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for Central and Eastern Europe and the New Independent States

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The State of Microfinance Industry in Eastern Europe and Central Asia

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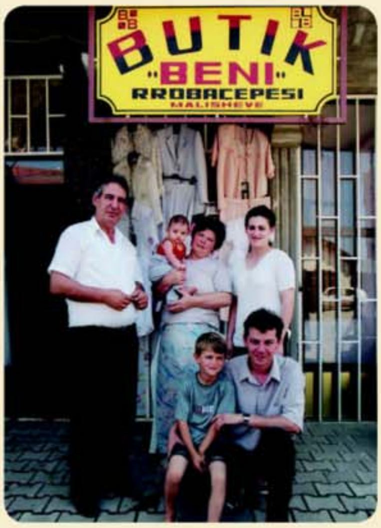
	Clients	Growth Jan-Sept 2007	Portfolio	Growth Jan-Sept 2007
Azerbaijan	68,823	+40%	$36 M	+87%
Kyrgyzstan	57,164	+51%	$28 M	+52%
Georgia	20,239	+15%	$12 M	+24%
Armenia	14,485	+68%	$11 M	+64%
Kosovo	12,178	+27%	$20 M	+32%
Tajikistan	11,121	+137%	$4.5 M	+107%
Russia	10,133	+18%	$32 M	+68%
Total:	**194,143**	**+43%**	**$144 M**	**+58%**



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Small Loans-Big Changes

Table of Contents

List of Tables

List of Figures

List of Acronyms

AROA – Adjusted Return on Assets
BIS – Bank for International Settlements
CA – Central Asia
CEE – Central and Eastern Europe
CIS – Commonwealth of Independent States
EBRD – European Bank for Reconstruction and Development
ECA - Eastern Europe and Central Asia
EFSE – European Fund South East
FMO – Netherlands Development Finance Company
IDP - internally displaced people
IFAD – International Fund for Agricultural Development
LLPE – loan loss provision expense
MFI – microfinance institution
NGO/NBFI – non-governmental organization/non-bank financial institution
OSS – operational self-sufficiency
PAR - portfolio at risk
SME – small and medium enterprises
UMCOR – United Methodists Committee on Refugees

Executive Summary

The Eastern Europe and Central Asia (ECA) region encompasses 27 transition countries that in the early 1990s started moving from centrally-planned to market economy. The region is divided into five sub-regions: the Balkans, Central and Eastern Europe, Russia/Ukraine/Belarus, Caucasus and Central Asia. Of the total population of 460 million 12% of people live in poverty, below US$2.15 per day. The largest number of the poor live in Russia – the largest country in ECA, but the highest incidence of poverty is seen in Central Asia where 28% of citizens live below the poverty line. Compared to the rest of the developing world ECA has the highest average income per capita (US$3,400), although this is, at the same time, 8 times lower than the average for the neighbouring countries of the Eurozone. With a GDP growth rate of 6.8% the ECA region outpaces the majority of other developing regions. Income increases have been in particular bolstered in oil exporting countries (Azerbaijan, Kazakhstan, Russia) as well as capital inflows into countries that recently joined the EU. The financial sector in ECA remains shallow with a small banking sector and weak capital markets. The transition in the banking system in many countries meant a transformation from a monobank to a two-tier system. Financial intermediation remained low during the first decade of transition, mainly due to weak depositor's confidence caused by the financial crises. During the last years, the level of financial intermediation has increased. Domestic credit to the private sector as a percentage of GDP is below 20% in the Caucasus and Central Asia compared to over 50% in some CEE countries. State-owned banks in most countries have less than 10% share of banking system assets (exceptions are Azerbaijan, Poland, Serbia, Moldova). Despite the development of the sector few commercial banks, either local or foreign, have shown a strategic interest in lending to micro and small enterprises. Most micro and small businesses in the region have neither a track record nor the amount of collateral required by banks.

Microfinance Industry

Microfinance in the region emerged after the transition from a centrally-planned to a market economy allowing for the development of private entrepreneurship. This was an opportunity for entrepreneurial people who under communist rule were only allowed to run very small 'craft' or agribusinesses but in the new market realities had the opportunity to expand their operations and utilize their potential. However, at the same time, vast unemployment and war-related circumstances forced many citizens to seek economic opportunities and start their own businesses out of necessity.

There are almost 6,000 institutions in the region that are involved in providing microfinance services, the bulk of them are credit unions located in Central and Eastern Europe – they are small, membership-based and operating on a local scale.
Four main types of organizations provide microfinance services to a wide range of clients: credit unions, NGOs/NBFIs, microfinance banks, downscaling commercial banks.

Financial Performance

Assets

Typically for financial institutions devoted to providing credit, assets of microfinance institutions are dominated by the loan portfolio – the main revenue generating item, which can represent 99% of the total assets. At the end of 2006 ECA's total gross loan portfolio was US$12 billion – an annual increase of over 40%. While credit unions were concentrated in CEE, downscaling banks flourished in Russia and Central Asia and NGOs/NBFIs as well as microfinance banks dominated in the Balkans.

Compared to the previous year all types of institutions had higher growth rates. Downscaling banks again grew at the fastest pace – they doubled their portfolio during the year, followed closely by microfinance banks. The fastest growing sub-region was Russia/Ukraine where both types of banks and NGOs/NBFIs had the largest increase in the volume of operations.

Credit unions again served the majority of 5 million borrowers and were most active in CEE and Russia/Ukraine. Microfinance banks and NGOs/NBFIs were dominant credit providers in the other three sub-regions (Balkans, Caucasus, Central Asia). For both NGOs/NBFIs and microfinance banks the key to growth in outreach was access to funding – client deposits for banks and debt funding for non-banks – as well as improvements in personnel productivity.

Credit unions continue to have the deepest outreach among all institutional types but the down-market drive observed last year has slowed down. When weighted by the number of borrowers the size of an average loan outstanding to client relative to GNI per capita decreased by 3% compared to an 8% decrease a year earlier. Both NGOs/NBFIs and downscaling banks now serve a more shallow outreach, only microfinance banks and credit unions have continued to lower the loan size.

Liabilities

Each of the different types of institutions providing microfinance services has a different funding structure due to the types of services offered and access to both international and domestic funding sources. While an average NGO/NBFI is still predominantly equity-based, microfinance banks and credit unions fund their operations mainly from client deposits and borrowed funds. The pattern of starting from equity and then increasing the leverage can be seen in every institutional type but the dynamics are very different. Microfinance banks have considerably easier access to borrowing through the fact that their shareholders are often microfinance lenders.
Credit unions can be classified into two groups which have totally different access to funding. The first group constitutes grass-root organizations that were created from membership sources and until now use members deposits as a major source of funds for lending activities (credit unions in CEE and Russia/Ukraine). Credit unions in the second group were created as a result of large level support from development organizations, with a mission of providing credit to members in the first place and then developing savings facilities, so they use a mixture of international borrowings and client deposits, unless regulations do not allow for deposit collection by non-bank institutions.

NGOs/NBFIs

At the end of the year the majority of US$1 billion assets were financed from borrowed funds (61%), with commercially-priced funds prevailing over concessional ones. The bulk of debt was located in the Balkans. Grants constituted only 17% of the total value of assets.

The impressive increase of the total assets in the amount of $400 million was fulfilled in two-thirds by commercial loans which were the largest contributor to growth in every sub-region. In order to maintain the growth trend next year US$540 million in funding will be needed for the loan portfolio, almost half of it in the Balkans.

The distribution of borrowings among MFIs was highly unequal, concentrated in the largest MFIs. While the average MFI funded less than half of its assets from debt, the largest MFIs (with portfolios over US$15 million) funded almost 70% of their capital through debt. Compared to previous years the level of indebtedness increased for all sizes of MFIs. However, not all MFIs follow the trend of increasing the use of borrowed funds. About one-third of institutions decreased the use of borrowed funds in their funding structures – these were smaller MFIs, mostly funded from grants and concessional loans, the ones which grew slowly but increased outreach to women.

The analysis of the supply of borrowings shows that the market is very fragmented with over 100 different providers. Local commercial banks provide 23% of borrowings, half of that in Bosnia and Herzegovina. Even though the preference of local banks is to lend to large MFIs, the average outstanding loan size from a local bank is two-thirds of that of an international lender, has a shorter term, a higher interest rate and in most cases is denominated in a local currency. It is often backed by foreign currency deposits or borrowings from international investors. Local currency loans constituted a large part of the debt, with 60% of it provided by local commercial banks. The largest number of local currency borrowers was located in the Balkans and the Caucasus. However, there were a few examples of very small Central Asian MFIs borrowing in local currency from a local microfinance bank or a specialized wholesale lender.

Microfinance Banks

Savings remain the major and increasing source of microfinance bank funding constituting 50% of assets, although in some sub-regions such as CEE and Central Asia they represent almost 70% of liabilities and equity. The second major source – borrowings – was predominantly seen in Russia/Ukraine and the Caucasus.

During the year the increase of assets volume of US$1.8 billion was more than 4 times higher than the growth of NGOs/NBFIs. It was largely financed by client deposits (39%) and commercial borrowings (37%). Their strength was in collecting client deposits which made them the second largest holder of new assets (after downscaling banks).

Microfinance banks had better access to foreign lenders and therefore tended to borrow in foreign currencies, in particular, because many of these foreign lenders were shareholders of the banks.

Credit Unions

Credit unions are very diverse regarding their funding sources. Those in the CEE and Russia/Ukraine – the oldest ones, use members' savings as a chief source of funds for lending activities. The others use loans from concessional sources – development agencies, or commercial lenders.

Equity

NGOs/NBFIs

While banks' equity comes from their shareholders few NGOs/NBFIs have such a corporate structure. Their equity comes from initial grants of international donor institutions (almost 50% of the total equity) and from retained earnings. Earnings were the quickest growing equity type in all sub-regions, with 70% increase or US$53 million, in Central Asia alone they increased almost 3 times. Grants are still the largest equity item on the balance sheet of NGOs/NBFIs but their share is decreasing in favour of retained earnings. For the last few years the interest of donors has been shifting to other regions of the world and the ECA sector has been commercializing, however, a number of large MFIs there either received donations or capitalised subsidized loans for advancing outreach to disadvantaged client groups.

Microfinance Banks

For microfinance banks registered as joint-stock companies, shareholder capital is the major equity item and although in highly leveraged banks it funds only a small portion of assets, its growth of 80% happened through the issue of new shares. The other equity item, earnings, despite growing by 60% decreased its share in the funding structure.

Credit Unions

Credit unions raise equity predominantly from membership shares which could run to as much as 30% of total assets. Older credit unions used membership shares to a lesser extent. Reinvested earnings were an important source of equity in Kyrgyzstan and Uzbekistan where credit unions, like all other institutional types operated on a very thick profit margin.

Foreign Exchange Risk

NGOs/NBFIs

In monetary terms, the outstanding borrowings of MFIs amounted to USD 670 million, of which 57% was in foreign currency. Predominant foreign currencies used in ECA were Euros and USD.

A detailed study was carried out on a sub-set of 28 of the largest non-bank MFIs to reveal the extent of the foreign currency risk. The total foreign currency debt reached almost 50% of total assets in these NGOs/NBFIs. Only one third of it was covered by foreign currency assets but when Euro borrowings of Bosnian and Bulgarian MFIs were deducted, then only 30% of the outstanding foreign debt remained uncovered by assets in hard currencies.

Almost all surveyed MFIs used some kind of risk mitigation techniques, especially in countries with more volatile currencies. The most popular was denominating client loans in hard currencies, thereby passing the foreign exchange risk to MFI clients. Back-to-back loans followed in popularity with already a fifth of the MFIs using this method. Only 20% of non-bank MFIs had an internal policy imposing a limit on the foreign currency exposure, ranging from 10 to 25% of liabilities in foreign currencies to total assets.

Microfinance banks

In the case of microfinance banks the foreign exchange rate risk stemmed from borrowing from international lenders as well as from collecting deposits from customers. Foreign currency liabilities constitute 40% of total assets and half of them are client savings.

Foreign currency assets covered the value of total liabilities denominated in currencies other than the local currency. Over 80% of the assets are loans to clients in foreign currencies. With the exception of one bank with a quite high negative net open position, the average net open position in USD was 0.7% and 2.7% in Euro. Banks, as regulated institutions have limits on foreign currency exposure set by national banks. The most popular risk mitigation technique is granting loans with foreign currency clauses followed by derivatives – swaps and forward contracts.

Financial Indicators

As in previous years NGOs/NBFIs were more profitable than other institutional types and showed higher growth in profitability than other types. NGOs/NBFIs on average increased AROA by 2.6 percentage points. Microfinance banks did not show large changes – half of them slightly decreased and the other half improved profitability but the changes were usually small – less than 1 percentage point.

NGOs/NBFIs

As in previous years, economic conditions of the country of operations had the largest influence - both adjusted return on assets (AROA) and operational self-sufficiency (OSS) were higher in low-income countries. This year was better for NGOs/NBFIs than 2005 as almost 60% improved profitability.

Revenues were higher for MFIs with the smallest portfolios but only up to US$1 million. In larger MFIs there was no relation between the size of the operations and the level of revenues. Additionally, in poorer countries with less stable economies MFIs required higher revenues due to higher operating and financial expenses. Yields in Central Asia were on average twice as high as in the Balkans and neared 50%. Financial revenues and portfolio yields were also higher for those that had more women among borrowers and served lower-end market as serving such target market is more costly.

Like revenues, expenses of NGOs/NBFIs were higher for the smallest institutions with portfolios below US$1 million. Operating expenses were higher among those with deeper outreach and serving more women. Those MFIs that operated in countries with lower financial sector development and high-inflation countries had higher operating costs due to increasing nominal costs of administration and labour.

Financial expenses were higher for those MFIs that used more commercial funds and operated in countries with lower financial depth, with high inflation and interest rates – the financial expense was connected with the higher price of commercial funds due to high interest rates and the inflation adjustment. Over 40% of MFIs decreased operating expenses, mostly in the Balkans. Conversely, grant-funded MFIs with deeper outreach and more female borrowers observed increases in their operating expenses.

Financial expenses most often increased among the MFIs, especially in the Balkans where the majority of commercial funding was directed and in Central Asia where the inflation growth affected equity-funded MFIs.

Microfinance Banks

Microfinance banks have different drivers of profitability than NGOs/NBFIs. Their returns do not depend on the economic development level of the country where they operate. The level of revenues and expenses was important but higher profits were achieved by those which had not only low expenses but also low revenues.

Banks that mobilized client deposits were able to have lower funding costs which translated directly into higher returns.

Portfolio yields and in consequence financial revenues of microfinance banks were much lower than those of NGOs/NBFIs. However, unlike NGOs/NBFIs higher revenues did not translate to higher profitability. Conversely, banks with higher revenues also had higher expenses which led to lower profit margins and profitability.

Both operating and financial expenses were higher for those banks which were in operation as banks for a shorter time as they were either newly created or transformed from non-bank MFIs. They have not yet grown in scale and did not run deposit mobilization activities to the full capacity. Additionally the economic environment was more adverse than in the case of older banks working in countries with stronger economies.

Credit Unions

Credit unions exhibited a whole spectrum of cost structures and revenues, some similar to or lower than those of microfinance banks while the others resembled more those of NGOs/NBFIs. The unique feature of credit unions is that in the majority of cases financial expense is the largest cost item. This is a result of comparatively low operating costs and much higher cost of funding. It shows that the competition with banks in deposit collection forces credit unions to offer more attractive terms thus incurring higher costs.

Social Performance of NGOs/NBFIs

Microfinance institutions in ECA have a broad clientele which is a result of two perspectives on the goal of microfinance: (1) serving the unbankable by mainstream banks, and (2) the poor and groups who are particularly vulnerable to falling into poverty. Therefore we looked closer at the composition of clients of NGOs/NBFIs to see how the social mission of reaching the poor and vulnerable clients is being achieved.

A survey among NGOs/NBFIs revealed more details about their client target market. Among surveyed institutions 42% did not know the poverty status of their clients. This indicates that almost half of institutions do not specifically target low-income clients and rather focus on providing credit to financially excluded entrepreneurs. Among those MFIs that track the income levels of their clients the poor constitute 54% of all borrowers. However, if we employ the conservative approach that the non-reporting NGOs/NBFIs do not serve low-income people, then less than 20% of NGOs/NBFIs clients in the region live below the poverty level[1]. This score is favourable for the microfinance industry as it exceeds the regional poverty incidence of 12%. Only 12 out of 159 NGOs/NBFIs are dedicated to serving almost exclusively poor clients located in the Balkans and Central Asia, with only two of these organizations reaching significant scale of more than 10,000 clients. Women constituted 58% of borrowers of NGOs/NBFIs and their share did not change compared to the previous year. The largest share of women (over 75% of borrowers) was observed in Central Asia and Russia/Ukraine sub-regions while the lowest was in CEE (44% of borrowers). MFIs that served more women had deeper outreach and more urban presence. These organizations have more female loan officers, female managers and women represented on their boards. They were more often funded from grants rather than borrowed funds. Despite a seemingly good situation, more than half of all institutions surveyed decreased their share of female clients, again confirming last year's tendency to equalize the gender structure.

However MFIs tend to stress the general importance of rural financing, the industry in general is not moving quickly towards this type of clientele. The presence of rural clients practically did not change compared to last year in the total share of clients, although it remains high in some sub-regions such as Central Asia, Caucasus and Balkans. The

[1] Poor people are defined here as those living below social minimum set by government in each country. The data from MFIs on the number of low-income people among their clients is self-reported by the MFIs.

increase was observed only in the Balkans. MFIs that served rural clients had fewer women among clients and as a consequence fewer women among staff, including loan officers. They are often more productive especially when using the village banking methodology. They also had a higher percentage of young clients (18-25 years old) which shows a very positive approach towards creating better business opportunities for young inhabitants of villages. Young people were rarely the borrowers but they were more often served in the Balkans – the most mature sub-region - than in any other sub-region.

Disabled people constitute 10% of the population in ECA and although they have very high share in the low-income strata of the population they are very rare among microfinance clients. There are only 21 NGOs/NBFIs[2] which consciously serve disabled clients, some of them have up to 6% of the disabled among borrowers, but in the overall pool of microfinance institutions it is a marginal phenomenon.

