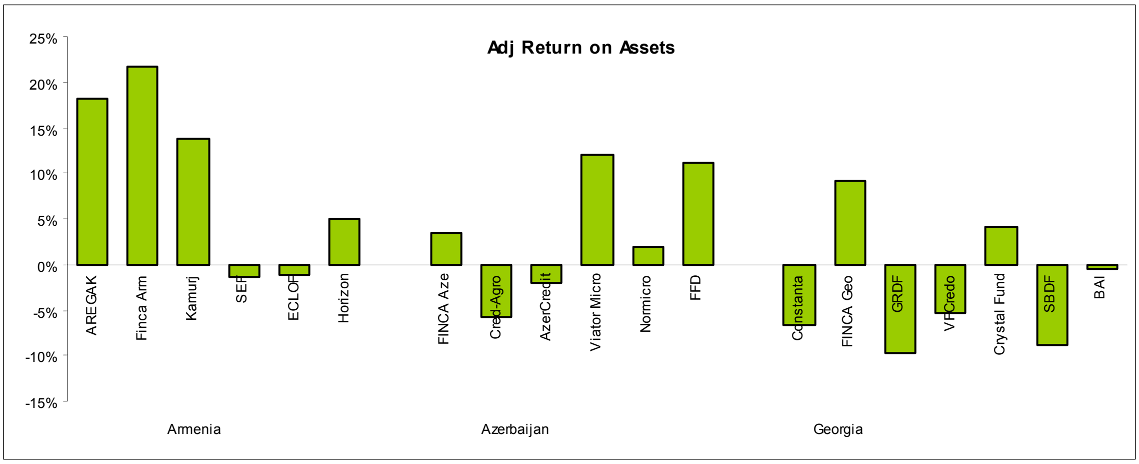
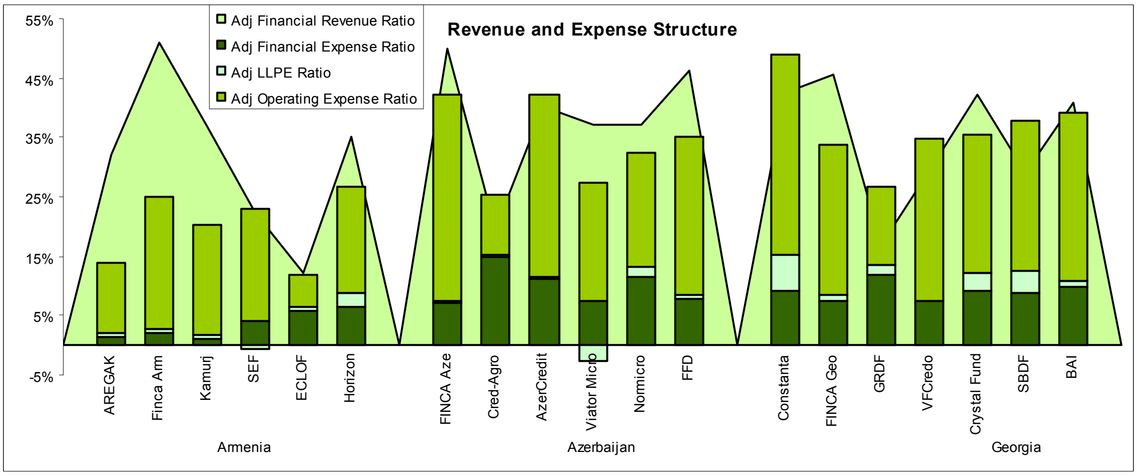


AROA



Revenue and Expense Ratios



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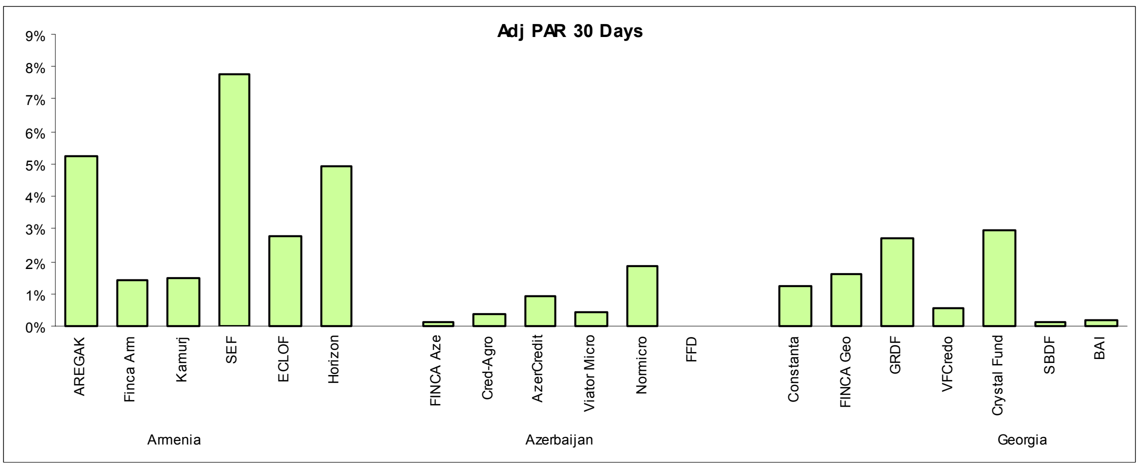
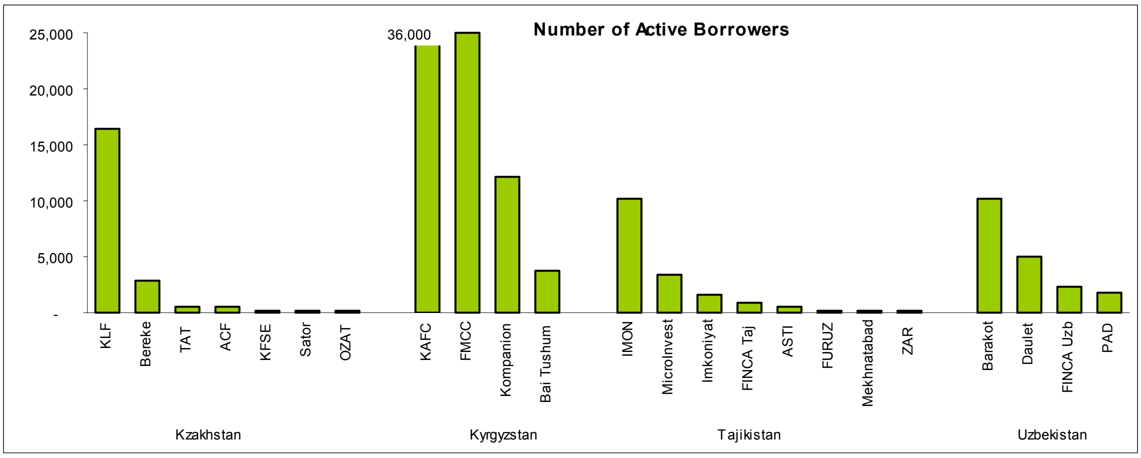
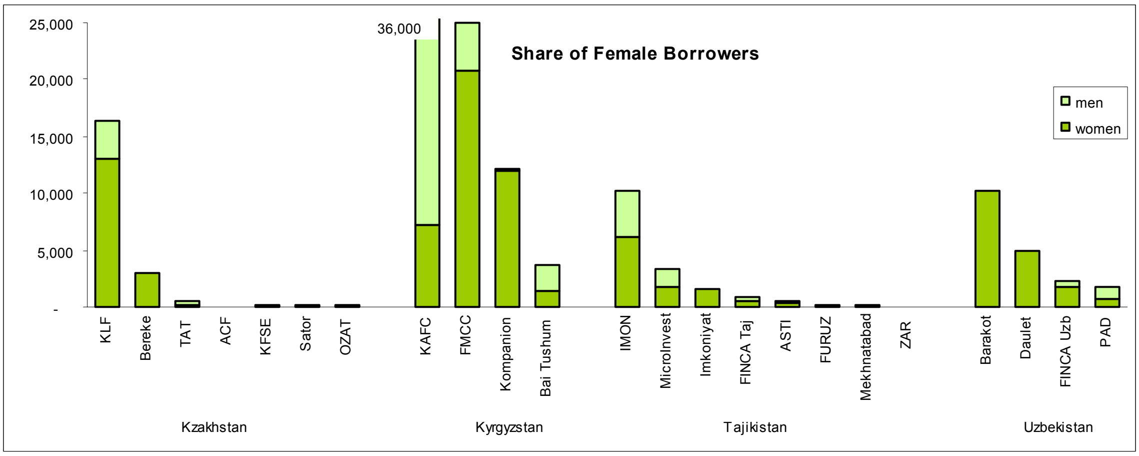