Internally displaced people and refugees constitute an important target group for microcredit in the Balkans and Caucasus where as a result of conflicts many people were relocated. The comparison of the international statistics with the composition of microfinance clientele shows that IDPs and refugees are well represented among MFI borrowers in the Balkans, especially in Serbia. Targeting ethnic minorities is most prevalent in Central Asia and the Balkans – the sub-regions where after the collapse of Soviet Union and Yugoslavia new borders were charted which were not always in line with the ethnicity of the population. Although the overall number of minority clients served compared to the total microfinance clientele is low (4%), there are examples of MFIs in both of these sub-regions that have over 40% of clients belonging to the minority.

Loan Products

Similarly to the previous years the dominant type of product is a business loan although the other loan types became a more significant part of the MFI portfolio. Almost all MFIs offer enterprise loans and two-thirds offer agricultural loans (almost all MFIs in the Caucasus offer ag loans). One third offers consumer loans (every second MFI in the Balkans) and 15% offer housing loans (every third in the Balkans). In total, at least 20% of the portfolio in the region is engaged in agricultural loans for 23% of borrowers. MFIs offering agricultural loans reach the largest number of clients in the Caucasus and the Balkans. Central Asian MFIs, despite serving the largest number of clients in rural areas, as yet do not have such a diversified offer as in the other sub-regions and many of their enterprise loans are used in agriculture.

[2] NGOs/NBFIs that work with disabled borowers are: EKI, MI-BOSPO, Mikrofin, Sunrise in Bosnia and Herzegovina, FINCA Kosovo, Integra and Nachala Cooeprative in Bulgaria, Integra SA in Romania, Baspana, Moldir in Kazakhstan, HUMO, ZAR, Madina, Kiropol, Mekhnatabad, Imkoniyat, Borshud in Tajikistan, BWA Tadbirkor Ayol Karakalpakstan and SABR in Uzbekistan, Counterpart Enterprise Fund in Russia, and HOPE-Ukraine.

More than half of the borrowers received their loans through the individual lending methodology in the European part of ECA and in Russia, while institutions in Central Asia and the Caucasus more often employed a group methodology.

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Introduction

The Eastern Europe and Central Asia (ECA) region encompasses 27 transition countries that in the early 90s started moving from centrally-planned to market economy. It is divided into five sub-regions:

- Balkans – Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montengro, Kosovo, Serbia, Slovenia – all except Albania once constituted Yugoslavia
- Central and Eastern Europe (CEE) – Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Poland, Romania, Slovakia – now member states of the European Union (except Moldova)
- Belarus/Russia/Ukraine – former European republics of the Soviet Union
- Caucasus – Armenia, Azerbaijan, Georgia
- Central Asia – Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan, Uzbekistan

Countries of the last three sub-regions (except Mongolia and Turkmenistan) constitute the Commonwealth of Independent States (CIS) - the alliance, consisting of former Soviet Republics that joined the structures between 1991 and 1993.

Demographics

The total population of 460 million people is concentrated in Russia and Ukraine where almost 50% of ECA inhabitans live, followed by CEE and Central Asia.

The 5 countries with the largest population are: Russia, Ukraine, Poland, Uzbekistan, Romania. The majority of countries have predominantly urban populations over rural ones, although there are examples of rural countries such as Kyrgyzstan, Tajikistan, Uzbekistan, Kosovo. Educational levels are quite high with tertiary enrollment of 50% (compared to a worldwide level of 24%).

According to the World Bank, 12% of people live in poverty, below US$2.15 per day. The largest number of the poor live in Russia – the largest country in ECA, but the highest incidence of poverty is seen in Central Asia where 28% of citizens live below the poverty line. Poverty in ECA has a spatial dimension with secondary cities and rural areas showing much lower income levels and being less responsive to economic growth. Another distinguishing feature is the two types of poverty seen in the transition countries – the assets poor (much as in the other regions of the world) and the income poor - people who have some assets built in the previous system but do not have steady income and access to safety nets which were quite generous during socialist times.

During 1998-2003 poverty fell in almost all countries except Lithuania, Poland and Georgia. The most important factor behind the decrease is economic growth, particularly in CIS countries were the majority of population live. However, very few countries, even those that have made the most progress in reducing poverty, have been successful in creating jobs to fully replace those that have been destroyed. High employment-to-population ratios, a socialist legacy, have been falling. If it persists, this failure to expand employment will limit the poverty reduction impact of economic growth.

Although 40 million people moved out of poverty, more than 60 million remain poor and 150 million people are economically vulnerable. When a spatial dimension is added to income and non-income poverty then it becomes visible that the declines in poverty levels have been observed in capital cities. In parts of the region poverty rates are just as high in secondary cities and rural areas[3].

Economic conditions

All the sub-regions share the common past of a centrally planned economy and follow a similar transformation path but in different national contexts and at a different pace. According to World Bank classification ECA countries belong to three income groups: low-income (most of Central Asia), lower-middle (most of the Balkans, Bulgaria, Moldova, Ukraine, Caucasus and Kazakhstan) and upper-middle income (Croatia, most of the CEE, Russia).The GNI per capita ranges from US$ 390 to US$17,440. Compared to the rest of the developing world ECA has the highest average income per capita, although it is at the same time 8 times lower than the average for the neighbouring countries of the Euro zone. With the GDP growth rate of 6.8% the ECA region outpaces the majority of other developing regions except Southeast Asia and Pacific. Income increases have been, in particular, bolstered in oil exporting countries (Azerbaijan, Kazakhstan, Russia) as well as capital inflows into countries that recently joined the EU. At the same time inflation is on the rise due to the rapid expansion of credit and the rise in fuel prices. In half of the countries the consumer price index exceeds 5%.[4]

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[3] 'Growth, Poverty,and Inequality. Eastern Europe and the Former Soviet Union'. Alam A., et al., World Bank, 2005

[4] World Bank statistics

Banking sector

The financial sector in ECA remains shallow with small banking sector and weak capital markets.

The transition in the banking system in many countries meant transformation from a monobank to a two-tier system[5] with central banks responsible for monetary policy and its implementation and banking functions of financial intermediation in the hands of second-tier banks.

While all transition economies faced common problems in their banking sectors during the transition, in the CIS countries the transition has been far more difficult. The reasons for this difference included hyperinflation, which wiped out asset values, as well as the implosion of monetary systems in CIS countries which led to a shift to a system of arrears, barter, and netting, often bypassing the banking sector. Thus by the mid-1990s the CIS countries had much of their economic and asset values in nonbank institutions, while countries in Central and Eastern Europe and the Baltics focused on building a stable banking system. Banks now show stronger growth in deposits and capital in many countries in Central and Eastern Europe and the Baltics, suggesting that these countries have put into place structures that have helped to restore confidence in banking systems among creditors, investors, and the public. In contrast, deposit mobilization has been more limited in the CIS countries, and banks have undergone significant decapitalization since 1995[6].

Reforms and economic development are at a very different stage ranging from 1(little progress beyond establishment of a two-tier system) to 4 (significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening) on the EBRD scale[7], with European countries in the lead and Asian still relatively less developed. The overall ECA score moved from the average of 1 in 1990 to 2.9. What remains to be done is to strengthen the regulatory framework, to increase financial intermediation and to privatize the remaining state-owned banks.

Financial intermediation remained low during the first decade of transition, mainly due to the weak depositor’s confidence caused by financial crises. In addition, the low amount of household deposits and the conservative credit expansion policies, led to ineffective financial intermediation by banks. During the last years, the level of financial intermediation increased. The deposit base was increased while the adequate legal protection of the

[5] In Yugoslavia and Hungary two-tier systems already functioned before 1990.

[6] ‘State-Owned Banks in the Transition: Origins, Evolution and Policy Response’, Sherif K., et al., World Bank 2002

[7] EBRD Transition Indicators http://www.ebrd.com/country/sector/econo/stats/timeth.htm

lenders, the introduction of modern credit risk management techniques and the good performance of the enterprise sector, led to high credit expansion[8]. Domestic credit to private sector as percentage of GDP is below 20% in the Caucasus and Central Asia compared to over 50% in some CEE countries.

State-owned banks in most countries have less than 10% share of banking system assets (exceptions are Azerbaijan, Poland, Serbia, Moldova). The privatization of the banking systems was characterized by the entry of foreign banks in the market which introduced modern risk management techniques and financial management know-how.

Despite the development of the sector few commercial banks, either local or foreign, have shown a strategic interest in lending to micro and small enterprises. Most micro and small businesses in the region have neither a track record nor the amount of collateral required by banks. This precludes the use of the credit technology increasingly applied by these commercial banks, primarily credit scoring and self-selection instruments, especially collateral. Moreover, in some countries of the CIS and the Balkans, current laws and enforcement practices do not support successful collateral-based lending, even if borrowers could provide standard forms of collateral. Additionally, information about clients (documentary evidence, as well as the experience of long-standing bank-customer relationships) is usually unavailable or unreliable, acting as a further barrier to small-business lending by banks. Therefore, most micro and small enterprises go unserved by the banking sector and have been forced to operate below the formal “financial frontier”—relying mainly on internal financing and the informal financial sector (namely, families, friends, and moneylenders) for funding[9].

Microfinance sector

Microfinance in the region emerged after the transition from a centrally-planned to a market economy allowing for the development of private entrepreneurship. This was an opportunity for entrepreneurial people who under communist rule were only allowed to run very small ‘craft’ or agribusinesses but in the new market realities had the opportunity to expand their operations and utilize their potential.

However, at the same time, vast unemployment and war-related circumstances forced many citizens to seek economic opportunities and start own businesses out of necessity.

[8] ‘Banking Sector Developments in South-eastern Europe.’ Stubos G., et al., GDN-SEE, 2005

[9] ‘The State of Microfinance in Central and Eastern Europe and the NIS’, Foster S., et al., Microfinance Centre for CEE and NIS (MFC), 2003

By supporting such enterprises, MFIs are helping to develop businesses from the bottom up, in contrast to the top-down, state-run businesses of the region's communist past. They are also helping to increase incomes and create new job opportunities.

MFIs also help restore economic security by providing low-income and disadvantaged groups with access to credit and other financial services. Microfinance services other than credit, such as savings accounts and insurance, have as much, if not more, potential to help build social and economic security, by helping people build assets and protect themselves against unforeseen crises. Savings and insurance services targeted to a microfinance clientele are likely to see further development as the sector matures.

MFIs also add to their clients' quality of life in other, more subtle ways. Some microfinance models and organisations dramatically increase their clients' sense of self-esteem. This is particularly true of those MFIs that focus on the poorest end of the population. Group-lending models, in which group members guarantee each other's loans, appear to have benefits beyond the provision of credit. They give members support, confidence and ideas for income-earning opportunities.

Four main types of organizations provide microfinance services to a wide range of clients:

Credit unions – along with mutual credit and savings associations, credit unions are membership-based organizations which provide mainly savings and credit services only to their members.

NGOs/NBFIs – non-governmental organizations (foundations, public associations) and non-bank financial institutions (limited liabilities companies, specialized microcredit companies, organizations and agencies) – all types of non-profit and commercial institutions that specialize in lending to microenterprises and are not licensed to take deposits

Microfinance banks – commercial banks that, primarily, provide a full-range of banking services to micro and small enterprises.

Downscaling commercial banks – mainstream banks that opened special micro- and SME lending units

Microfinance Centre (MFC)

for Central and Eastern Europe and the New Independent States

MFC is a grassroots network of 110 member institutions which play an active role in shaping the microfinance industry in the ECA region.

They range from banks and non-governmental organizations engaged in the provision of financial services to microenterprises, SMEs and low-income households, social and commercial investors that provide funds for sector growth, to development institutions and international PVOs supporting access to finance and providing technical assistance to microfinance practitioners.

MFC plays a catalyst role in bridging the market gap through supporting the development of various institutional forms, promoting microfinance among policy makers, regulators, formal banking sector and investors.
It initiates activities supporting members in different country contexts – from EU member states, through fast-developing Caucasian states to the poorest countries in Central Asia.

The MFC is active in the following areas:

Innovation

Advancing Social Performance Management - aims to develop and promote social performance management (SPM) systems for the double bottom-line.

Financial Education Program – aims to raise awareness and build skills of local development organizations and financial service providers to increase financial literacy levels of low-income households and other vulnerable groups.

Microinsurance – aims to facilitate widespread access to microinsurance services in the region, build the capacity to offer microinsurance services and develop innovative delivery channels.

Knowledge Management

Annual Conference, Investors Fair and Policy Forum – regional events that bring together different industry players for the exchange of experience, finding partners for business and cooperation in pushing forward local agendas for sector development.

Mapping the State of Microfinance Industry – provides an annual review of changes and trends in microfinance across the region among different institutions involved in service provision to low-income clients.

Microfinance Market Studies – provide insight into the size and the nature of a market gap between supply and demand of microfinance services for low-income population and discuss possible scenarios for market development.

Networking and Information Exchange – provides contacts to the majority of microfinance players in the region.

Publications – aims to disseminate knowledge, experience sharing in the areas of institutional management, innovations and building of a conducive legal and regulatory environment.

MFC works with the following partners and supporters:

CGAP, Citigroup Foundation, ICCO, IFAD, MicroInsurance Centre, Microfinance Opportunities, MicroSave, NOVIB, Open Society Institute, USAID.

Capacity Building

Management Training Programme – offers microfinance managers opportunities to gain knowledge and exchange the experience through training courses and consulting visits.

Associations Strategic Planning and Growth – provides assistance to young local networks of microfinance providers in setting and operationalising strategic objectives.

Ten Years of Microfinance in ECA – Views of Microfinance Practitioners[10]

Microfinance in Eastern Europe and Central Asia started in the early 90's after the fall of communist rule and the launch of economic transformation. However, the bulk of the institutions were created after 1996 when international development organizations came to the region to provide post-conflict aid after the war in Yugoslavia and in the Caucasus. At that time Microfinance Centre for CEE and NIS (MFC) was created to serve as a platform for peer learning, provide capacity-building services to its member and stimulate sector growth.

Ten years later we asked the MFIs to look back and reflect on the achievements of the past decade and challenges still lying ahead.

Achievements

Successful provision of financial services to large numbers of micro-entrepreneurs, fulfilment of the social mission and a positive impact on legal and regulatory environment are perceived as the greatest achievements of the last ten years. During that time new regulations were implemented in many countries of the region (see Annex 2 for details). The other key issue was the creation of a more microfinance friendly environment – government awareness and public opinion, in particular stressed in Central Asian and the Caucasus.

In the Caucasus and Central Asia region providing access to rural finance was also listed among the achievements.

In the Balkans the reconstruction process was underlined. As the microfinance industry is the most advanced there, the role of microfinance as an important branch of national economy was stressed. The market saturation is high and in this region only a strong market position was perceived as a real success. It seems that in the other sub-regions microfinance services providers do not perceive the competition within the industry as a real challenge. It could be also noticed that CEE institutions put more stress on the entrepreneurship facilitation role than poverty reduction.

Challenges

In general there are strong expectations of increasing competition especially from the downscaling banks in the future.

[10] Microfinance institutions were asked to list the biggest achievements of microfinance industry in their countries, challenges faced by their MFIs and rate the legal and regulatory environment in their country.

The lack of the possibility of deposit collection is perceived as an unfair obstacle against the development of non-bank MFIs. This issue seems to be very important taking into account that many MFIs perceive that they are too dependent on donors and are striving for market based sources of financing. Legislation that enables savings mobilization is perceived as one of the key issues that would allow for fair competition between NGOs/NBFIs and banks.

In terms of client outreach – the provision of services in rural regions, the development of more advanced products as well as social performance management systems are perceived as challenges for the coming years.

In the legal and regulatory sphere – the lack of microfinance law or changing regulations continue to be a challenge. In other countries, changes in the legal environment opened the possibility of transformation into a formal financial institution. Such a major transformation will be a challenge for a number of microfinance institutions.

There is a high awareness of the importance of human resources among MFIs in general. In many cases finding and training professional staff is an obstacle to growth which is especially acute in the case of those MFIs that are allowed to provide a variety of financial services but fail to do so because of lack of expertise.

In 'younger' regions like Central Asia and the Caucasus, lack of financial resources is of concern, in particular among smaller MFIs which have a short history and often weak governance.

The challenge of transformation is widespread in the Balkan region in view of the new law in Bosnia and Herzegovina that gives MFIs the opportunity to transform into for-profit companies with a clear ownership structure. Strategic decisions on the right choice of investors, shareholders as well as a good transformation plan are crucial at this turning point for many Bosnian MFIs. In the Balkans cost reduction is also an important issue because of strong competition and saturation of the market.

Legal issues

The highest satisfaction with legal and regulatory conditions for microfinance is seen in poorer countries. MFIs there enjoy higher profits as there are fewer restrictions affecting MFI operations. However, this comes at a cost of social performance – fewer women are served and the outreach is shallower among those MFIs which are satisfied with the legal and regulatory conditions for microfinance in their country. They tend to have a more commercial, profit-seeking approach rather than follow a development-oriented agenda. On the country level, the least favourable environment was seen in Croatia, Macedonia and Uzbekistan and the most favourable in Poland and Montenegro.

The main legal problem concerning the microfinance industry is the quality of the regulations. The regulations are perceived as unclear which lead to many different interpretations and do not provide sufficient protection of the credit provider. According to many MFIs the environment is overregulated: the main obstacle seems to be interest caps and the calculation of mortgage value.

The absence of the option to provide savings collection is perceived as the most unfair regulation for NGOs/NBFIs all over the region especially in view of increased competition coming from banks. In the opinion of many NGOs/NBFIs they are subject to the same limitations as banks, but cannot benefit from the same privileges.

In general, the overall score for the whole ECA was around 3 indicating that the legal environment is perceived to have rather a neutral impact on MFIs activity.

Table 1: Perception of permissiveness of legal environment for MFI operations

Balkans	2.9
CEE	3.3
Russia/Ukraine	2.5
Caucasus	3.6
Central Asia	3.2

1-5 scale: 1 - very difficult, restrictive environment to 5 - enabling, permissive

A. Financial Performance

There are almost 6,000 institutions in the region that are involved in providing microfinance services, the bulk of them are credit unions located in Central and Eastern Europe – they are small, membership-based, operating on a local scale.

As the industry grows the number of MFIs is not changing significantly. The new development this year is the increasing number of commercial banks downscaling their operations through opening microfinance units. Additionally, credit unions and one new microfinance bank was created during the year through the transformation of KAFC Kyrgyzstan into Ayil Bank.

Table 2: Number of microfinance institutions by sub-region

	Credit unions	Microfinance banks	Downscaling banks	NGOs/NBFIs	**ECA total**
Balkans	124	7	18	35	**184**
CEE	3,988	2	3	21	**4,014**
Russia/Ukraine/Belarus	1,115	3	16	8	**1,142**
Caucasus	57	3	18	32	**110**
Central Asia	340	4	21	63	**428**
ECA	**5,624**	**19**	**76**	**159**	**5,878**

Assets

Typically for financial institutions devoted to providing credit, assets of microfinance institutions are dominated by the loan portfolio – the main revenue generating item, which can represent up to 99% of the total assets. This happens mostly in small, non-deposit taking, non-bank MFIs which have not yet built substantial fixed assets. Microfinance banks and some credit unions, which are required by regulations to keep a prescribed minimum liquidity have larger cash and bank deposits levels. This naturally does not apply to dowscaling banks, which only have microfinance as part of their operations.

Table 3: Ratio of gross loan portfolio to total assets by institutional type

	Gross loan portfolio/total assets
credit unions	50%
microfinance banks	69%
NGOs/NBFIs	84%

Gross Loan Portfolio

2006 saw the acceleration of microfinance activities among all types of institutions in all sub-regions. The ECA's total loan portfolio increased by over 40% to US$12.6 billion.

The microfinance sector in ECA remains dominated by credit unions, not only in the number of institutions but more importantly in the size of the outstanding loan portfolio. However, the fast growth of microfinance operations of banks brings them closer to credit unions every year.

Table 4: Total gross loan portfolio by institutional type

	N	Total gross loan portfolio (US$)	% change	Avg. gross loan portfolio (US$)	Median gross loan portfolio (US$)
credit unions	5,624	4,974,770,428	7%	884,718	83,682
microfinance banks	19	3,454,827,693	64%	181,833,036	123,002,093
downscaling banks	76	3,167,925,487	111%	41,683,230	9,113,412
NGOs/NBFIs	159	977,675,958	55%	6,187,648	1,686,378
ECA	**5,878**	**12,575,199,567**	**41%**		

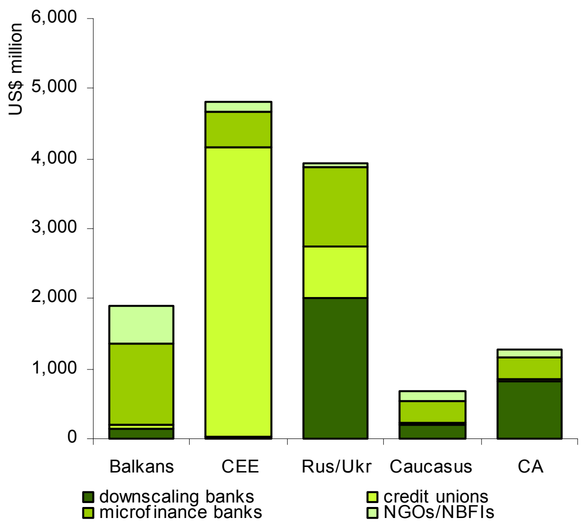
Different operating environments in the sub-regions as well as different target markets pursued by institutional types make the distribution of lending operations highly uneven across ECA. While credit unions are concentrated in CEE, downscaling banks flourish in Russia and Central Asia and NGOs/NBFIs as well as microfinance banks dominate in the Balkans.

The largest microfinance sector in the sub-regions is in Bosnia and Herzegovina (Balkans), Hungary (CEE), Russia (Rus/Ukr), Georgia (Caucasus) and Kazakhstan (Central Asia). Compared to the size of the commercial banking sector the cumulative microfinance loan portfolio is smaller than that of a largest bank in Hungary or Kazakhstan.

Table 5: Size of microfinance sector in selected countries compared to the largest commercial banks

	Gross loan portfolio of all microfinance institutions US$	Gross loan portfolio of the largest commercial bank US$	GLP MFIs/largest bank %	Financial sector depth (M3/GDP)
Bosnia and Herzegovina	520,604,084	1,202,572,391	43%	56.4%
Hungary	2,309,150,000	13,232,439,203	17%	47.1%
Russia	2,365,348,802	9,652,932,016	25%	31.6%
Georgia	318,814,029	482,563,771	66%	15.6%
Kazakhstan	741,568,404	13,218,897,638	6%	28.4%

Figure 1: Distribution of gross loan portfolio by sub-regions and institutional types

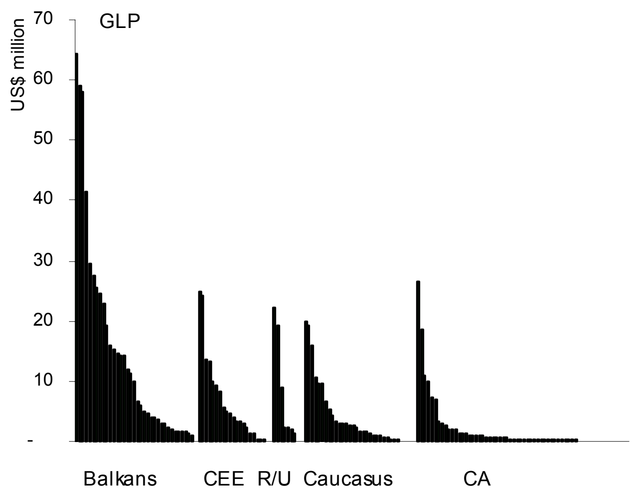


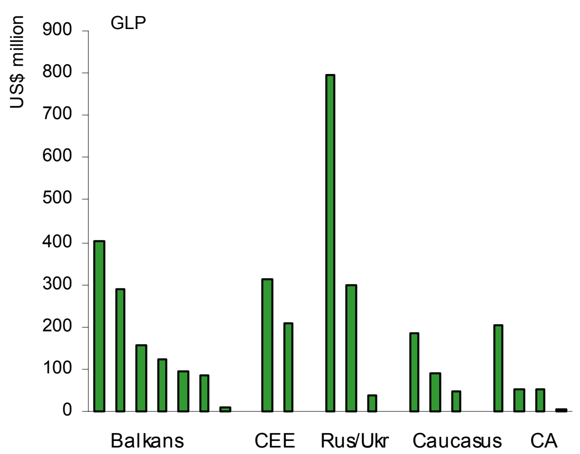
The average and median size of the MFI portfolio show that institutions are very diverse in size even within their own institutional type.

The biggest number of NGOs/NBFIs with loan portfolios over US$10 million was seen in the Balkans, in Bosnia and Herzegovina, the largest one reaching over US$60 million. Conversely, the smallest NGOs/NBFIs were found in Central Asia with the smallest one having a loan portfolio of barely US$5,000.

Microfinance banks had much larger portfolios with the smallest one of US$7 million.

Figure 2: Distribution NGOs/NBFIs by sub-regions
Figure 3: Distribution of microfinance banks by sub-regions



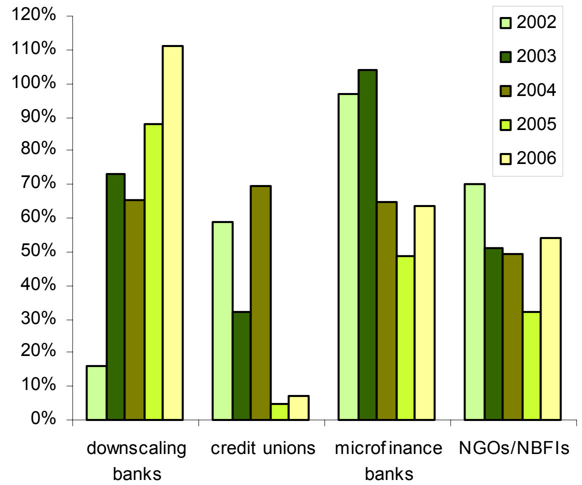


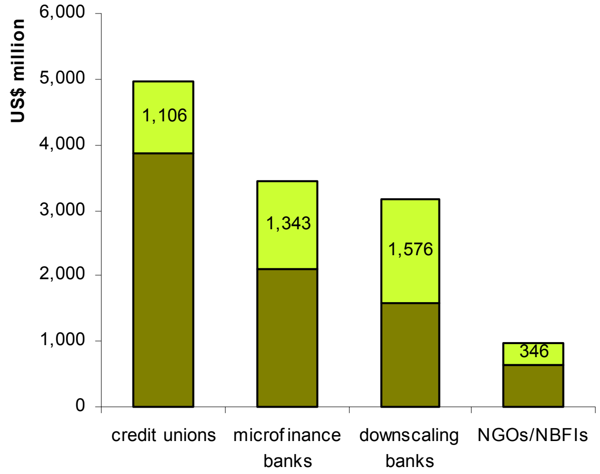
The NGO/NBFI sector is the youngest in low-income countries, which coincides with the geographic location – the oldest institutions are located in the western, European part of the region while the youngest in Central Asia where a few years ago a new microfinance law triggered rapid expansion of non-bank credit providers.

Compared to the previous year all types of institutions had higher growth rates. Downscaling banks were again the fastest growers – they doubled their portfolio during the year. They also brought the largest volume of new portfolios to the region – EBRD's downscaling programmes in Russia and Ukraine alone were recipients of 30% of all ECA funds for growth. Microfinance banks closely followed, bringing another 40% of new loan portfolio. NGOs/NBFIs had a more modest contribution to growth but their growth rates improved significantly compared to 2005. A new development among NGOs/NBFIs is the fact that unlike in previous years, higher growth rates were observed in larger and older institutions as they were able to more successfully attract debt funding.

The fastest growing sub-region was Russia/Ukraine where both types of banks and NGOs/NBFIs had the largest increase in the volume of operations. Central and Eastern Europe sub-region represented the slowest growth for all types of institutions.

Figure 4: Growth rates of gross loan portfolio by institutional types
Figure 5: Total volume of loan portfolio growth by institutional type





Active Borrowers

While credit unions again served the majority of borrowers in CEE and Russia/Ukraine, microfinance banks and NGOs/NBFIs were dominant credit providers in the other three sub-regions.

The largest microfinance bank – Khan Bank in Mongolia was the leader with 230,000 active borrowers but the other banks were much smaller with less than 90,000. The largest NGO/NBFI – FINCA Azerbaijan - reached 49,000 borrowers.

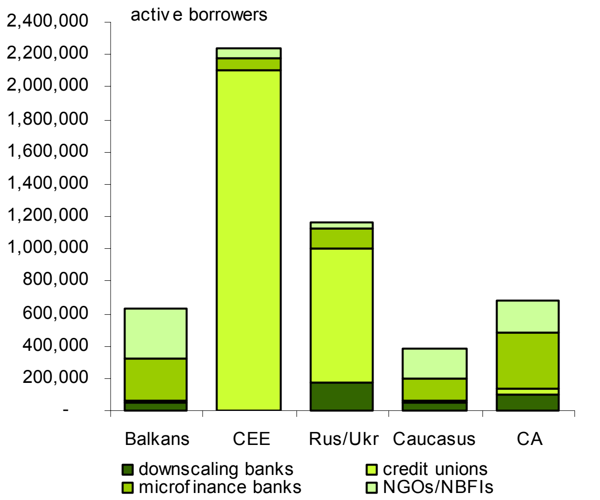
Downscaling banks had the largest outreach in Ukraine where the 5 banks of EBRD’s microlending program covered nearly 90,000 clients.

Table 6: Number of active borrowers by institutional type

	N	Total number of active borrowers	% change	Average number of active borrowers	Median number of active borrowers
credit unions	5,624	2,997,877	12%	523	239
microfinance banks	19	946,142	39%	49,797	45,085
NGOs/NBFIs	159	785,663	30%	5,004	1,767
downscaling banks	76	368,382	31%	4,847	2,314
ECA	**5,878**	**5,098,064**	**20%**		

Despite such impressive growth of the loan portfolio, the increases in the number of active borrowers were more modest, well below 40% for all institutional types and slower than a year earlier. While microfinance banks had the highest growth rate, NGOs/NBFIs were the only type that accelerated growth. The highest jump in the borrowers numbers was observed in Central Asia and Russia where the two largest institutions increased their outreach by 60%.

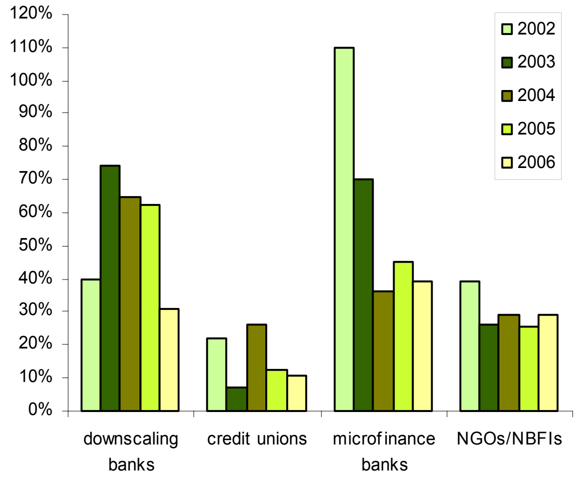
Figure 6: Distribution of active borrowers by sub-regions and institutional type

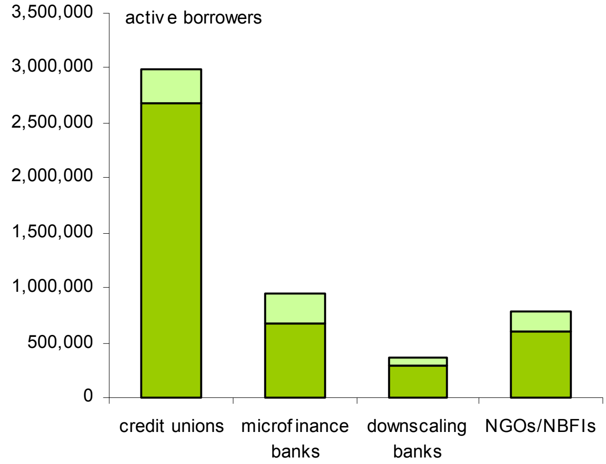


Both for NGOs/NBFIs and microfinance banks the key to increase in outreach was access to funding – client deposits for banks and debt funding for non-banks – as well as improvements in personnel productivity. Additionally, younger banks were growing their client base more dynamically which was not observed among NGOs/NBFIs. In the case of the latter, institutions that were members/partners of international PVOs often had better support in fundraising and therefore were able to grow more effectively.

Quicker loan portfolio growth compared to borrowers increase means that larger loans are given compared to the previous year. However, discounted for the growth of the economy in fact many of the institutions started to provide smaller loans relative to GNI per capita.

Figure 7: Growth rates of active borrowers number by institutional type
Figure 8: Total increase of borrowers number by institutional type





Depth of Outreach[11]

Credit unions continue to have the deepest outreach among all institutional types but the down-market drive observed last year has slowed down. When weighted by the number of borrowers the average size of an outstanding loan relative to GNI per capita decreased by 3% compared to 8 percent decrease a year earlier.

Both NGOs/NBFIs and downscaling banks are now reaching a more shallow market, only microfinance banks and credit unions continue to decrease the loan size.

Table 7: Depth of outreach by sub-region and institutional type

	Credit unions	NGOs/NBFIs	Microfinance banks	downscaling banks
Balkans	73%	76%	164%	139%
CEE	15%	95%	151%	275%
Russia/Ukraine	34%	58%	196%	318%
Caucasus	187%	52%	144%	267%
Central Asia	129%	75%	179%	476%
ECA	**28%**	**72%**	**168%**	**306%**
avg. change	**-14%**	**1.8%**	**-5.9%**	**27%**

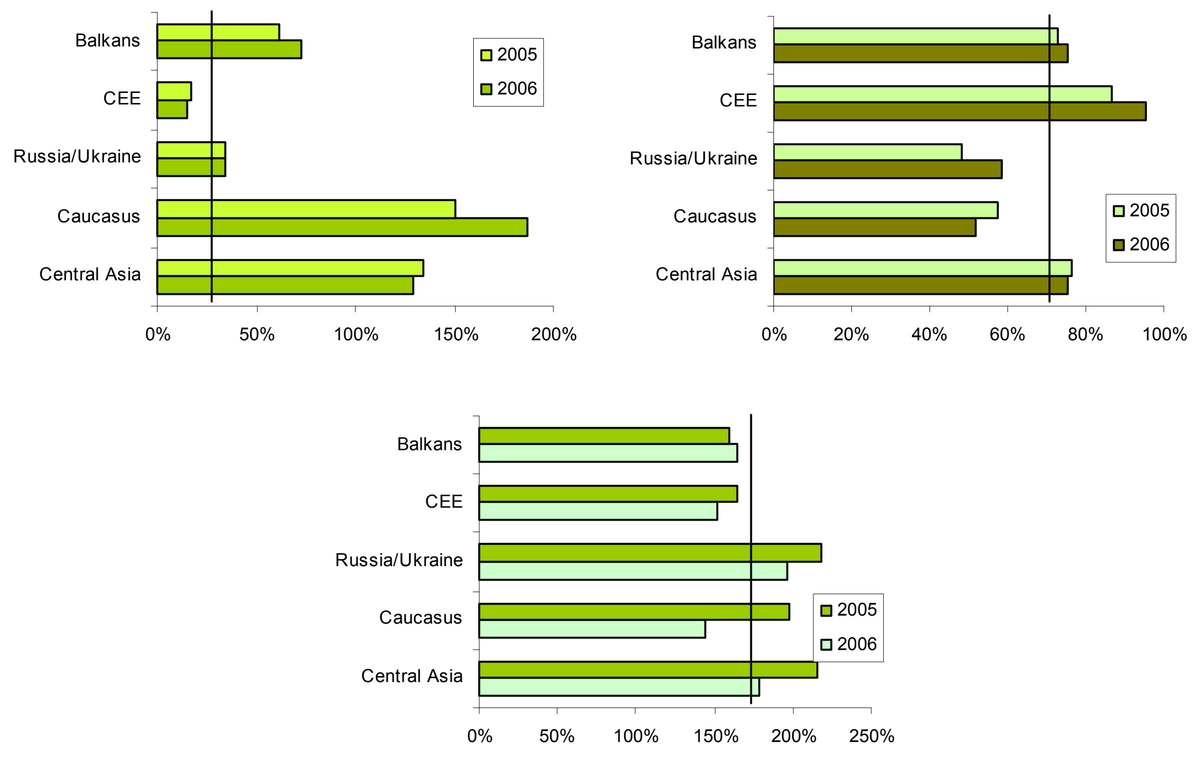
[11] Depth of outreach is calculated as average loan balance per borrower divided by GNP per capita. This measure normalizes the loan size for different levels of country income making cross-country comparisons possible. Lower values of the ratio mean smaller loans, which are associated with deeper outreach to the poor. Higher values mean that the outreach is shallower, as the institution serves clients with larger businesses. Deepening the outreach happens through the decrease of the depth of outreach ratio, therefore the downscaling effect is observed among MFIs whose depth of outreach change was negative during the year.