2005 Central Asian Outlook

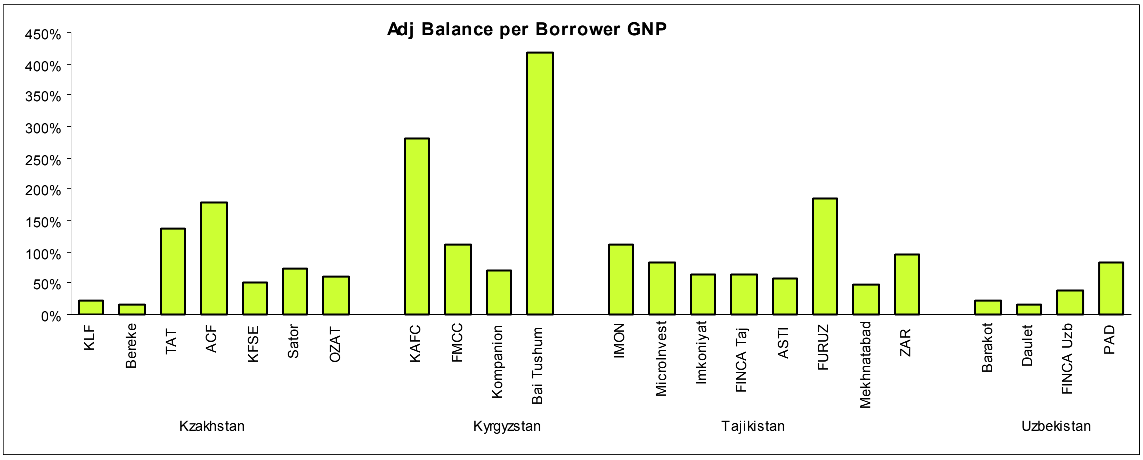
Active Borrowers



Women Borrowers



Depth of Outreach

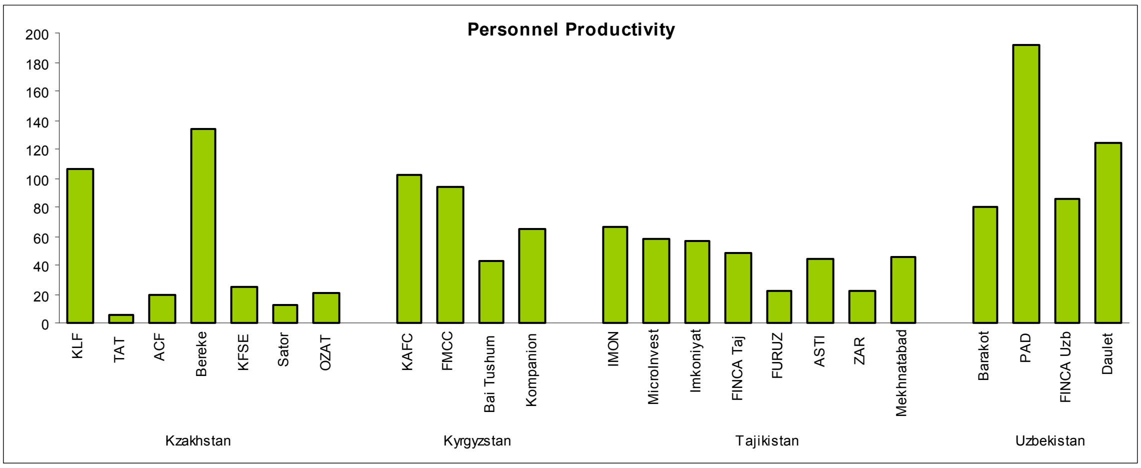


2005	Kazakhstan	Kyrgyzstan	Tajikistan	Uzbekistan
Moody's foreign currency rating – LT	Baa1	-	-	-
Moody's foreign currency rating – ST	P-2	-	-	-
Fitch foreign currency rating – LT	BBB-	-	-	-
Fitch local currency rating - LT	BBB	-	-	-

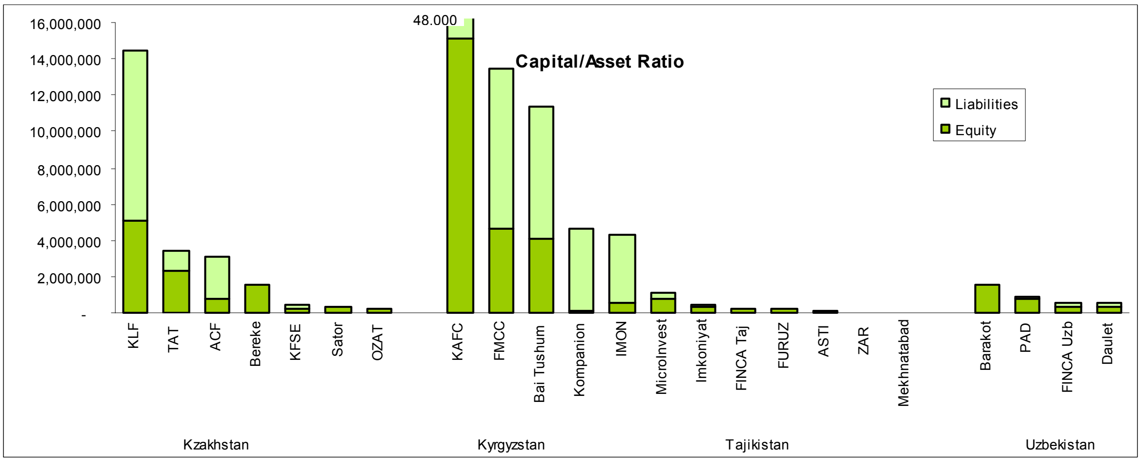
2005	Kazakhstan	Kyrgyzstan	Tajikistan	Uzbekistan
population (million)	15.1	5.2	6.5	26.2
GDP (USD Bn)	56.1	2.4	2.3	13.7
GDP growth (%)	9.4	-0.6	7.5	7.0
GNI per capita (US$)	2,930	440	330	520
inflation rate (%)	7.6	4.4	5.6	6.5
deposit rate[1](%)	9.0	5.76	9.74	0.2
financial sector development (M3/GDP)[2] (%)	26.58	21.33	9.7[3]	n/a