NGOs/NBFIs with deeper outreach operated in richer countries while in poorer countries MFIs more often engage in SME lending. Deeper outreach was achieved by institutions with a lower level of commercial funds indicating that they were able to attract socially-motivated investors offering concessional funds.

More than half of NGOs/NBFIs (60%) deepened their outreach but there was also a number of MFIs which moved towards high-end clients. Upscaling was coupled with the increase of debt funding which might indicate a mission drift linked with better access to commercial funding.

The downscalers among microfinance banks had faster increases in client numbers, were younger and managed to improve productivity during the year.

Figure 9: Depth of outreach: credit unions, NGOs/NBFIs and microfinance banks



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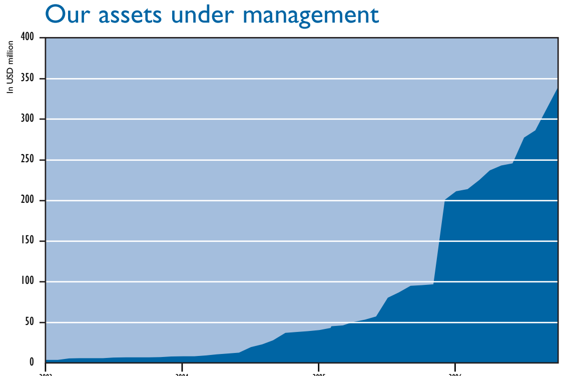
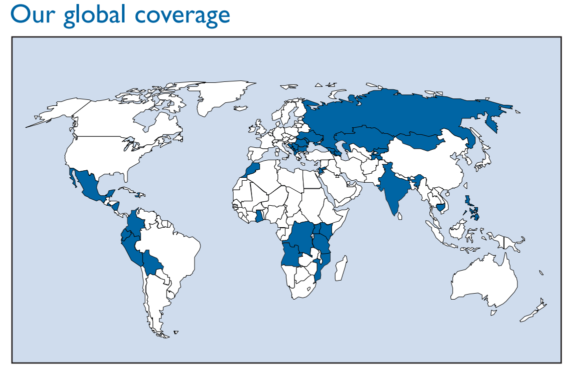


Our global coverage



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Liabilities

Each of the different types of institutions providing microfinance sevices has a different funding structure due to the types of services offered and access to both international and domestic sources. While an average NGO/NBFI is still predominantly equity-based, microfinance banks and credit unions fund their operations mainly from client deposits and borrowed funds. The pattern of starting from equity and then inreasing the leverage can be seen in every institutional type but the dynamics are very different. Microfinance banks have considerably easier access to borrowings through the fact that their shareholders are often microfinance lenders. Within 6 years microfinance banks managed to borrow 3 times as much as their own equity, twice as much as NGOs/NBFIs. Additionally, the international reputation of ProCredit banks makes it more feasible for them to receive debt funding from other investors.

Some NGOs/NBFIs use a similar approach whereby access to funds is facilitated by international PVOs they are affiliated with – such MFIs observed higher growth rates in 2006.

Credit unions can be classified into two groups which have totally different access to funding. The first group constitutes grass-root organizations that were created from membership sources and until now use members deposits as a major source of funds for lending activities (credit unions in CEE and Russia/Ukraine). Credit unions in the second group were created as a result of large level support from development organizations, with a mission of providing credit to members in the first place and then developing savings facilities, so they use a mixture of international borrowings and client deposits, unless regulations do not allow for deposit collection by non-bank institutions.

NGOs/NBFIs

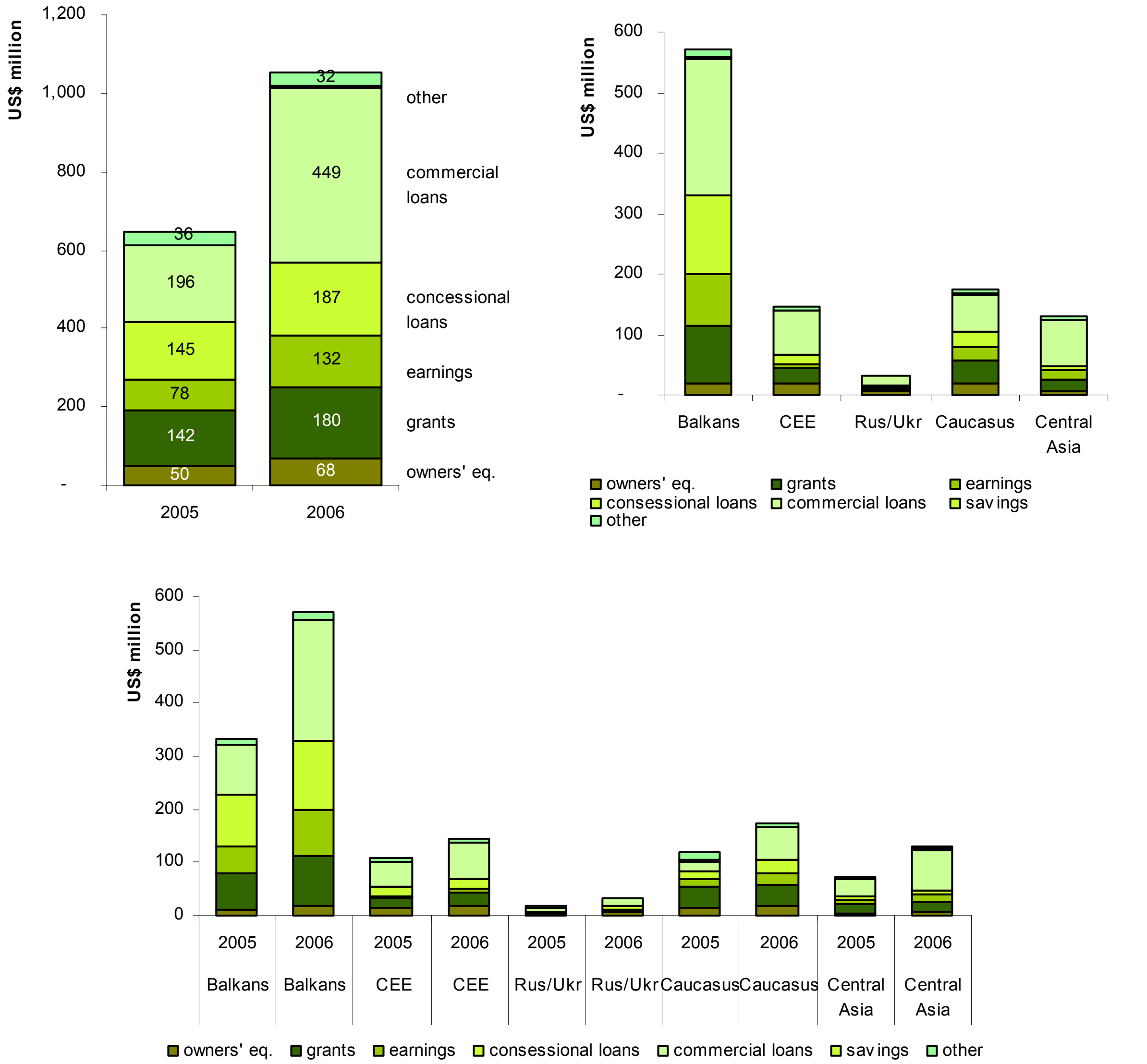
At the end of the year the majority of US$1 billion assets was financed from borrowed funds (61%), with commercially-priced funds prevailing over concessional ones. The bulk of debt was located in the Balkans. Grants constituted only 17% of the total value of assets.

The impressive increase of the total assets in the amount of US$400 million was fulfilled in two-thirds by commercial loans which were the largest contributor to growth in every sub-region. Other sources of funds provided less than 15% of funding each.

In the sub-regions, the biggest growth was observed in the Balkans where 60% of the new funding was placed – it led to the astounding growth of the total asets by 75%. There, owner equity quadrupled and the use of commercial funds almost tripled during the year.

The other sub-regions, although with a much smaller microfinance sector, also observed large growth rates (Central Asia – 84% increase in assets and Russia/Ukraine - 80%). The impressive increase in commercial funds of 6 times in the Caucasus and 2 times in Central Asia shows that the markets there became more open to the investors.

Figure 10: 2005-2006 funding structure of NGOs/NBFIs
Figure 11: Funding structure of NGOs/NBFIs by sub-regions
Figure 12: 2005-2006 changes in funding structure of NGOs/NBFIs by sub-regions



Borrowings

The distribution of borrowings among NGOs/NBFIs was highly unequal, concentrated in the largest ones. While the average MFI funded less than half of the assets from these, the largest MFIs (with portfolios over US$15 million) had almost 70% of assets funded from debt. The average debt/equity ratio reached 1.4 compared to 7.5 for microfinance banks.

Table 8: Trends in average capital/asset and debt/equity ratios of NGOs/NBFIs by loan portfolio size[12]

Average capital/asset ratio	2004	2005	2006
Gross loan portfolio <US$1M	85%	78%	76%
Gross loan portfolio US$1-5M	71%	59%	56%
Gross loan portfolio US$5-15M	49%	44%	43%
Gross loan portfolio >US$15M	37%	37%	34%
	70%	**61%**	**59%**

Average debt/equity ratio	2004	2005	2006
Gross loan portfolio <US$1M	0.3	0.5	0.6
Gross loan portfolio US$1-5M	1.0	1.2	1.2
Gross loan portfolio US$5-15M	2.1	2.6	2.8
Gross loan portfolio >US$15M	1.9	1.9	2.4
	1.0	**1.3**	**1.4**

The indicators are slowly changing over the years for all size classes – NGOs/NBFIs of all sizes, even the smallest ones, have now better access to borrowings than 2 years ago. Although only a handful of institutions have high level of indebtedness the need for equity funding is becoming more important as more and more of them will come closer to the threshold over which microfinance investors will be less willing to lend.[13]

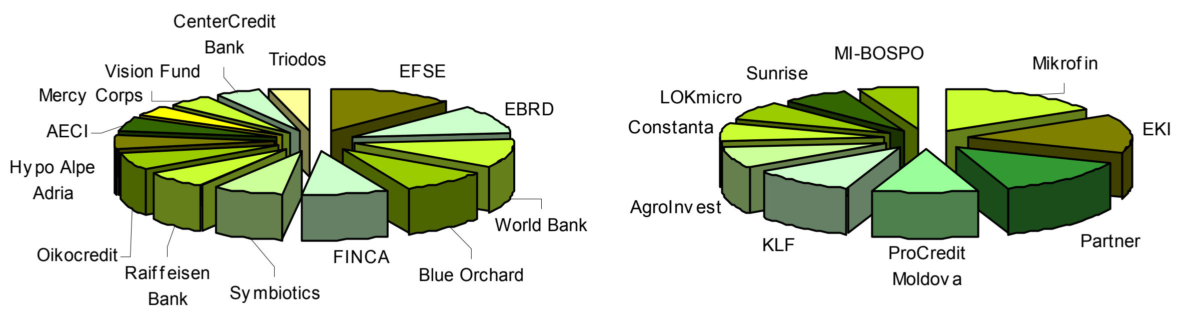
However, not all MFIs follow the trend of increasing the use of borrowed funds. About one-third of institutions decreased the use of borrowed funds in their funding structures – these were smaller MFIs, mostly funded from grants and concessional loans, the ones which grew slowly but increased outreach to women.

The analysis of the supply of borrowings shows that the market is very fragmented with over 100 different providers. Half of the funding is provided by 14 lenders. The five largest lenders contributed between 6% and 5% each of total outstanding debt.

[12] Size segments were built separately for each year, so with growth an MFI would move to higher segment

[13] Although no study has been carried out on the MFI D/E ratio level acceptable for investors to continue providing borrowed funds the anecdotal evidence suggests that at present it is around the value of 4-5.

Figure 13: Fourteen largest debt providers to NGOs/NBFIs contributing 50% of all ECA debt
Figure 14: Ten largest borrowings recipients managing 50% of ECA borrowed funds

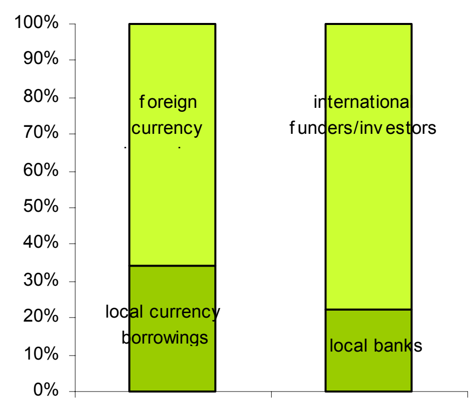


Local commercial banks provide 23% of borrowings, half of that in Bosnia and Herzegovina and the rest in Kazakhstan, Kyrgyzstan and Georgia. Even though the preference of local banks is to lend to large MFIs, the average outstanding loan size from a local bank is two-thirds of that of an international lender, has a shorter term (2.5 years vs. 3.5 years), a higher interest rate and in most cases is denominated in a local currency. It is often backed by foreign currency deposits or borrowings from international investors.

The bulk of the investments is concentrated in 10 NGOs/NBFIs mostly from the Balkans with the first four holding a quarter of all investment in ECA.

Local currency loans constitute a large part of the borrowings. 60% are provided by local commercial banks and 40% by the World Bank, international NGO-parent organizations (Mercy Corps, World Vision, UMCOR), international financial institutions (EBRD), concessional lenders (KfW, IFAD) as well as microfinance investment funds (Frontiers, Oikocredit, ResponsAbility).

Figure 15: NGOs/NBFIs - distribution of total borrowings by currency and lender type



Local currency loans are available mostly to older and larger MFIs which are more experienced in borrowing from commercial sources. The largest number of local currency borrowers is located in the Balkans and the Caucasus. One of the reasons for such a situation is the fact that Bosnian commercial banks are heavily involved in providing loans to MFIs as a means of fulfilling their mission towards the microenterprise sector. In other countries local currency borrowers are the largest and the best known microfinance institutions on the local markets and therefore most credible to the banks. However, there are a few examples of very small Central Asian MFIs borrowing in local currency from a local microfinance bank or a specialized wholesale lender.

Prices

Compared to the previous year, the average cost of funds increased, reaching 7.3%, the lowest in the Balkans and the highest in Central Asia and the Caucasus. MFIs that were growing more quickly had higher costs of borrowings confirming again their growth from commercially-priced funds.

Table 9: Average unadjusted cost of borrowed funds of NGOs/NBFIs by sub-regions

Interest expense/avg. borrowings	2005	2006
Balkans	4.8%	5.5%
CEE	5.8%	6.5%
Russia/Ukraine	10.8%	7.5%
Caucasus	5.1%	8.4%
Central Asia	6.4%	8.6%
	5.5%	**7.3%**

Table 10: Average nominal interest rates of borrowings to NGOs/NBFIs by currency type

nominal interest rate	2006
local currency borrowings	9.0%
foreign currency borrowings	7.4%

Borrowing in local currency added to the costs.

Loan term

The average term of the borrowing of NGOs/NBFIs was 3 years – the longest in the Balkans (4 years) because of 15-year World Bank loans in Bosnia and the shortest in Central Asia (2 years).

Collateral

Almost 30% of all outstanding borrowings are not guaranteed by any kind of collateral or guarantee. Among those that are, assignment of rights to the loan portfolio/cession of rights to receivables (58%), deposits (20%), promissory notes (19%) and mortgage (16%) are most common.

Loans without collateral are usually taken by smaller MFIs, in foreign currency. Local banks which lend to larger MFIs usually require collateral for local currency loans.

Constraints in attracting funds

The most common obstacles in increasing the funding base are legal conditions, availability of funding for small MFIs and the price of borrowings.

In Central Asia a small size of an MFI was the most prominent obstacle for the lack of interest among investors in financing small MFIs. Small size is often coupled with young age and therefore little experience in attracting funds as well as a lack of business experience [14], not to mention credit history or collateral. Due to the small size of a transaction the unit cost for the investor is higher which affects the price offered to an MFI. It is often a major limitation for Central Asian MFIs in increasing their use of commercial funding.

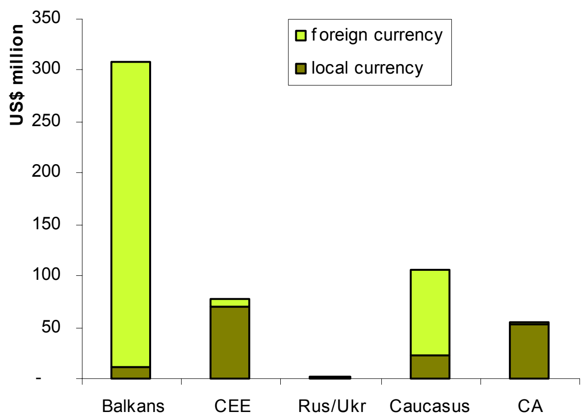
For large MFIs, on the other hand, the common constraint was the leverage limit above which investors would not lend and the inability to raise more equity. In Bosnia, where local banks lend to MFIs, collateral requirements (cash or immovable propertry) were a limiting factor as this would require converting some of the productive assets away from revenue generation.