Sources: World Bank At a Glance tables , 1. IMF, 2.IMF 2005 data, 3. IMF 2003 data, 4. National Bank of Kazakhstan, 5. Central Bank of Uzbekistan

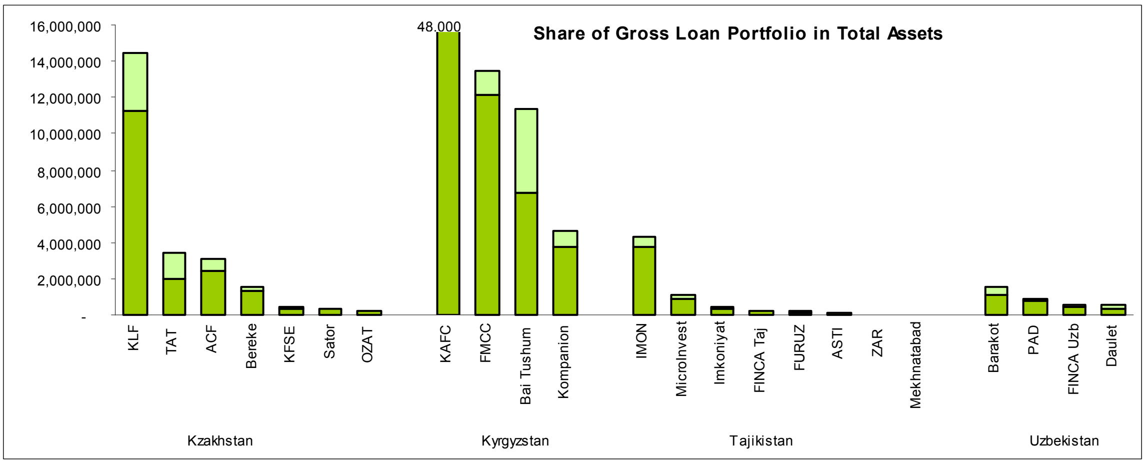
Productivity



Capital/Asset Ratio



Gross Loan Portfolio/Total Asset Ratio



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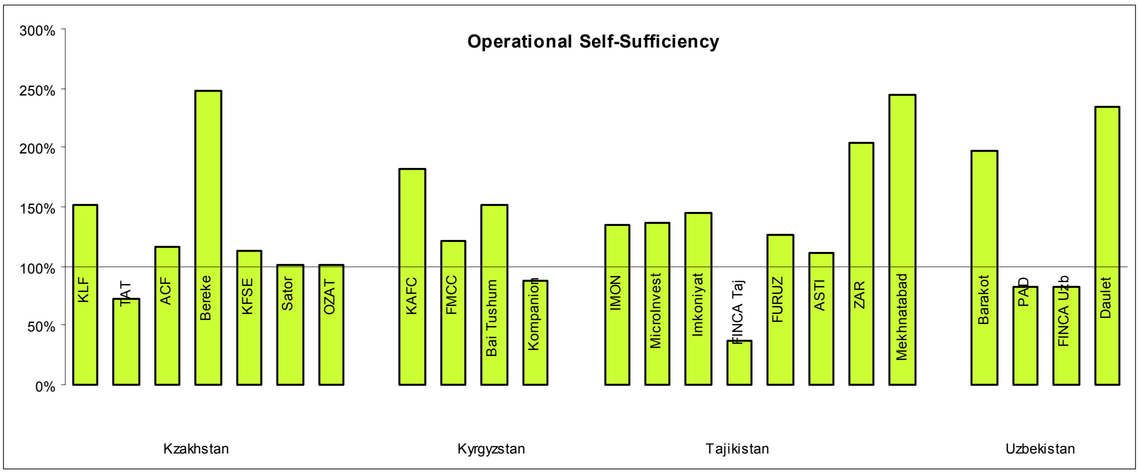
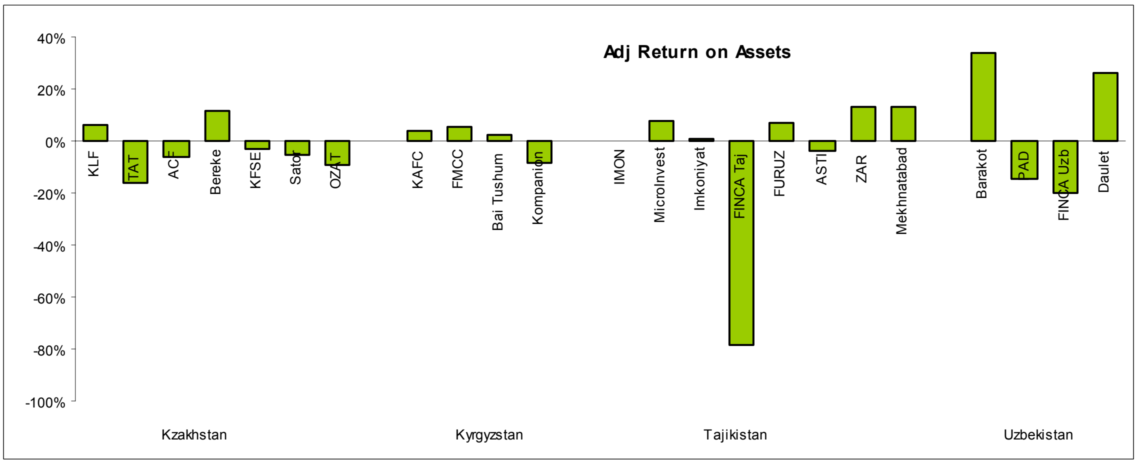
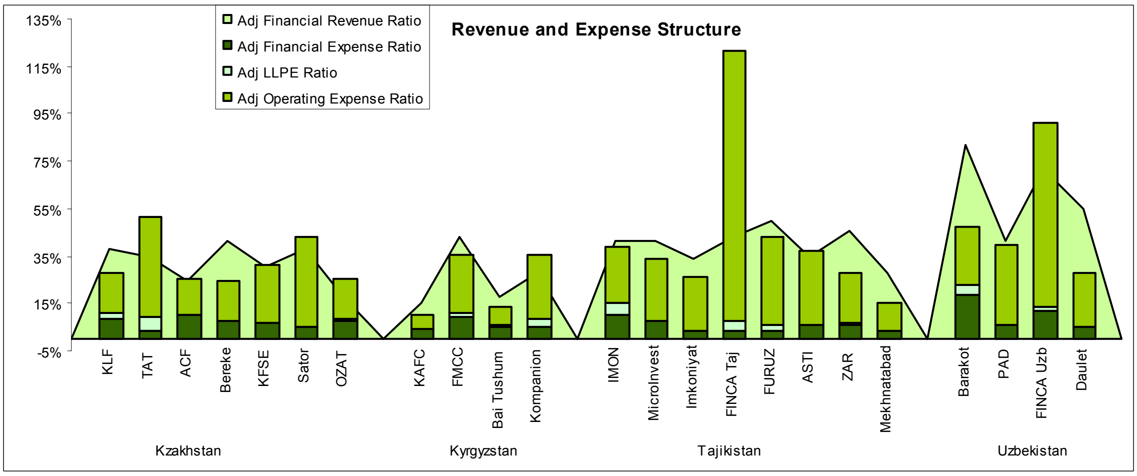