Funding needs

Altogether, MFIs taking part in the survey will require over US$540 million of debt funding in the next 2 years to fulfil their growth plans, the majority of this in Euros.

Only 17% of the total value is pursued in local currency especially in Kazakhstan and Tajikistan.

Figure 16: NGOs/NBFIs - distribution of debt funding needs by currency and sub-region



The biggest number of MFIs (42%) stated that they needed at least as much funding in the next 2 years as the size of their portfolio now. These were the MFIs from the Caucasus and Central Asia, which had been growing rapidly in the last 2 years and still have a lot of room for expansion.

The largest MFIs had more modest projections about their growth and new funding absorption potential, even though they were the fastest growing institutions in 2006. They most often required between

[14] The majority of international microfinance funds require an MFI to have audited financial statements for at least 3 years.

75 and 100% of the current loan portfolio.

The average value of required debt funding per institution was US$8 million, ranging from US$30 thousand to US$70 million.

The preferable term is 3-5 years, although there are a number of MFIs that are looking for long-term loans of up to 10 years.

Expected prices at 7% for foreign currency loans and 9% for local currency loans reflect the pricing of the borrowings in 2006.

Equity funding was sought by 24 MFIs for a total of US$73 million or US$3 million per institution. These are predominantly Balkan MFIs which project high growth and are also looking for a combination of equity and debt funding to meet their growth targets.

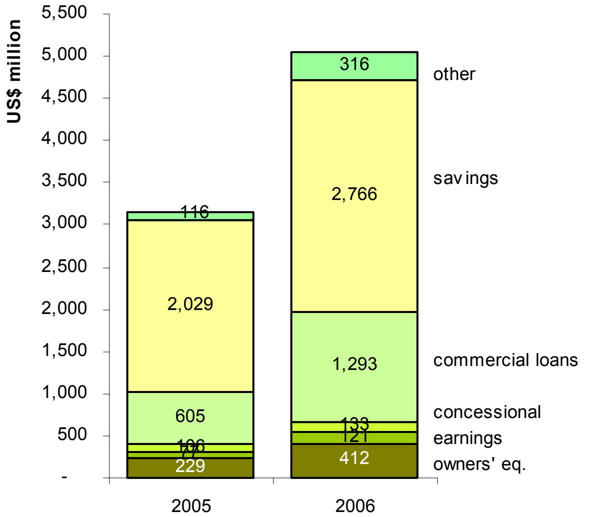
Details of the funding needs of ECA NGOs/NBFIs are available from the MFC for the investors and donors upon request.

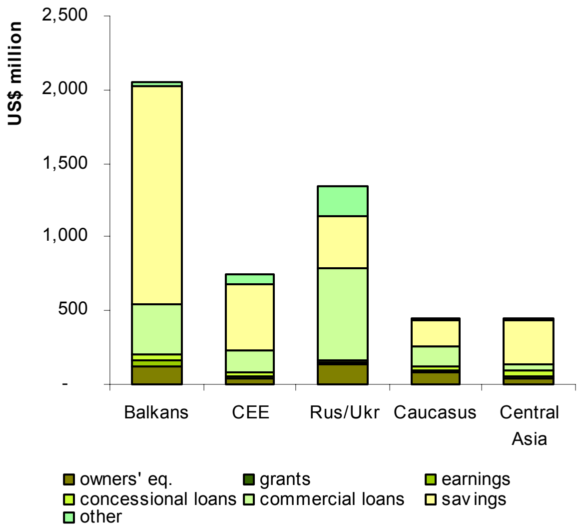
Microfinance Banks

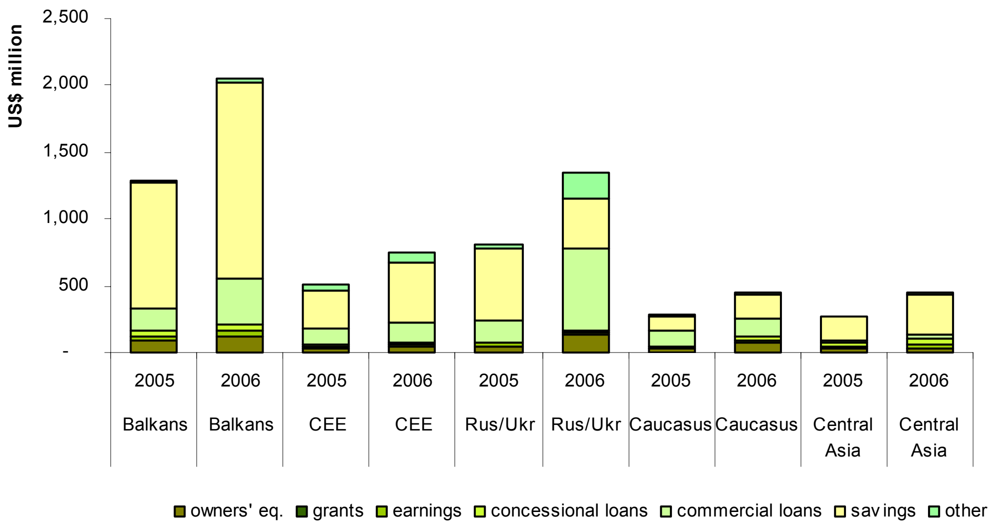
Savings remain the major and increasing source of microfinance bank funding constituting 50% of assets, although in some sub-regions such as CEE and Central Asia the figure can be as much as almost 70%. The second major source – borrowings – was predominantly seen in Russia/Ukraine and the Caucasus.

During the year the increase of assets volume of US$1.8 billion was more than 4 times higher than the growth of NGOs/NBFIs. It was largely financed by attracted deposits (39%) and commercial borrowings (37%). Microfinance banks managed to attract twice as much borrowed funds as NGOs/NBFIs but this was due to the immense growth of KMB Bank in Russia. The remaining banks combined received almost exactly the same amount of

Figure 17: 2005-2006 funding structure of microfinance banks
Figure 18: Funding structure of microfinance banks by sub-regions
Figure 19: 2005-2006 changes in funding structure of microfinance banks by sub-regions







borrowings as NGOs/NBFIs. However, their strength was in collecting client deposits which made them the second largest recipient of new assets (after downscaling banks).

As during previous years, larger banks were more leveraged through savings but high growth in deposits and borrowings did not cause the change in the overall leverage as shareholders equity also increased substantially. The debt to equity ratio remained under 8 and capital/asset ratio under 20%.

Table 11: Average capital/asset and debt/equity ratio of microfinance banks by loan portfolio size

	Avg.capital/asset ratio	Avg. debt/equity ratio
Gross loan portfolio <US$50M	42%	2.9
Gross loan portfolio US$50-200M	16%	7.2
Gross loan portfolio >US$200M	9%	10.5
	19%	**7.5**

The cost of attracted funds went up during the year, both for borrowed funds and deposits. Consequently it drove financial expenses up. The most expensive borrowings were used in CEE which explains the low use of borrowings there. The most expensive savings were collected in Mongolia, affecting the average for Central Asia. There, deposits were more expensive than borrowed funds used by the banks.

The pricing of banks' borrowings is similar to that seen for NGOs/NBFIs but in case of the banks there is no difference between the types of currency. Both local and foreign currency borrowings carried a similar price.

Table 12: Average unadjusted cost of borrowings and deposits of microfinance banks by sub-region

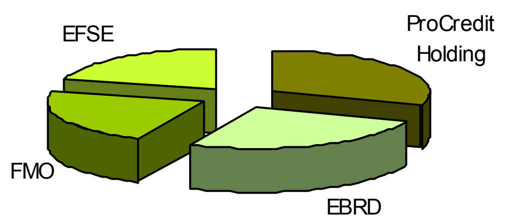
	Average cost of borrowings		Average cost of deposits	
	2005	2006	2005	2006
Balkans	4.6%	4.8%	3.0%	3.7%
CEE	5.4%	9.5%	4.8%	4.5%
Russia/Ukraine	6.4%	7.9%	5.0%	6.4%
Caucasus	6.9%	9.1%	2.7%	4.8%
Central Asia	5.2%	6.0%	7.6%	7.0%
	5.5%	**6.7%**	**4.2%**	**4.9%**

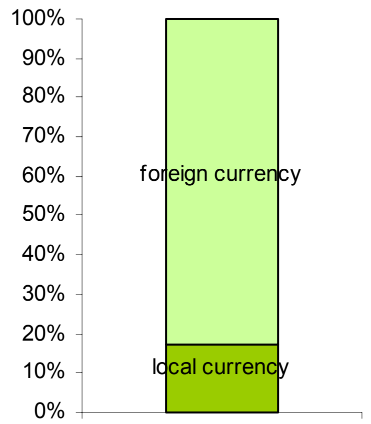
Out of over 50 different sources of borrowings 50% was obtained from only 4 institutions - the largest lenders to the banks were ProCredit Holding, EBRD, EFSE and FMO.

Microfinance banks had better access to foreign lenders and therefore tended to borrow in foreign currencies in particular because many of them were shareholders of the banks.

The term was however longer. The average borrowing was for 4.5 years versus 3 years of NGOs/NBFIs.

Figure 20: Four largest debt providers to microfinance banks
Figure 21: Distribution of total borrowings of microfinance banks by currency type





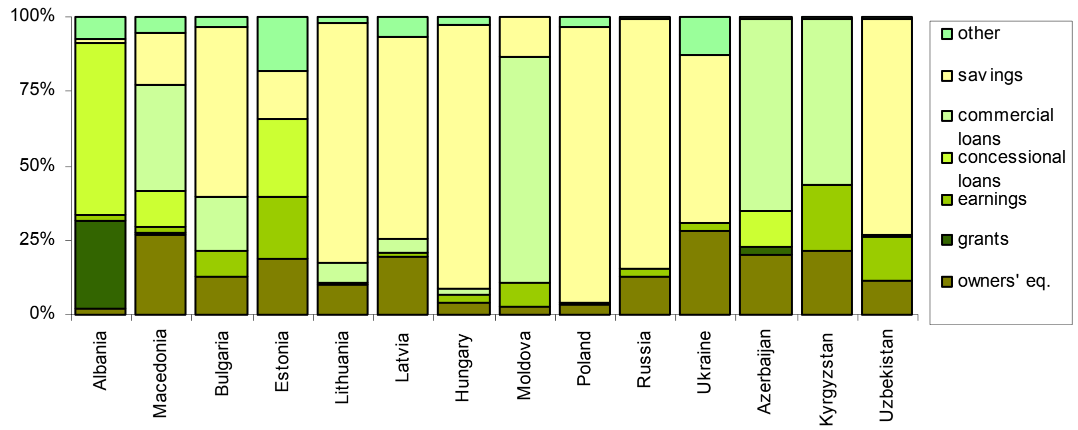
Credit Unions

Credit unions are very diverse regarding their funding sources.

Those in the CEE and Russia/Ukraine – the oldest ones, use members' savings as a chief source of funds for lending activities. The others use loans from concessional sources – development agencies, or commercial lenders. The debt to equty ratios varied from 24 to 2 and it was higher where deposits were the main funding source (except Moldova). Some credit unions that are not allowed to offer savings services to ther clients tried to compensate by collecting membership shares.

The absence of the option to attract client deposits is a serious constraint to the development of credit union movement in some countries.

Figure 22: Funding structure of credit unions



Equity

NGOs/NBFIs

While banks' equity comes from their shareholders few NGOs/NBFIs have such a corporate structure. Their equity comes from initial grants of international donor institutions (almost 50% of the total equity) and from retained earnings.

Table 13: 2005-06 Equity structure of NGOs/NBFIs

	2005	2006
owners' equity	19%	18%
grants	53%	48%
earnings	29%	35%
total equity	**100%**	**100%**

Earnings were the quickest growing equity type in all sub-regions, with a 70% increase or US$53 million, in Central Asia alone earnings increased almost threefold. This is a result of high profitability of many MFIs, especially those that made a strategic decision to fund growth from revenues either because of the unavailability of borrowed funds or their price. Those that increased the share of earnings in their funding structure at the same time decreased the use of commercial funds.

Grants are still the largest equity item on the balance sheet of NGOs/NBFIs but their share is decreasing in favour of retained earnings. For the last few years the interest of donors has been shifting to other regions of the world and the ECA sector has been commercializing. Total grants showed the slowest dynamics among all funding sources (30% growth) but the biggest increase was observed in the Balkans. A number of large MFIs there either received donations or capitalised subsidized loans for advancing outreach to disadvantaged client groups. The example is USAID LAMP grant (Linking Agricultural Markets to Producers) for providing loans to agriproducers. It may be surprising that the most advanced sub-region with the highest share of commercial funds still receives donor subsidies but at the same time these are the institutions that have the capacity to develop new products and expand to previously unserved market niches.

As more and more MFIs reach the leverage of 5 times the value of the equity or more it is crucial to their further growth to increase equity. A number of Bosnian MFIs are considering transformation into commercial entities and attracting strategic investors.

Microfinance Banks

For microfinance banks registered as joint-stock companies, shareholder capital is the major equity item and although in highly leveraged banks it funds only a small portion of assets, its growth of 80% happened through the issue of new shares. The fastest capitalizing banks were ACBA Armenia, FORUS Russia and OIS Serbia.

The other equity item, earnings, although a growth rate of 60% was observed, decreased its share in the funding structure.

One third of microfinance banks paid dividends to their shareholders, on average 10% of the value of share capital.

Table 14: 2005-06 equity structure of microfinance banks

	2005	2006
shareholder equity	74%	77%
earnings	25%	23%
total equity	**100%**	**100%**

Credit Unions

Credit unions raise equity predominantly from membership shares which could run to as much as 30% of total assets. Older credit unions used membership shares to a smaller extent. Grants complemented concessional loans and were only significant in Albania. Reinvested earnings were an important source of equity in Kyrgyzstan and Uzbekistan where credit unions, like all other institutional types operated on a very thick profit margin.



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Foreign Exchange Risk

NGOs/NBFIs

Out of 113 NGOs/NBFIs surveyed 80% use debt financing. Among them, almost 75% use foreign currency borrowings.

In monetary terms, the outstanding borrowings of these MFIs amount to USD 670 million, of which 57% is in foreign currency (43% in local). Predominant foreign currencies used in ECA are Euro (60%) and USD (40%).

In the ECA region, consisting of 22 countries with microfinance activities, local currencies show significant fluctuations ranging from -48% to 20% annually for USD in the last 6 years and from -40% to 18% for Euro. This poses a foreign exchange risk.

Table 15: USD and Euro exchange rate movements

	average for 2001-2006	2005	2006
USD	1.7%	local currency depreciated in 17 countries	local currencies appreciated in 18 countries
Euro	-4.4%	local currency appreciated in 18 countries	local currency depreciated in 14 countries

In Bosnia and Herzegovina and Bulgaria there is a currency board and the local currency is pegged to the Euro. In Kosovo and Montenegro the Euro is used as a national currency.

A detailed study was carried out on a sub-set of the 28 largest non-bank MFIs to reveal the extent of the foreign currency risk.

Figure 23: Foreign exchange risk exposure of NGOs/NBFIs

The total foreign currency debt reached almost 50% of total assets in these NGOs/NBFIs. Only one third of it is covered by foreign currency assets but when Euro borrowings of Bosnian and Bulgarian MFIs are deducted only 30% of the outstanding foreign debt remains uncovered by assets in hard currencies.

Conversely, only 4 MFIs have a positive net open position, with foreign currency assets exceeding the amount of debt.

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BlueOrchard assists those who wish to invest in the microfinance industry by offering a comprehensive package of services designed to invest efficiently in this promising sector. This includes initial identification of, and due diligence on, microfinance institutions, as well as continuous monitoring and reporting on their activities and portfolios.

For Microfinance Clients

BlueOrchard Finance seeks to develop long-term relationships with microfinance clients and partners by sharing information, knowledge and risks, and by investing jointly in the development of microfinance. BlueOrchard's most important asset is its ability to create value through solid relationships with leading microfinance institutions all over the world.

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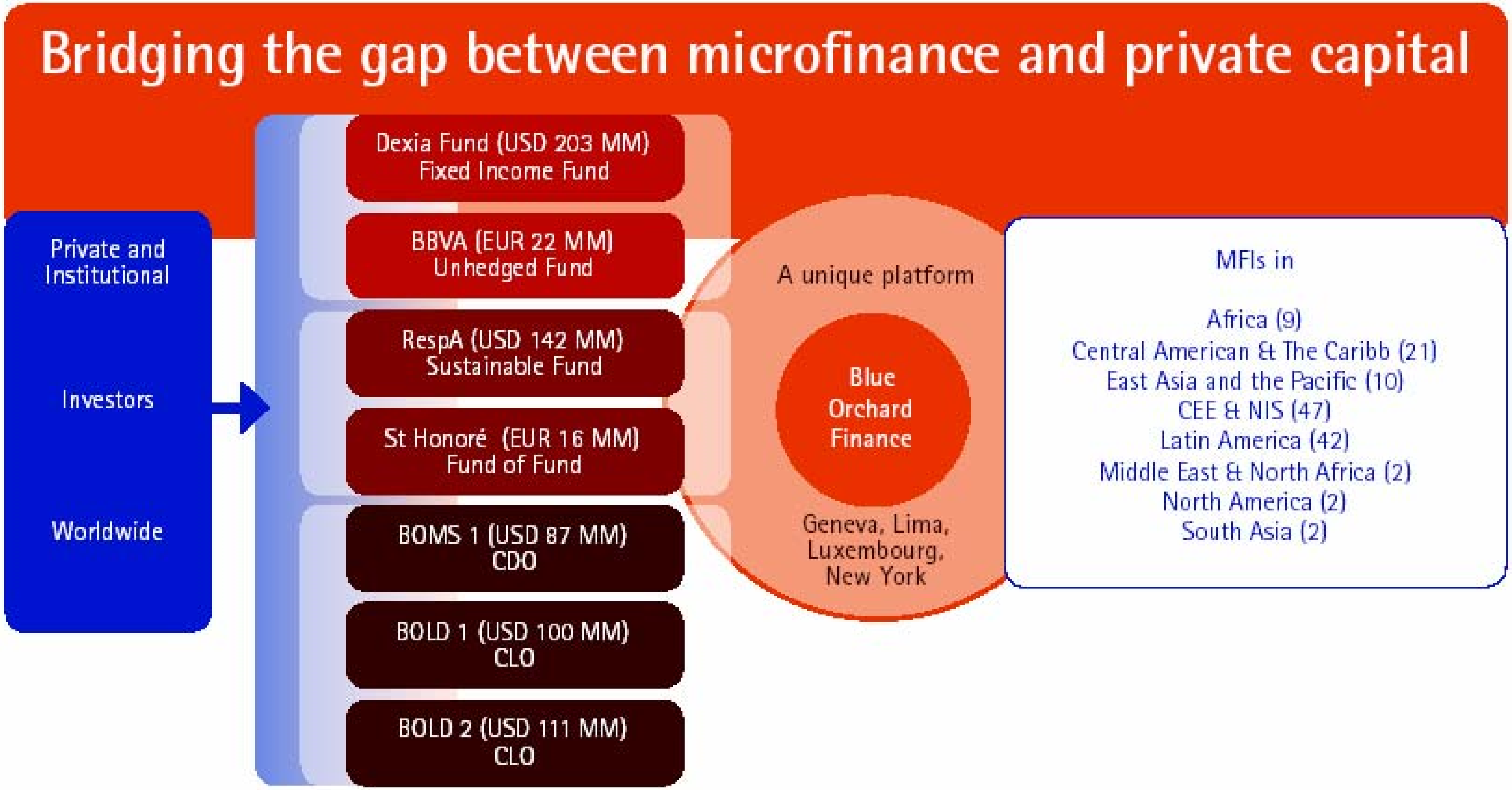
> Integrity
> Passion
> Trust

BlueOrchard in CEE & NIS *:

- 15 Countries
- 47 MFIs
- 172 Loans outstanding
- For a total of USD 161 MM

* As of September 30th, 2007



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11 MFIs had a negative open position in USD, and 16 in Euros (6 MFIs without Bosnia and Bulgaria).

The average net open position (as % of total equity) amounted to -21% in Euros (without Bosnia and Bulgaria) and -31% in USD. The extreme cases ran up to 5 times the value of equity that is in liabilities denominated in foreign currencies.

Only 20% of NGOs/NBFIs have an internal policy imposing a limit on the foreign currency exposure, ranging from 10 to 25% of liabilities in foreign currencies to total assets.

Risk mitigation techniques

Almost all surveyed MFIs use some kind of risk mitigation techniques, especially in countries with more volatile currencies. The most popular is denominating client loans in hard currencies, thereby passing the foreign exchange risk to MFI clients. Back-to-back loans follow with already a fifth of the MFIs using this technique.

Table 16: Risk mitigation techniques of NGOs/NBFIs

hard currency loans	back-to-back	guarantees	letter-of-credit	derivatives	none
62%	21%	14%	2%	2%	21%

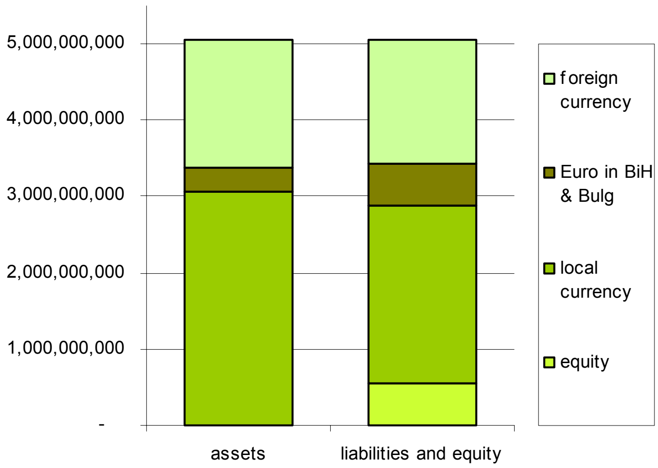
Although guarantees are far less popular they are the most often used mechanism in CEE sub-region.

The remaining techniques are practically not used at all because of the fact that in underdeveloped financial markets derivative instruments are either unavailable or very costly for MFIs.

Microfinance Banks

In the case of microfinance banks the foreign exchange rate risk stems from borrowing from international lenders as well as from collecting deposits from customers. Foreign currency liabilities constitute 40% of total assets and half of them are client savings.

Figure 24: Foreign exchange risk exposure of microfinance banks



Foreign currency assets covered the value of total liabilities denominated in currencies other than local. Over 80% of the assets are loans to clients in foreign currencies and the remaining 20% are monetary assets. With the exception of one bank with quite a high negative net open position, the average net open position in USD was 0.7% and 2.7% in Euro. Banks, as regulated institutions have limits on foreign currency exposure set by national banks. The most popular risk mitigation technique is granting loans with foreign currency clauses and derivatives – swaps and forward contracts.

Financial Indicators

As in the previous years NGOs/NBFIs were more profitable than other institutional types and showed higher growth in profitability than other types. NGOs/NBFIs on average increased AROA by 2.6 percentage points. Microfinance banks did not show any change – half of them slightly decreased and the other half improved profitability but the changes were usually small – less than 1 percentage point.

Table 17: Average adjusted profitability of different institutional types

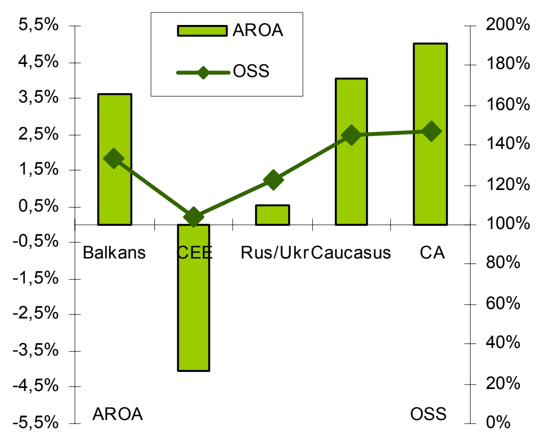
	Adj. return on assets (AROA)	Operational self-sufficiency (OSS)
NGOs/NBFIs	3.1%	138%
Credit unions	1.8%	120%
Microfinance banks	0.1%	119%

NGOs/NBFIs

Profitability

As in the previous years, the economic conditions of the country of operations had the largest influence - both adjusted return on assets (AROA) and operational self-sufficiency (OSS) were higher in low-income countries. AROA which carries the adjustments contingent on country's inflation and interest rates was the lowest where MFIs operating on a very thin profit margin had to account for the losses due to inflation and commercial price of borrowings.

Figure 25: Average adjusted return on assets and operational self-sufficiency of NGOs/NBFIs



Despite of the economic factors high profitability was achieved through higher revenues and lower expenses.

More productive MFIs and those with lower portfolio at risk (PAR) were more profitable. The size of the institution did not influence profitability.

This year was better for NGOs/NBFIs than 2005 as more of them improved profitability – 57% had higher OSS and 60% had higher AROA.

Those that improved AROA and OSS most often increased revenues, decreased expenses and also improved staff productivity.

Revenues

Financial revenues were higher for MFIs with the smallest portfolios but only up to US$1 million. Those MFIs were mostly capital-based and used little leverage through borrowings. In larger MFIs there was no relation between the size of the operations and the level of revenues. Other factors influenced the earnings of the institution.

MFIs in poorer countries with less stable economies (high inflation, high deposit rates) had higher nominal yields and financial revenues due to higher operating and financial expenses. Yields in Central Asia were on average twice as high as in the Balkans and neared 50%.

Financial revenues and portfolio yields were also higher for those that had more women among borrowers and served lower-end market as serving such a target market is more costly.

Table 18: Average portfolio yield and financial revenue of NGOs/NBFIs by sub-region

	Avg. nominal portfolio yield	Avg. financial revenue ratio
Balkans	26%	24%
CEE	29%	24%
Rus/Ukr	34%	32%
Caucasus	41%	33%
Central Asia	50%	41%
ECA	**38%**	**32%**

Over 60% of NGOs/NBFIs increased their portfolio yields. These were more often younger MFIs in Central Asia and more often funded from grants and not using commercially-priced funding.

Many of them increased interest rates for clients as they deepened the outreach and started offering smaller loans. The increases in portfolio yields were coupled with increasing expenses due to a change in the target market and higher provisioning for loan losses connected with higher PAR.

Although the move downmarket caused the increase of PAR the productivity of staff improved.

Increased yields led to higher profitability of an MFI.

Expenses

Like revenues, expenses of NGOs/NBFIs are higher for the smallest institutions with portfolios below US$1 million. Operating expenses (personnel and administrative expense) were on average the largest cost item accounting for 70% of all expenses, then financial expenses 25%, and loan loss provision expenses constituted on average 5% of all costs. However, this proportion varied greatly among the MFIs in different countries, with different target markets and funding sources.

Operating expenses were higher among small MFIs as well as those with deeper outreach and serving more women. Those MFIs that operated in countries with a lower financial sector development and high-inflation had higher operating costs due to increasing nominal costs of administration and labour.

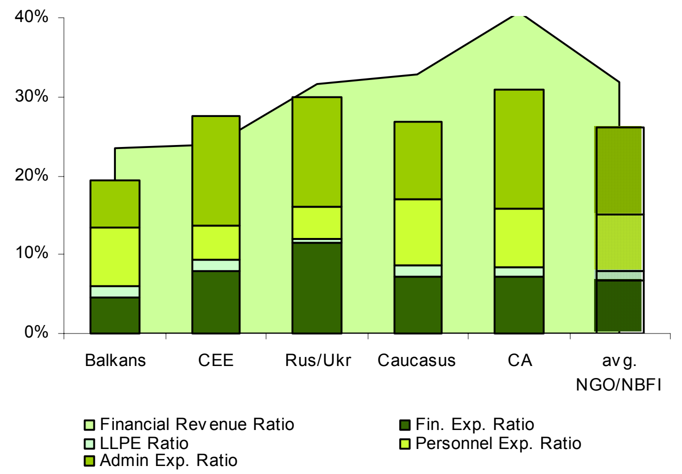
Administrative expenses continue to be the highest in Central Asia where the largest number of small MFIs operate. The highest cost of labour was seen in the Caucasus and the lowest in Russia/Ukraine.

Financial expenses were higher for those MFIs that used more commercial funds and operated in countries with lower financial depth, with high inflation and interest rates – the financial expense was connected with a higher price of commercial funds due to high interest rates and the inflation adjustment. It was the highest in Russia/Ukraine and the lowest in the Balkans.

Interestingly, MFIs that used debt funding more often have a leaner cost structure irrespective of the size of the institution, the type of clients they serve or the economic environment they operated in.

Over 40% of MFIs decreased operating expenses, mostly in the Balkans. Older and larger MFIs more often did so, as well as the ones with higher use of commercial sources. Again, it seems that the use of external funding is a strong motivator for controlling expenses. Conversely, grant-funded MFIs with a deeper outreach and more female borrowers observed increased expenses.

Figure 26: Average revenues and expenses of NGOS/NBFIs



Financial expenses most often increased, especially in the Balkans where the majority of commercial funding went and in Central Asia where inflation growth affected capital-based MFIs. Those that decreased them could do so because of the decreased cost of borrowings which went down in higher income countries.

Decreasing the expenses was coupled with the decrease in yields and revenues indicating that MFIs truly pass the efficiencies on to their clients.

Microfinance Banks

Profitability

Microfinance banks have different drivers of profitability than NGOs/NBFIs. Their returns do not depend on the economic development level of the country where they operate. Banks that mobilized client deposits were able to have lower funding costs which translated directly into higher returns, except for Mongolia where the cost of deposit collection was higher than the cost of debt.

Table 19: Average adjusted profitability of microfinance banks by sub-regions

	Adj. Return on Assets (AROA)	Operational Self-Sufficiency (OSS)
Balkans	-0.02%	113%
CEE	0.8%	111%
Russia/Ukraine	1.4%	115%
Caucasus	-3.1%	115%
Central Asia	1.6%	140%
ECA	**0.1%**	**119%**

Revenues

Portfolio yields and in consequence financial revenues of microfinance banks were much lower than those of NGOs/NBFIs. Like for NGOs/NBFIs banks that operated in high inflation countries had higher revenues as they had to account for higher financial and operating costs.

Table 20: Average adjusted portfolio yield and financial revenues of microfinance banks by sub-regions

	Avg. Adj Nominal Yield	Avg. Adj.Financial Revenue Ratio
Balkans	20%	14.3%
CEE	18%	14.7%
Russia/Ukraine	28%	22.4%
Caucasus	23%	19.6%
Central Asia	26%	18.8%
ECA	**23%**	**17.4%**

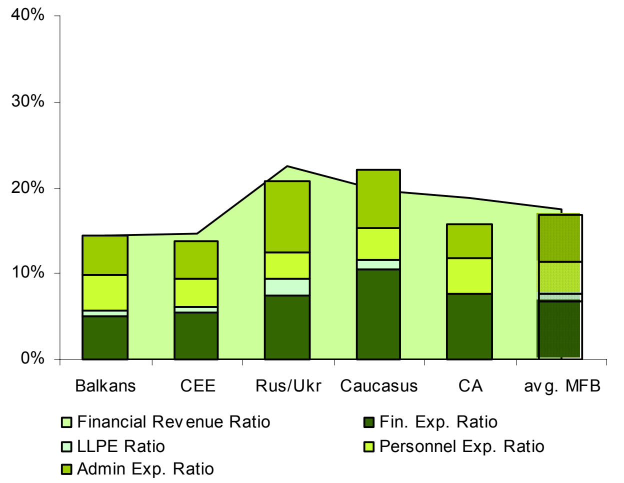
However, unlike NGOs/NBFIs higher revenues did not translate to higher profitability. Conversely, banks with higher revenues had also higher expenses which led to lower profit margins and profitability.

Microfinance banks' revenues are decreasing – over 60% decreased them through lower portfolio yields. Those that did so had deeper outreach and observed growing expenses during the year.

Expenses

Microfinance banks operated on a much thinner profit margin with lower expenses but also lower revenues.

Figure 27: Average revenues and expenses of microfinance banks by sub-regions



Both operating and financial expenses were higher for those banks which had smaller number of borrowers, used less debt funding, including savings, and had less productive loan officers. They operated in countries with higher inflation and interest rates. Those were the institutions which were in operations as banks for a shorter time as they were either newly created or transformed from non-bank MFIs. They have not yet grown in scale and did not run deposit mobilization activities to full capacity. Additionally the economic environment was more adverse than in the case of older banks working in countries with stronger economies.

Higher operating and financial expenses led to lower profitability.

CoopEst

Finance for Social Economy Initiatives in Central and Eastern Europe

CoopEst is a EUR 15 million investment facility founded by key players in Social Economy in France, Belgium, Italy and Poland, and supported by the International Finance Corporation (World Bank Group).

CoopEst aims to provide long-term financial support in terms of quasi-equity, convertible loan, subordinated loan, long-term loans and guarantees to sustainable and socially responsible projects in the target countries enabling them to leverage further funding for the development of their activities.

Eligible institutions and initiatives are cooperative or commercial banks, credit unions, saving and credit associations and their union, micro finance institutions, etc. that are economically sustainable with a strong attachment or interest in socially responsible business.

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There was no relation between the expenses and the depth of outreach of microfinance banks.

Unlike NGOs/NBFIs, the majority (68%) of microfinance banks decreased operating expenses. Personnel expenses decreased with the increase of debt funding. MFIs with deeper outreach more often decreased personnel expenses. Financial expenses did not go down that much – only 40% of banks decreased them.

Credit Unions

Credit unions exhibit a whole spectrum of revenue and cost structures, some similar to or lower than those of microfinance banks while the others resemble more those of NGOs/NBFIs. However, the unique feature of credit unions is that in the majority of cases financial expense is the largest cost item. This is a result of comparatively low operating costs and a much higher cost of funding. It shows that the competition with banks in deposit collection forces credit unions to offer more attractive terms thus incurring higher costs.

Figure 28: Revenues and expenses of credit unions by country

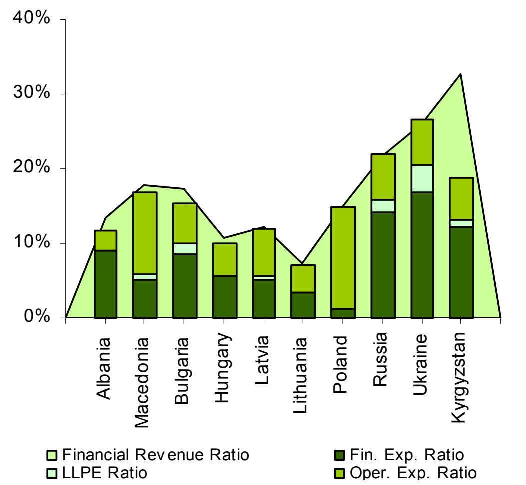

Table 21: Comparison of financial and operating costs of different institutional types in selected countries

		Microfinance banks	Credit unions	NGOs/NBFIs
Albania	financial cost ratio	3%	9%	4%
Macedonia	financial cost ratio	5%	5%	2%
Bulgaria	financial cost ratio	4%	8%	7%
Russia	financial cost ratio	7%	14%	11%
Kyrgyzstan	financial cost ratio	5%	12%	7%

		Microfinance banks	Credit unions	NGOs/NBFIs
Albania	operating cost ratio	6%	3%	12%
Macedonia	operating cost ratio	9%	11%	26%
Bulgaria	operating cost ratio	6%	5%	19%
Russia	operating cost ratio	12%	6%	18%
Kyrgyzstan	operating cost ratio	6%	6%	27%

Limited Liability Partnership Micro Credit Organisation

MOLDIR

Date of Foundation: October 2003

Founder: the Public Organisation Association of Women Moldir

Mission:
- Increase of economic activity of lower-income, unemployed inhabitants for a lengthy period by means of providing them with access to microcredit services;
- Poverty alleviation in the Republic of Kazakhstan

Tasks of the organisation:
- Providing the population with credit products being in demand;
- Development and introduction of new credit products admitting beginners and experienced entrepreneurs of the region in carrying out income generating activity;
- Building and developing capacity of the MCO's staff for long-term, successful work on the micro crediting market of the Republic of Kazakhstan.
- Attraction of financial resources to develop the organisation

The microcredit organisation Moldir was established to achieve noble, honorable aims – to improve well-being of needy people having active life position. It is of great importance for this people to have access to credits, as they cannot obtain them from other sources, for example from banks of a different level.
Our target group is poor economically active women and vulnerable families of Almaty city and Almaty region. The organisation pays special attention to rural population who are deprived of the opportunity to set up their own sustainable business in practice, as they cannot obtain credits because of unavailable pledge and official earnings.