AROA



Revenue and Expense Ratios



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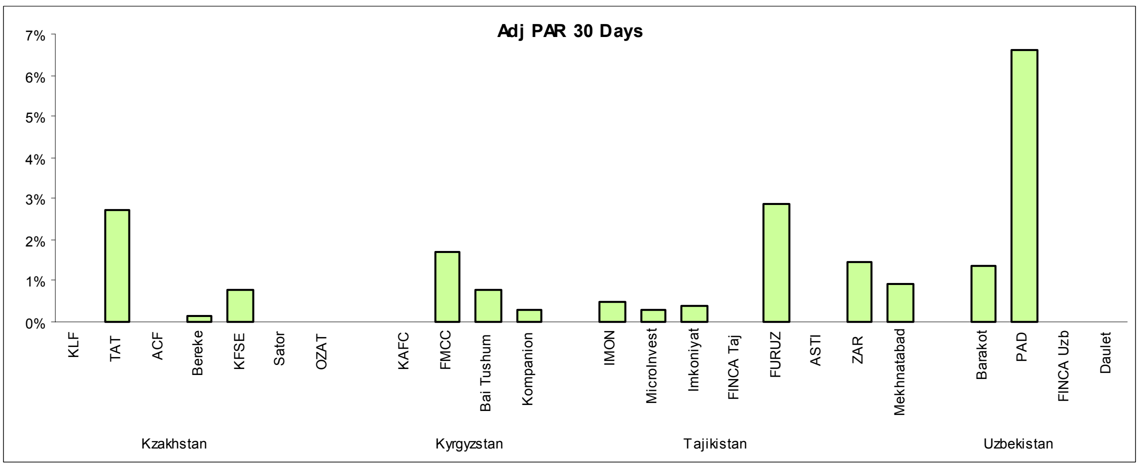
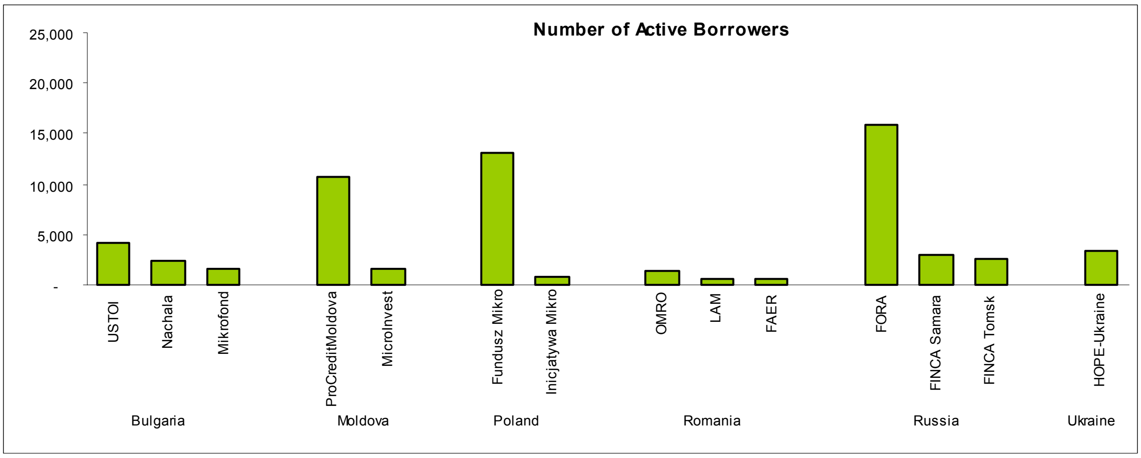
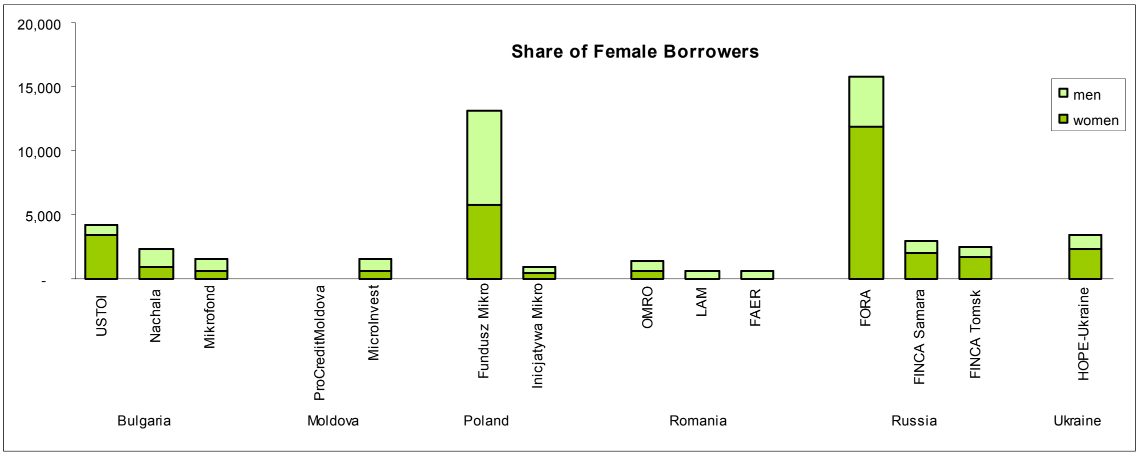