We have developed accessible credit products that meet their needs and requirements, and the most important thing is the possibility of obtaining a credit without a security.
A very important factor is an individual approach, respect to their businesses and recognition of their business skills and abilities.
The microcredit organisation Moldir assists to reduce the poverty level in Almaty region through development of small entrepreneurship amongst poor population. With the aim of carrying out effective activity we have built a professional team able and capable to achieve the set out aims and tasks. Since the moment of its establishment and till October 2007 the organisation has extended 1712 loans in the amount of about 800 000 EURO. Due to our credits 250 people were able to launch their own businesses, over 600 families could improve their material state and their interests in life have aroused.
Stable development of the microcredit organisation was feasible with the financial support and the training programme of ICCO (International Organisation for development cooperation).
2007 – 2009 were aimed at building a viable, self-sufficient microfinance organisation, at expanding to provide our target group with a permanent and long-term access to borrowed funds.
Organisation has implemented the project on launching of MCO. At present time it is implementing the project on expanding the credit activities in the regions.

INDEPENDENCE – OBJECTIVITY - EXCELLENCE

Planet Rating

THE GLOBAL MICROFINANCE RATING AGENCY

GIRAFE МЕТОДИКА

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- Широко признаваемая инвесторами, спонсорами, регулятивными органами и консультантами по микрофинансированию. ЕБРР, EIB, responsAbility, Oikocredit, KfW, являются частыми читателями наших рейтинговых отчетов
- Скоро появится обновленная методика
- В регионе миссии могут быть осуществлены на английском языке и на русском с переводом

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- Присвоены рейтинги крупнейшим микрофинансовым институтам : Agroinvest, EKI, KEP, Khan Bank, Microfin, Partner, XacBank

УСЛУГИ, ПРЕДОСТАВЛЯЕМЫЕ PLANET RATING

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- Проведение GIRAFE тренингов

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- New updated methodology soon to be released
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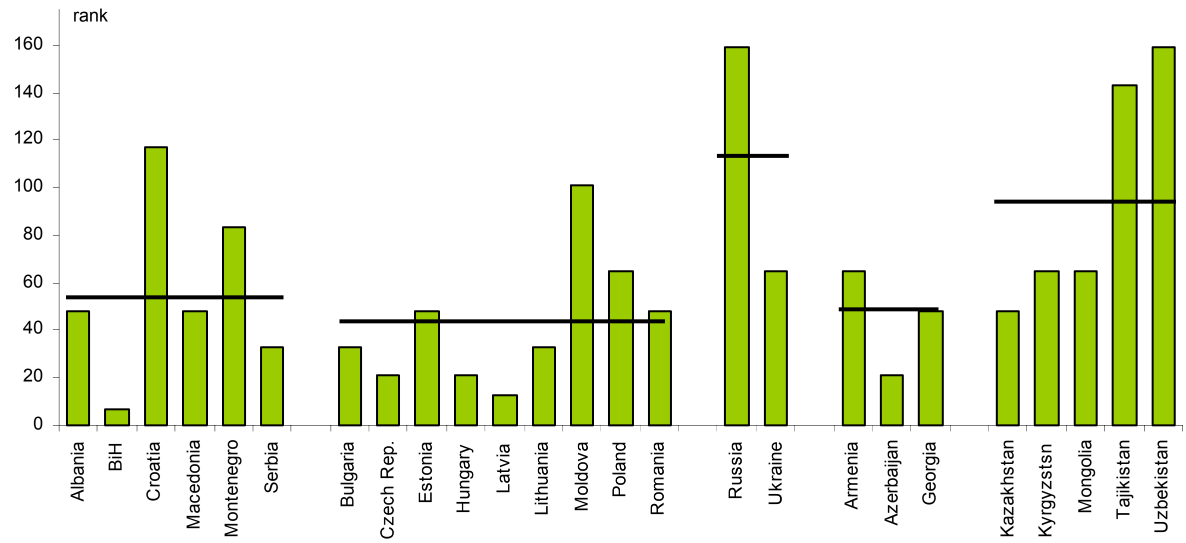
B. Social Performance of NGOs/NBFIs

Microfinance institutions in ECA have a broad clientele which is a result of two perspectives on the goal of microfinance: (1) serving the unbankable by mainstream banks, and (2) the poor and groups who are particularly vulnerable to falling into poverty. The banking system which before the transition served only state-owned corporate sector and consumer market is still in the process of privatization and consolidation – it is not effectively serving growing medium size and SME sector. Small businesses typically lack credit history, making them 'unbankable' by the mainstream financial sector. To fund their businesses, entrepreneurs are forced to rely on funds from family and friends or money lenders.

According to the World Bank 'Doing Business' survey access to credit for SMEs is quite difficult, especially in countries like Russia or Uzbekistan.

Figure 29: World Bank 'Doing Business – Getting Credit' ranks of different countries



Ranks 1-175 from the easiest to most difficult

These client groups which by Western standards would be part of the mainstream financial system still lack adequate access to finance. Therefore, the approach of many NGOs/NBFIs is provide credit services to all private entrepreneurs who need it regardless of business size and poverty status. The rationale behind this being that SMEs contribute to poverty reduction by job creation.

The other perspective takes on the challenge of contributing to poverty reduction by providing services to low-income people and/or vulnerable groups i.e. at risk of poverty, such as women, rural population, disabled, youth, internally-displaced and refugees or ethnic minorities.

Such an approach is undertaken in ECA by NGOs/NBFIs, since banks, both microfinance and commercial, and to some extent credit unions as well, aim at extending access to the unbanked and do not target any specific social groups.

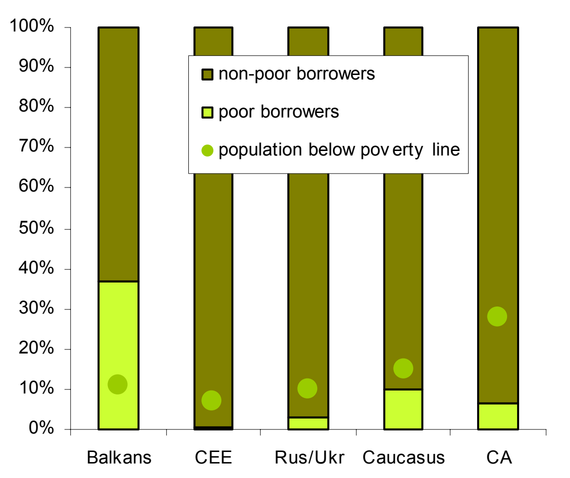
In the following chapter we look closer at the composition of clients of NGOs/NBFIs to see how the social mission of reaching the poor and vulnerable clients is being achieved.

Low-income People

Among surveyed NGOs/NBFIs 42% did not know the poverty status of their clients. This indicates that almost half of institutions do not specifically target low-income clients and rather focus on providing credit to the financially excluded entrepreneurs. Among those MFIs that track the income levels of their clients the poor constitute 54% of all borrowers. But if we employ the conservative approach that the non-reporting NGOs/NBFIs do not serve low-income people, then less than 20% of NGOs/NBFIs clients in the region live below the poverty level[15]. This score is favourable for microfinance industry as it exceed the regional poverty incidence of 12%.

The biggest share of poor people is served in the Balkans and they are overrepresented compared to the poverty incidence. The smallest share of the poor among MFI borrowers occurs in CEE – the region with the lowest poverty. The biggest gap between the poverty incidence in the population and among the MFI clients is observed in Central Asia where microfinance is more often directed to better off entrepreneurs.

Figure 30: Distribution of low-income borrowers of NGOs/NBFIs by sub-regions



Only 12 out of 159 NGOs/NBFIs are dedicated to serving almost exclusively poor clients located in the Balkans and Central Asia[16], but only two of them reached significant scale of more than 10,000 clients.

The presence of poor clients drives the depth of outreach indicator down which shows that it is a good proxy for poverty

[15] Poor people are defined here as those living below social minimum set by government in each country. The data from MFIs on the number of low-income people among their clients is self-reported by the MFIs.

[16] The MFIs that have more than 75% of low-income people among their clients are: Sunrise and Women for Women in Bosnia and Herzegovina, AgroInvest and Alter Modus in Montenegro, Integra SA in Romania, ECLOF in Armenia, Kyzylorda-kredit, Moldir, OZAT, Orken in Kazakhstan, Mekhr-Shafkat in Kyrgyzstan and Jovid in Tajikistan.

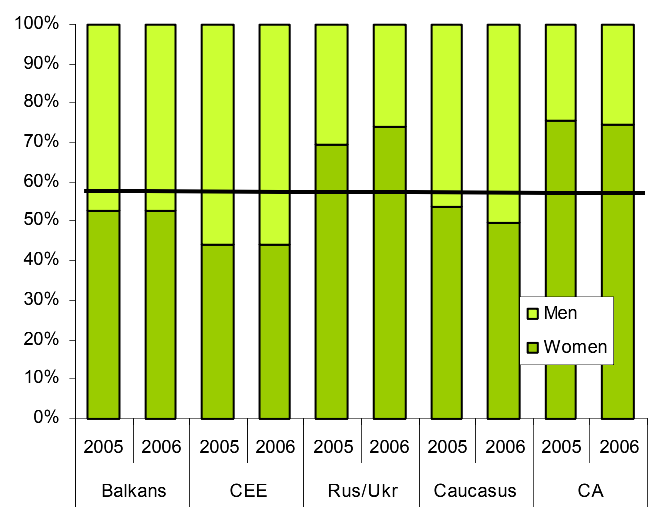
targeting. Since the majority of loans in ECA are disbursed through the individual lending methodology most MFIs individually adjust the loan size to the needs and repayment capacity of a borrower and therefore better correlate with his/her income level.

Women

Gender trends in ECA are distinct from those in other developing regions, because most of the countries began the transition with relatively good indicators of human development and gender equality. This comparative edge was widely attributed to the historical achievement of former governments in securing universal access to basic health care and education services; and the emphasis placed on employment as both a right and a duty for both men and women. Transformation reforms have affected men and women differently, although the impact varies considerably across the region. While the welfare of women appears to have declined as compared to that of men in Central Asia, the burden of transformation has fallen disproportionately on men in the European countries of the former Soviet Union. The Central and Eastern European countries present a more mixed picture, with no obvious patterns in gender inequality emerging over the last decade[17]. However, women are one of microfinance target groups as credit extended to women has a significant impact on their families' quality of life, especially their children, which are at the highest risk of poverty among all age groups.

In ECA women constitute 58% of borrowers of NGOs/NBFIs and their share did not change compared to the previous year. Only in the Caucasus and Central Asia the participation of women slightly dropped, while in Russia/Ukraine it grew. The largest share of women was observed in Central Asia and Russia/Ukraine sub-regions; over 75% and the lowest in CEE (44%).

Figure 31: Distribution of female borrowers by sub-regions



MFIs that serve more women have deeper outreach, more urban presence and serve more of poor clients (below the national poverty line). They also have more women among loan officers, managers and on the boards.

[17] 'Gender in Transition', Paci P., World Bank, 2001

They are more often funded from grants rather than borrowed funds. As was seen in more detail in the chapter on financial performance, NGOs/NBFIs that serve predominantly women have a different revenue/cost structure with higher operating expenses but also higher portfolio yield due to smaller loans disbursed.

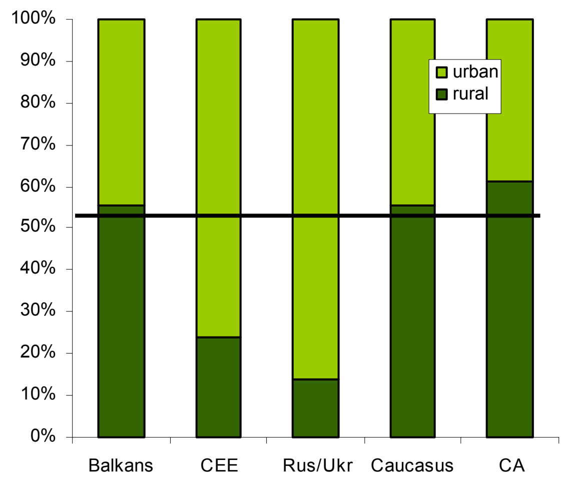
Despite a seemingly good situation, more than half of the institutions decreased the share of female clients in each sub-region except the CEE, again confirming the last year's tendency to equalize the gender structure. The biggest number of MFIs now have between 25 and 50% of women among their clients. Most of those MFIs that increased their percentage of female clients in 2005 also did so this year indicating their commitment to improve female outreach.

Urban/rural Population

Poverty in rural areas is prevalent over the urban locations in all ECA countries varying only in the size of the gap between urban and rural poverty. Although this gap in ECA is modest compared to many developing countries it remains an issue in many countries[18]. Despite declining poverty due to the economic growth across ECA the gap increased as a result of lower responsiveness of rural areas to economic growth. Rural residents form the bulk of the poor in Central Asia, Caucasus and the Balkans. Conversely, Russia and Ukraine are dominated by urban poor.

The outreach of NGOs/NBFIs in rural areas is in line with the above observations - in the sub-regions such as Central Asia, Caucasus and Balkans the share of rural borrowers remains high. In Central Asia where the majority of citizens live outside towns the client structure reflects the population composition.

Figure 32: Distribution of rural and urban borrowers by sub-regions



While in Central Asia and the Caucasus many MFIs were created for the purpose of serving predominantly rural communities the Balkan industry evolved from urban-based to more equalized distribution through expansion to previously unserved areas. The expansion has come about due to the pressure of competition amongst MFIs.

[18] 'Growth, Poverty and Inequality: Eastern Europe and the Former Soviet Union', Alam A., et al., World Bank, 2005

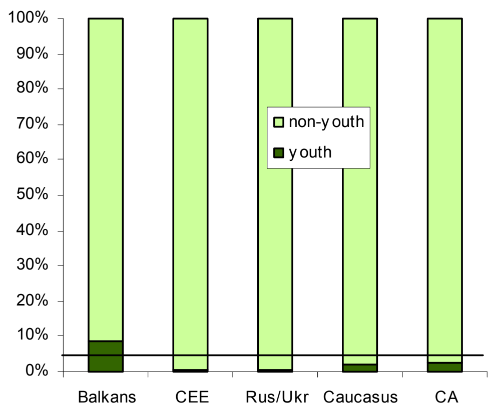
However MFIs tend to stress the general importance of rural financing, the industry in general is not moving quickly towards this type of clientele. The presence of rural clients practically did not change compared to the last year in the total share of clients but on the MFI level more institutions, particularly in the Balkans started serving more clients in rural areas.

MFIs that serve rural clients have fewer women among borrowers and as a consequence fewer women among staff, including loan officers. They are often more productive especially when using the village banking methodology. They also have more young clients which shows a very positive approach towards creating better business opportunities for young inhabitants of villages.

Youth

Young people (15 to 24 years old) in ECA constitute between 12% and 22% of the population with the aging populations in the West of the region and growing young populations in the East. Since the beginning of transition labour force participation of young people has been falling throughout the region. According to ILO's statistics the youth unemployment rate is 2.4 times higher than the unemployment rate among adults. Whilst young people are rarely microfinance borrowers in the Balkans young clients can be observed more than in other areas of the region. In this most mature sub-region competition makes MFIs look for new markets.

Figure 33: Distribution of young borrowers by sub-regions



Unfortunately there are no statistics available on the level of youth microentrepreneurship to compare with the share of them as MFI clients but it is likely to be higher than reported by MFIs. Most of the institutions do not specifically target young entrepreneurs and therefore do not analyse such statistics.

Compared to the other regions of the world population growth is less dynamic, therefore the predictions of the dominance of young people in the population do not apply to this sub-region. However, in many countries with high unemployment young people have more difficulties in finding jobs over the ones with some work experience, therefore they are more likely to turn to entrepreneurship. They are also more flexible and open to challenges to take up this form of income generation. It is therefore even more important to provide financial services to young people, so that they utilize their potential and energy in a productive way.

Disabled

Disabled people constitute 10% of the population in ECA and although they have a very high share in the low-income strata of the population they are very rare among microfinance clients.

There are only 21 NGOs/NBFIs[19] which conciously serve disabled clients, some of them have up to 6% of the disabled among borrowers but in the overall pool of microfinance institutions it is a marginal phenomenon.

Even though there is such a limited number of the MFIs to study one interesting characteristic of MFIs working with the disabled is the high number of women among loan officers, also seen among NGOs-NBFIs working with other disadvantaged social groups, including the poor and women.

Table 22: Distribution of disabled borrowers by sub-regions

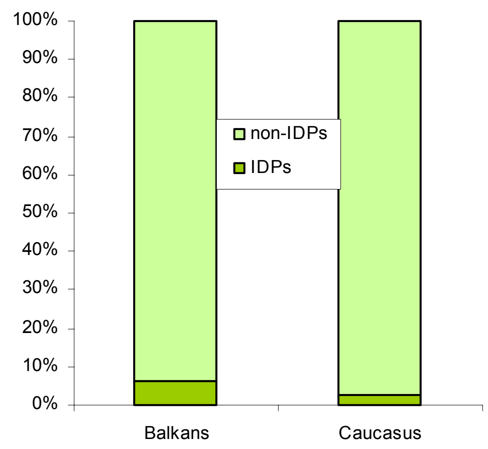
	share disabled MFI borrowers
Balkans	0.5%
CEE	0%
Russia/Ukraine	0.1%
Caucasus	0%
Central Asia	0.2%
ECA	**0.3%**

[19] NGOs/NBFIs that work with disabled borowers are: EKI, MI-BOSPO, Mikrofin, Sunrise in Bosnia and Herzegovina, FINCA Kosovo, Integra and Nachala Cooeprative in Bulgaria, Integra SA in Romania, Baspana, Moldir in Kazakhstan, HUMO, ZAR, Madina, Kiropol, Mekhnatabad, Imkoniyat, Borshud in Tajikistan, BWA Tadbirkor Ayol Karakalpakstan and SABR in Uzbekistan, Counterpart Enterprise Fund in Russia, and HOPE-Ukraine.