2005 Central and Eastern Europe and Russia/Ukraine

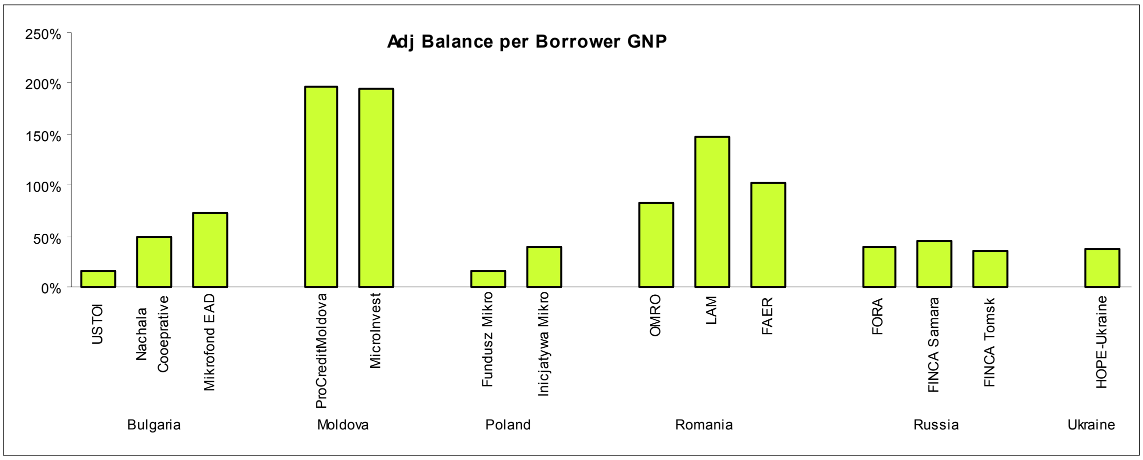
Active Borrowers



Women Borrowers



Depth of Outreach

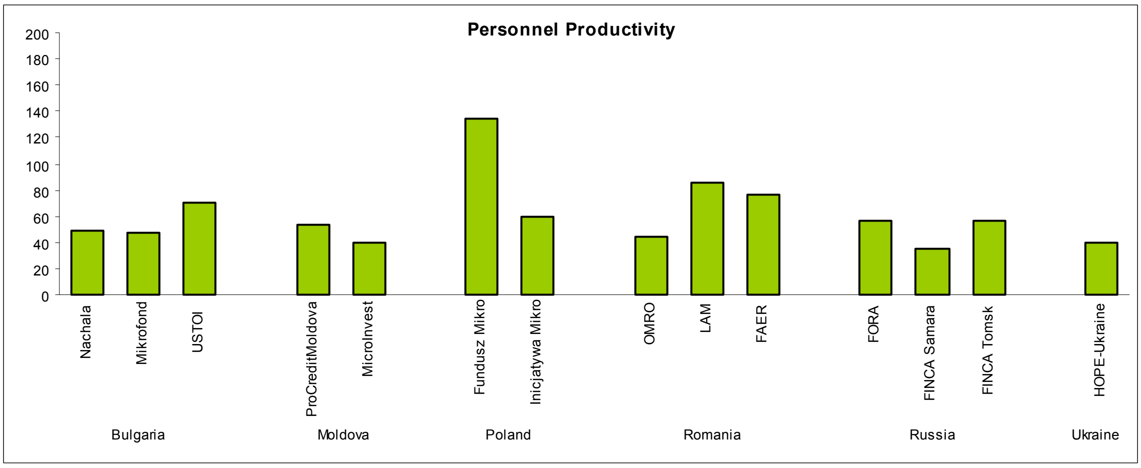


2005	Bulgaria	Moldova	Poland	Romania	Russia	Ukraine
Moody's foreign currency rating – LT	A1 stable	B3	Aa1 stable	A2 stable	A2 stable	Ba3 stable
Moody's foreign currency rating – ST	P-1	NP	P-1	P-1	P-1	NP
Fitch foreign currency rating – LT	BBB-	B-	BBB+	BBB-	BBB-	BB-
Fitch local currency rating - LT	BBB	B	A	BBB	BBB-	BB-

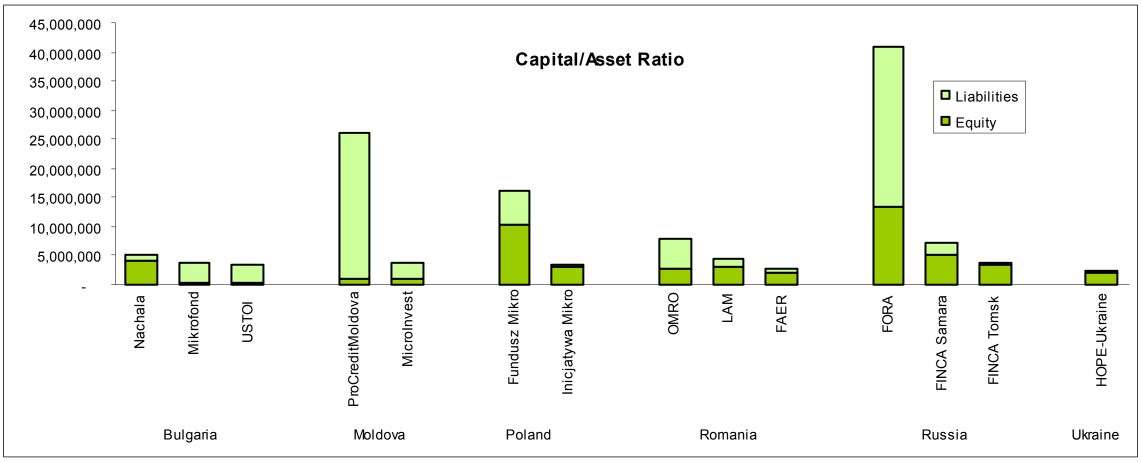
2005	Bulgaria	Moldova	Poland	Romania	Russia	Ukraine
population (million)	7.7	4.2	38.2	21.6	143.2	47.1
GDP (USD Bn)	26.6	2.9	299.2	98.6	763.7	81.7
GDP growth (%)	5.5	7.1	3.2	4.1	6.4	2.6
GNI per capita (%)	3,450	750	7,110	3,830	4,460	1,520
consumer price change (%)	5.0	13.1	2.1	9.0	12.7	13.5
deposit rate[1] (%)	3.1	13.2	2.8	7.0[2]	3.9	8.6
financial sector development M3/GDP[1] (%)	60.22	43.06	43.16	25.8	33.43	46.15

Sources: World Bank At a Glance tables , 1. IMF, 2. National Bank of Romania

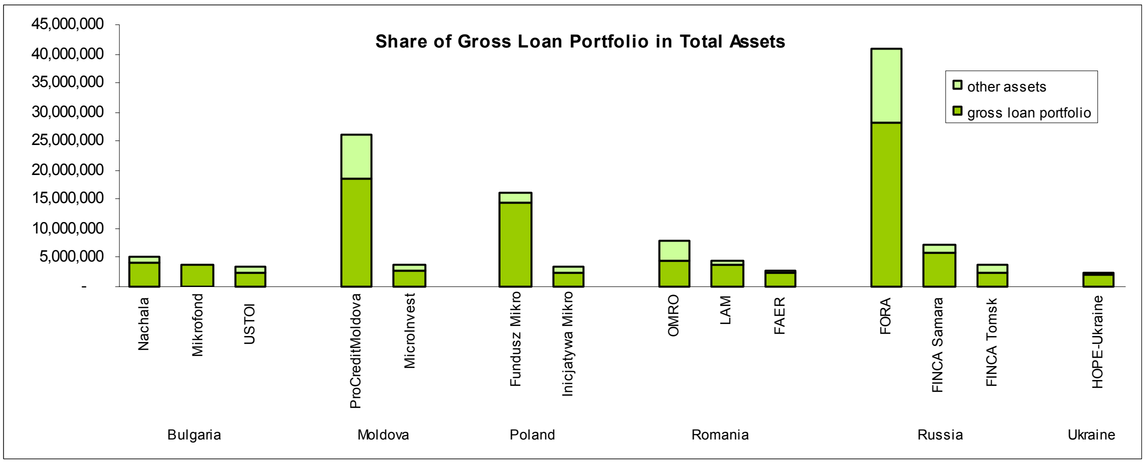
Productivity



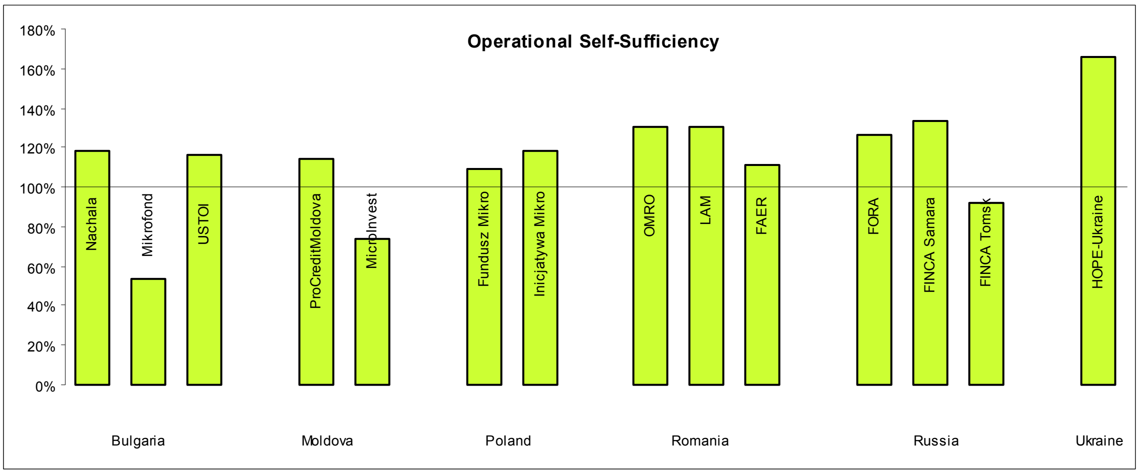
Capital/Asset Ratio



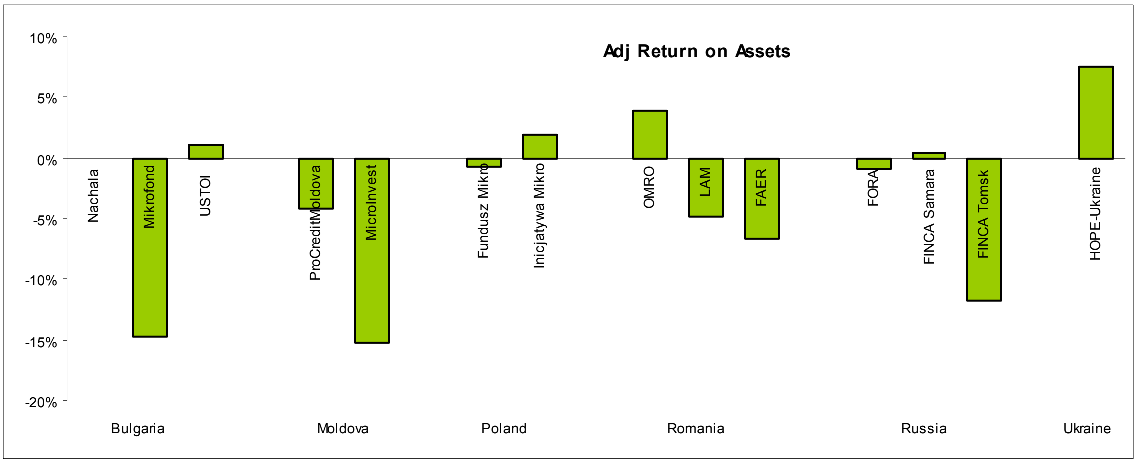
Gross Loan Portfolio/Total Asset Ratio



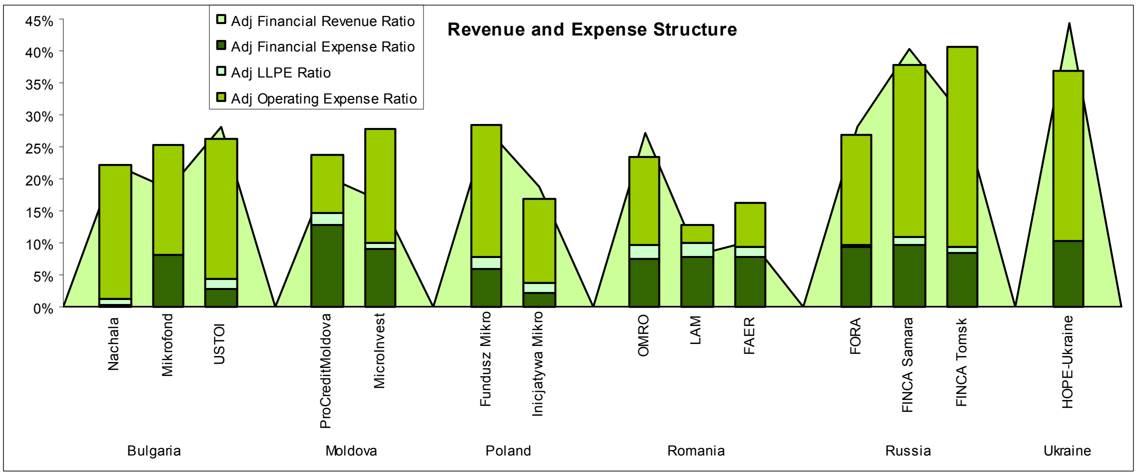
OSS



AROA



Revenue and Expense Ratios



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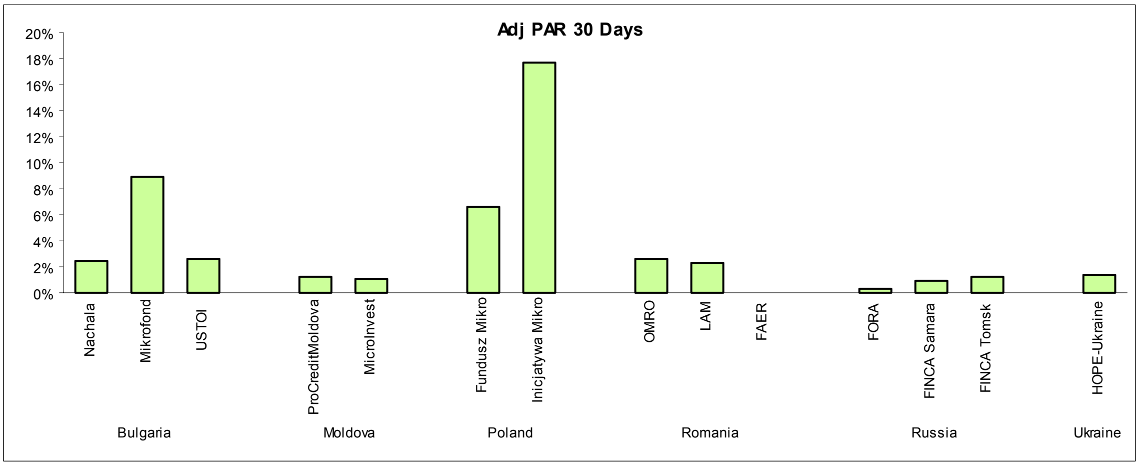
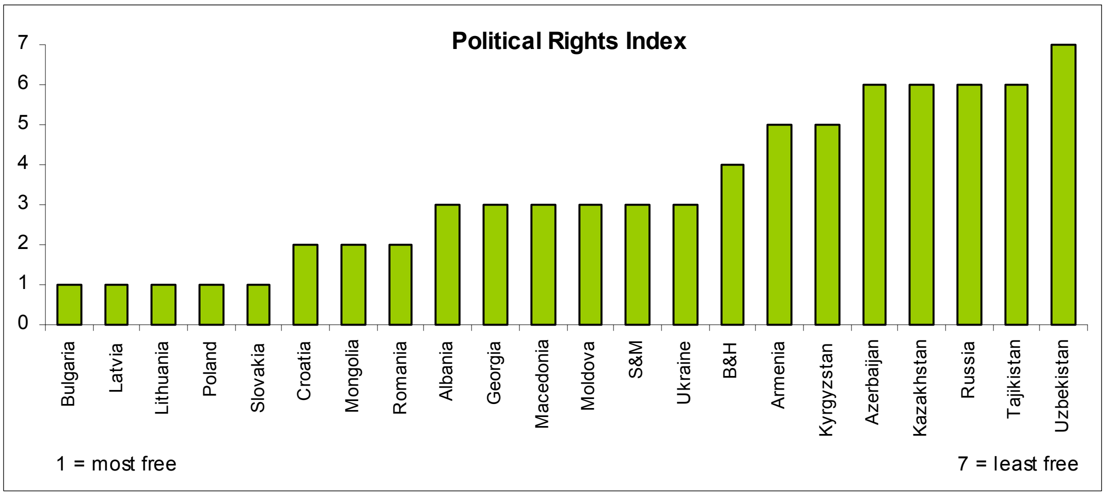
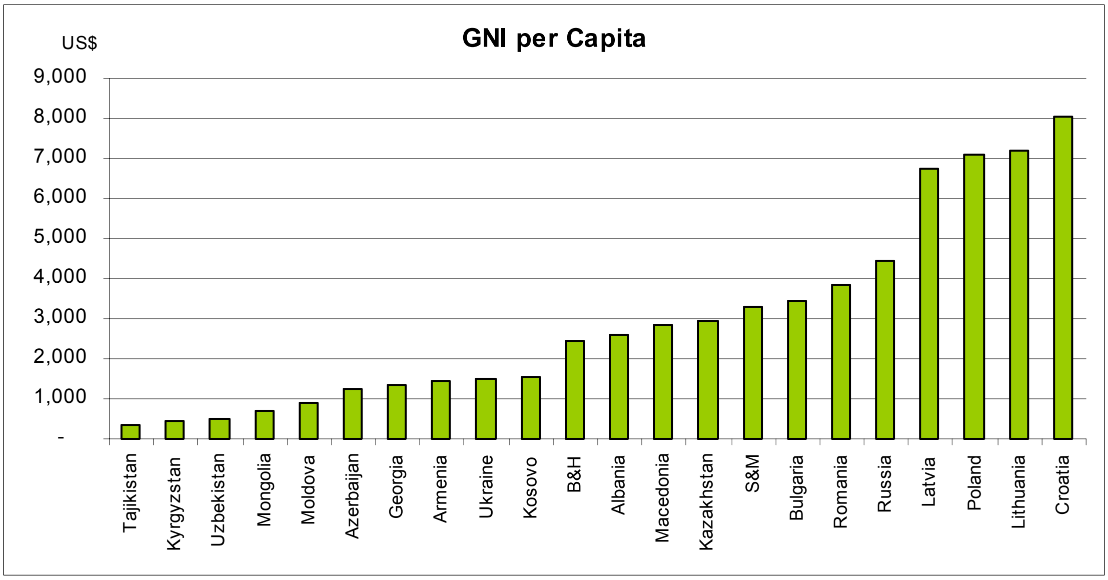


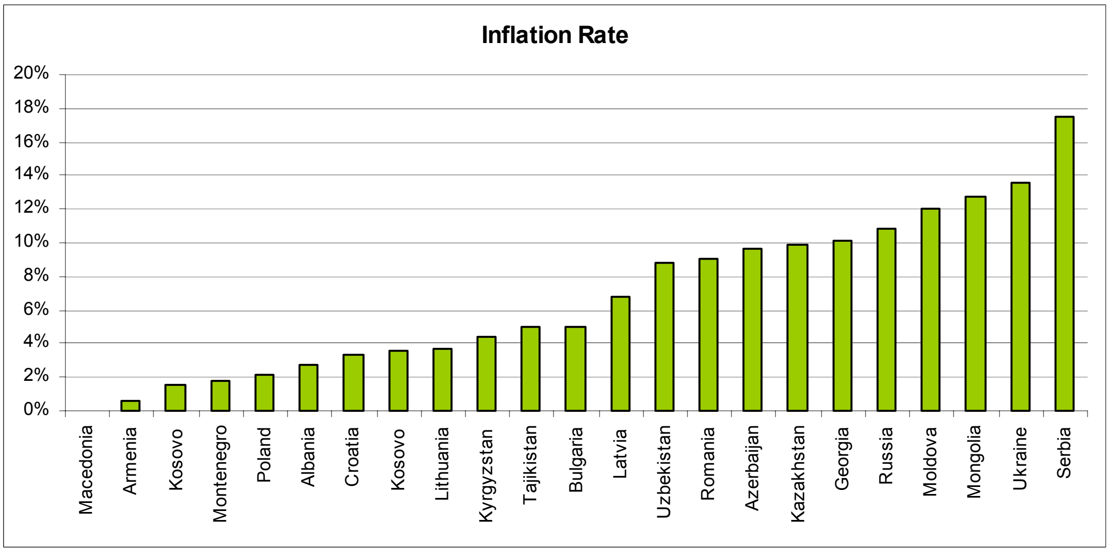
Annex II – Selected Country Indicators



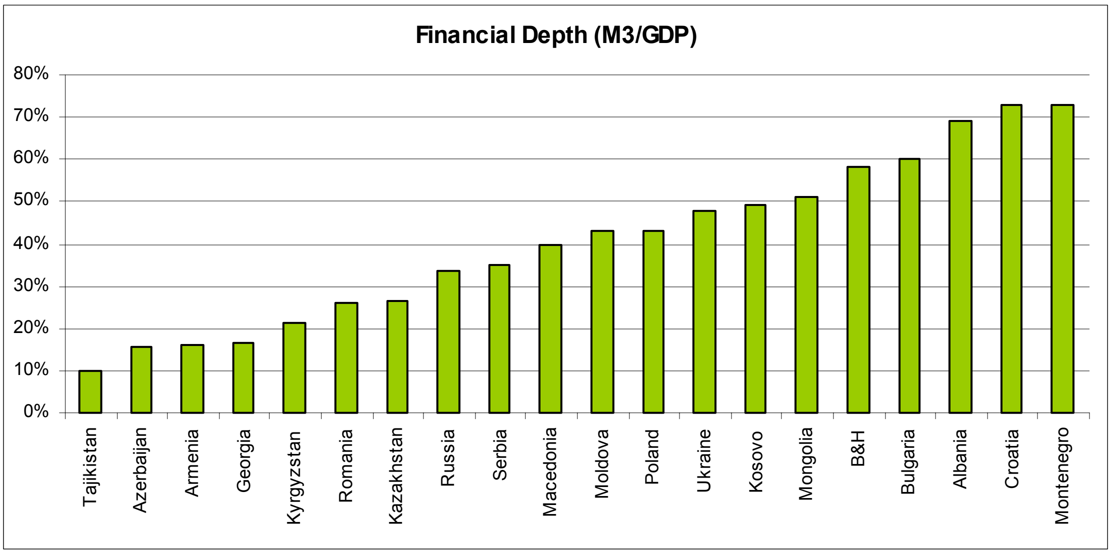
Source: Heritage Foundation



Source: World Bank



Source: World Bank



Source: World Bank, IMF, national banks

Annex III – List of Participating MFIs

Balkans

Country	NGOs/NBFIs	Microfinance banks	Downscaling commercial banks	Credit unions and cooperatives
Albania	BESA Foundation For the Future Foundation MAFF PSHM WV Building Futures	ProCredit Bank Albania		ASC Union Jehona National Union of SCAs
Bosnia&Herzegovina	Benefit Bossel EKI Lider LOKmicro MI-BOSPO Mikra MIKRO ALDI Mikrofin SINERGIJAplus Partner Prizma Sunrise Women for Women Zdravo	ProCredit Bank BiH		
Croatia				DEMOS NOA
Kosovo	AFK Beselidhja/Zavet MicroFinance FINCA Kosovo KEP Kosovo Grameen Missione Arcobaleno Microcredit Fund KosInvest KRK Ltd. START	ProCredit Bank Kosovo		
Macedonia	Horizonti	ProCredit Bank Skopje		FULM Savings House Moznosti Savings House
Montenegro	Agroinvest Alter Modus	OBM		
Serbia	Agroinvest Micro Development Fund MicroFinS	ProCredit Bank Serbia Stedionica Opportunity Bank		

Central and Eastern Europe

Country	NGOs/MFIs	Microfinance banks	Downscaling commercial banks	Credit unions and cooperatives
Bulgaria	Mikrofond EAD UNDP-JOBS project USTOI	ProCredit Bank Bulgaria		Kredo KSK RPK Nachala Cooperative Russe Popular Kasa
Latvia				Latvian Cooperative Credit Union Association (LKKSS)
Lithuania				Association of Lithuanian Credit Unions
Moldova	MicroInvest ProCredit Moldova			Savings and Credit Associations of Citizens
Poland	FDPA Fundusz Mikro Inicjatywa Mikro Rural Development Foundation			SKOK
Romania	CAPA Finance CDE CHF Romania (Express-Finance) FAER Integra Romania LAM OMRO Romcom	ProCredit Bank Romania	Banca Romanesca	Caselor de Ajutor Reciproc (CARs)
Slovakia	Integra Foundation VOKA			

Caucasus

Country	NGOs/NBFIs	Microfinance banks	Downscaling commercial banks	Credit unions and cooperatives
Armenia	ECLOF Armenia FINCA Armenia Nor Horizon MDF KAMURJ SEF AREGAK	ACBA	Anelik Bank Armeconom Bank Converse Bank Ineco Bank	
Azerbaijan	ADRA Kredit AgrarCredit Azeri Star Microfinance Cred-Agro DAYAG - Credit Finance for Development FINCA Azerbaijan ICMA Credit MADAD Credit Mikromaliyye Credit Nakhichevan Microcredit Normicro UMID Credit Viator Microcredit Fund WV AzerCredit	Microfinance Bank of Azerbaijan	Azerdemiryol-Bank Azerigazbank Bank of Baku Bank Respublika PARAbank Unibank	
Georgia	BAI Constanta Foundation Crystal Fund FINCA Georgia GRDF SBDF VF Credo	ProCredit Bank of Georgia	Bank of Georgia Tbiluniversalbank United Georgian Bank	

Central Asia

Country	NGOs/NBFIs	Microfinance banks	Downscaling commercial banks	Credit unions and cooperatives
Kazakhstan	A-Invest Arnur Credit Asian Credit Fund Atyrau Valyut Baspana Bereke Katysu KFOND KLF North Kazakhstan Credit Fund Orlan ORTA Nesie OZAT PF Aktobe PF for Assistance to Farmers of South Kazakhstan San Credit Sator TAT VTM		ATF Bank CenterCredit Bank Halyk Savings Bank KazkommertzBank TuranAlem Bank	
Kyrgyzstan	Bai Tushum FMCC KAFC Kompanion Financial Group		AKB Bank KyrgyzDemir Bank KyrgyzEnergo Bank Inexim Bank KyrgyzKKB Bank	Credit Unions of Kyrgyzstan
Mongolia	Credit Mongol TFS	XAC Bank Khan Bank		
Tajikistan	ASTI Baror Bekhnamo Borshud FINCA Tajikistan FURUZ Gendet va Taraqieet Haft-Gang Haqiq HUMO Imkoniyat IMON Jovid Kiropol Madina Mekhnatabad MicroInvest	First Microfinance Bank	Agroinvest Bank Eskhata Bank Tajprombank Tojiksodirotbonk	

	OXUS Microfinance Phoenix Somit ZAR			
Uzbekistan	Barakot BWA Kashkadarya (Karshi) BWA Tadbikor Ayol Daulet FINCA Uzbekistan FV MARD JDA NWMT OXUS Uzbekistan Parwaz SABR		Hamkorbank Ipak Yuli Bank Pakhta Bank Uzjilsberbank	Credit Unions of Uzbekistan

Russia/Belarus/Ukraine

Country	NGOs/NBFIs	Microfinance banks	Downscaling commercial banks	Credit unions and cooperatives
Belarus			Belgazprombank Prior Bank	
Russia	Counterpart Enterprise Fund FINCA Samara FINCA Tomsk FOR A Fund /FORUS Bank RWMN Voronezh State Fund for Support of SMEs	KMB Bank	Chelindbank Far East Bank NBD Bank Sibacadembank UralSib Bank Uraltransbank	Rural Credit Cooperatives Russian Credit Union League
Ukraine	HOPE-Ukraine	ProCredit Bank Ukraine	Aval Bank CreditPromBnak Forum Bank Nadra Bank Privat Bank	National Association of Ukrainian Credit Unions

MICROFINANCE CENTRE
for Central and Eastern Europe and the New Independent States

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