Internally Displaced People and Refugees

Internally displaced people and refugees constitute an important target group for microcredit in the Balkans and Caucasus where as a result of conflicts many people were relocated. The comparison of the internatinoal statistics with the composition of microfinance clientele shows that IDPs and refugees are well represented among MFI borrowers in the Balkans, especially in Serbia where two MFIs – MDF and MicroFinS have 20 times more IDPs/refugees among their borrowers than the national average. In the Caucasus the situation is less favourable in Azerbaijan and Georgia but there are some notable exceptions of NorMicro and Azercredit in Azerbaijan or SBDF and Crystal Fund in Georgia which serve a significant share of IDP clients.

Figure 34: Distribution of IDPs and refugee borrowers by sub –regions



MFIs that had more IDPs among clients are more reliant on grants and because of the scarcity of donor funding they have slower growth.

Table 23: Number and share of internally-displaced persons in the population of selected countries

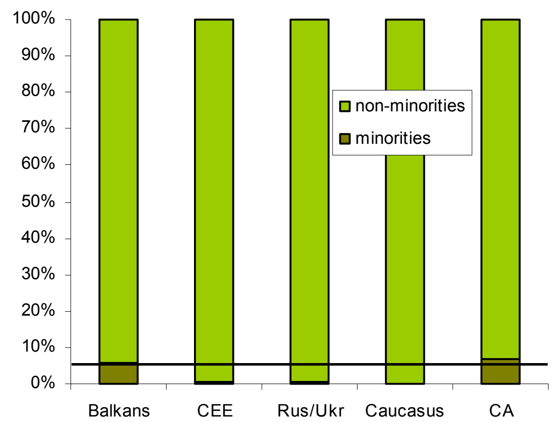
	Share of IDPs in the population[20]	Share of IDPs among NGOs/NBFIs borrowers	Examples of MFIs serving IDPs
Bosnia and Herzegovina	3.86%	8%	EKI, LOKmicro, MI-BOSPO, Mikrofin, Partner, Prizma, Sunrise, Women for Women
Croatia	0.14%	1%	NOA
Montenegro	1.2%	2%	Alter Modus
Serbia	2.24%	48%	MDF, MicroFin-S
Armenia	0.26%	2%	AREGAK, Nor Horizon
Azerbaijan	7.53%	4%	AzerCredit, Normicro
Georgia	4.78%	1%	Crystal Fund, SBDF
Russian Federation	0.10%	0%	
Kazakhstan	n/a	0.11%	Moldir, Orken
Kyrgyzstan	n/a	0.02%	Arysh-Kench
Tajikistan	n/a	0.6%	Borshud, Imkoniyat, Kiropol, ZAR

[20] Source: CIA Factbook, 2007

Ethnic Minorities

Targeting ethnic minorities is most prevalent in Central Asia and the Balkans – the sub-regions where after the collapse of Soviet Union and Yugoslavia new borders were charted which were not always in line with the ethnicity of the population (see Annex 1).

Figure 35: Share of ethnic minorities among borrowers of NGOs/NBFIs by sub-regions



Although the overall number of minority clients compared to the total microfinance clientele is low (4%), there are examples of MFIs in both of these sub-regions that have over 40% of clients belonging to the minority. Such examples include: Tajikistan's IMON and Borshud, Kazakhstan's Baspana and Macedonian Horizonti. The key to success in reaching the minorities is understanding their different needs and culture through locating offices close to the communities and hiring staff from the minorities to advise on product development, communication as well as offering job opportunities for them.

"**Micro Development Fund**" is a local Microfinance NGO established to support improvements in social and economic living standards of economically active people in Serbia.
MDF is one of the most experienced micro credit NGO's in Serbia, with 6 years of micro credit operation history. MDF is a spun off from the international NGO Danish Refugee Council.
MDF aims at offering sustainable access to the financial and non-financial services to the micro entrepreneurs who do not have access to the credits at the formal financial institutions.
Besides focus on economic impact of its micro credits, MDF is also committed to social goals in terms of poverty prevention and reduction. In 2006, MDF targeted 48.9% of poor people measured by national poverty lines.
MDF operates in the area of 20 municipalities of Central and South Serbia, which are considered the poorest areas of the country and have 25 people employed.
MDF micro credits are the instruments that contribute to self-employment and job creation – one of the key elements for economic empowerment in Serbia. Besides credit activity, MDF is implementing Vocational Training program, presenting the unique synergy in efficient contribution to the numerous IDPs, refugees and vulnerable local population in Serbia.

Operational performance	**2006**	**2005**	**2004**	**2003**	**2002**
No. of active clients	2,136	2,378	2,289	1,685	968
Women clients %	45%	42%	41%	40%	40%
No. of disbursed loans	1,869	2,277	2,105	1,620	815
Outstanding portfolio (€)	2,282,089	2,031,838	1,720,585	1,406,532	761,058
Average loan size (€)	1,591	1,319	1,023	962	820
Value of active loans per loan officer (€)	207,463	184,713	156,417	119,209	65,352
No. of active loans per loan officer	194	216	208	140	81

Social outreach indicators	**2006**	**2005**	**2004**	**2003**	**2002**
Clients below poverty line (%)	48%	38%	40%	47%	56%
Clients in bottom half of the population below poverty line (%)	9%	7%	8%	10%	27%
Clients in households earning less than USD 1/day per household member (%)	0.5%	2%	2%	3%	9%
Clients taking first loan (%)	37%	44%	53%	57%	61%

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- 18 000 0000 EURO- LOANS DISBURSED
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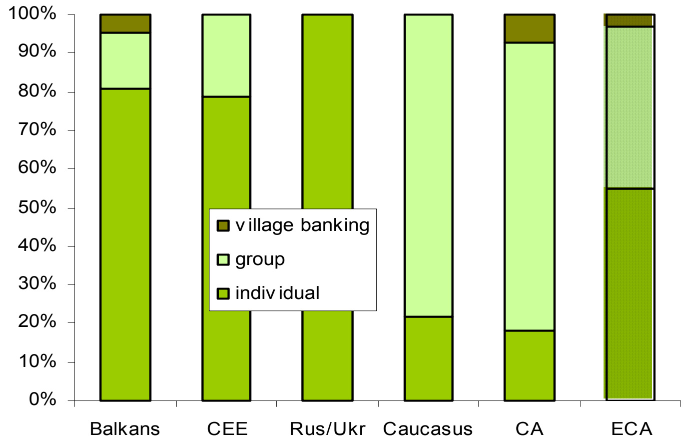
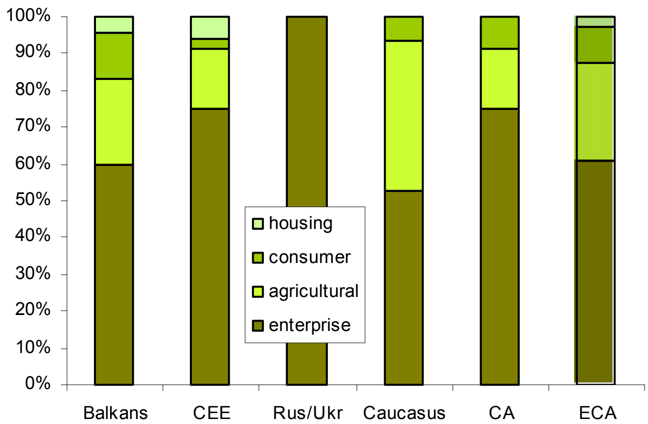
- 37%- AGRICULTURE
- 15%- VULNERABLE GROUPS
- 8 – INTERNATIONAL FUNDING PARTNERS

Loan Products

Similarly to previous years the dominant type of product is a business loan although the other loan types become a more significant part of the MFI portfolio. On average an MFI offers 3.8 different loan products. Almost all MFIs offer enterprise loans (except for those offering only agricultural loans) and two-thirds offer agricultural loans (almost all MFIs in the Caucasus offer ag loans). One third offers consumer loans (every second MFI in the Balkans) and 15% housing loans (every third MFI in the Balkans).

Figure 36: Distribution of the loan portfolio and borrowers by loan type
Figure 37: Distribution of borrowers by methodology in the sub-regions
Figure 38: Distribution of borrowers by loan type and sub-regions





In total, at least 20% of the portfolio in the region is engaged in agricultural loans for 23% of borrowers. MFIs offering agricultural loans reach the largest number of clients in the Caucasus and the Balkans. Central Asian MFIs, despite serving the largest number of clients in rural areas as yet do not have such a diversified offer as in the other sub-regions and many of their enterprise loans are used in agriculture.

Consumer loans are most often used by clients in the Balkans, while housing loans are only available in the Balkans and CEE. Housing loans are predominantly small repair or redecoration loans rather than construction ones, except Central Asia where mortgage loans or loans for the completion of the construction are offered.

Table 24: Average interest rates charged on different loan types

	enterprise loan	agricultural loans	consumer loans	housing loans
Balkans	27%	26%	27%	19%
CEE	16%	21%	19%	8%
Russia/Ukraine	34%	-	-	-
Caucasus	34%	32%	35%	
Central Asia	37%	32%	45%	36%
ECA	**31%**	**28%**	**34%**	**20%**

Table 25: Average depth of outreach of different loan types

	enterprise loan	agricultural loans	consumer loans	housing loans
Balkans	92%	95%	70%	94%
CEE	140%	49%	50%	117%
Russia/Ukraine	84%	-	-	-
Caucasus	133%	145%	28%	-
Central Asia	74%	103%	65%	20%
ECA	**102%**	**102%**	**59%**	**92%**

More than half of the borrowers receive their loans through the individual lending methodology in the European part of ECA and Russia, while in Central Asia and Caucasus the group methodology is more prevalent.

Group loans had higher interest rates charged than individual loans as through this methodology smaller loans are disbursed.

In terms of the interest rates charged on different types of loans, the pricing is very country-specific. More popular products which had higher share of borrowers also had higher price. Niche products were cheaper. Consumer loans, for instance, even though smaller in size than any other type, were priced lower in most of the sub-regions, except Central Asia. They are offered to experienced clients and the disbursements are simplified, therefore less costly.

There was no relation between the type of a loan and the methodology of disbursement.

Table 26: Average loan size and interest rate charged on different loan types

	avg. loan balance/ GNI per capita	avg. interest rate
Group	52%	36%
Individual	109%	27%
Village banking	81%	24%
		30%

Personnel

At the end of 2006 the total number of personnel employed in NGOs/NBFIs reached nearly 9,000 people while microfinance banks employed almost twice as many (15,300).

Figure 39: Gender composition of employment of NGOs/NBFIs

In 2006 the share of women among personnel dropped to 47% from 50% in 2004, at the time of the previous survey. On all other levels the share of women was lower than two years earlier except for the board where it remained on the same level.

Older MFIs as well as those in higher income countries have more women among staff at all levels, except the board, although in general more women among staff also means more women on the board.

Women loan officers were better represented in the MFIs that served women clients as well as the disabled clients and were more often seen in MFIs operating in urban areas.

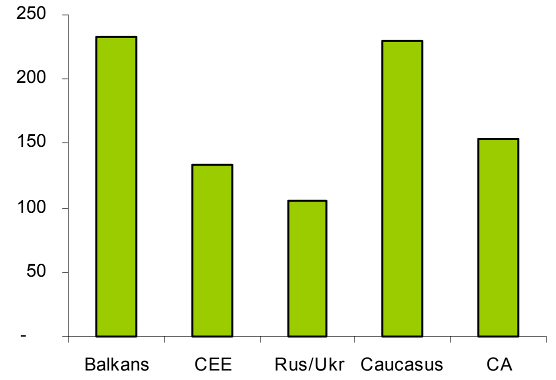
Despite using only individual lending methodology loan officers of microfinance banks are more productive than those of NGOs/NBFIs.

Table 27: Average productivity by different institutional types

	avg. personnel productivity (active borrowers/total staff)	avg. loan officer productivity (active borrowers/loan officers)	avg. personnel allocation (loan officers/total staff)
Microfinance banks	67	211	27%
NGOs/NBFIs	75	182	46%

Among NGOs/NBFIs the more productive were: older and larger NGOs/NBFIs, those that gave smaller loans and had higher profit margins thanks to lower expenses as seen in the Balkans and Caucasus. Almost 70% of MFIs improved overall productivity through better personnel allocation and increased case load of loan officers.

Figure 40: Loan officer productivity of NGOs/NBFIs



Productivity in particular improved among those institutions that increased use of debt funding again confirming better performance in view of better investment opportunities. Also the ones that rapidly expanded their operations – attracted more new clients during the year, which led to increased staff workload. Often it was also connected with the shift in the target market i.e. towards serving more women.

C. MFI Listings

This section presents information on MFIs that publicly disclose their information on their own web sites, in printed publications and on the 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.

The MFIs presented below have been segmented into four categories based on the size of their gross loan portfolio as of December 2006:

Tier 1 – NGOs/NBFIs with gross loan portfolio over US$15 million

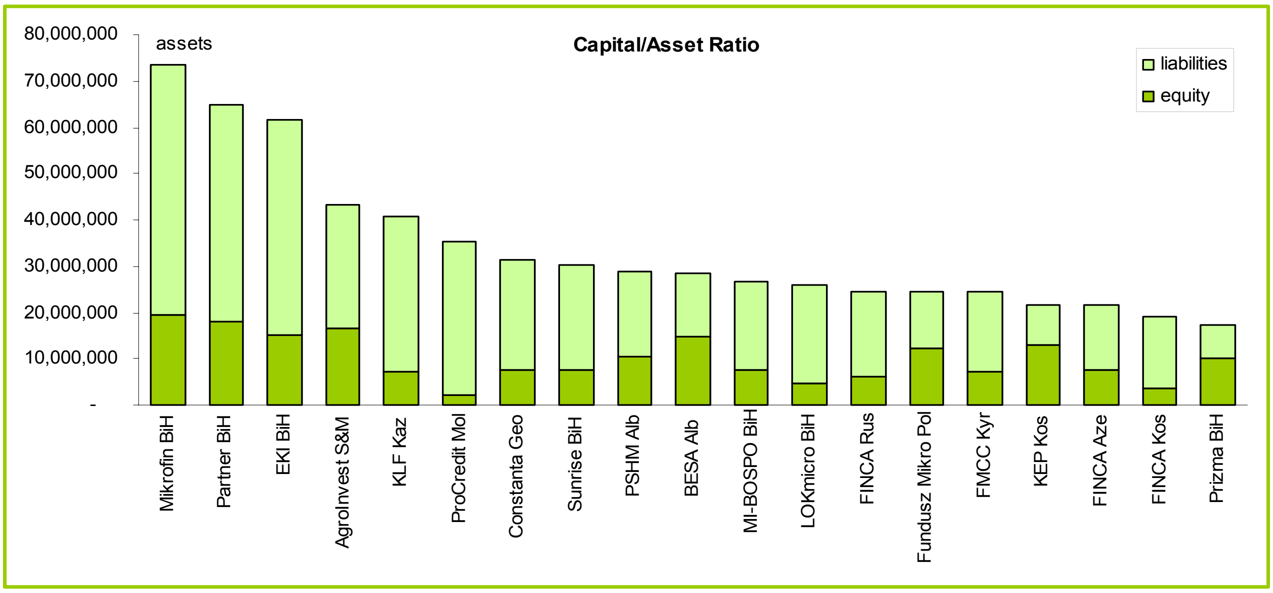
Tier 2 – NGOs/NBFIs with gross loan portfolio between US$10 and 15 million

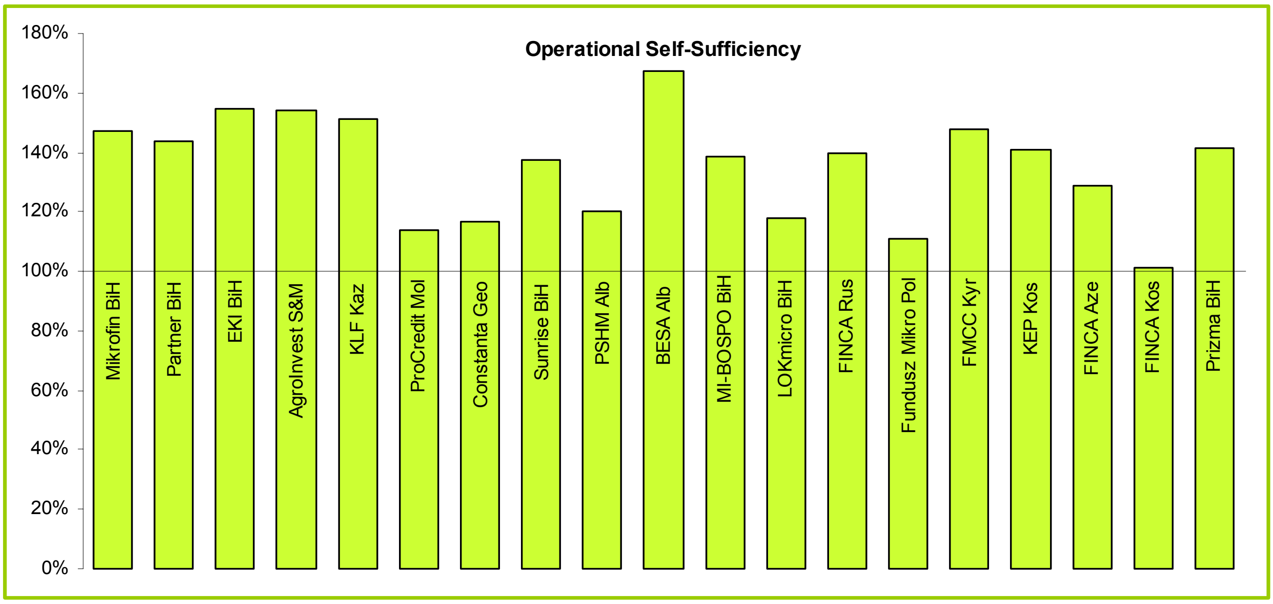
Tier 3 – NGOs/NBFIs with gross loan portfolio between US$5 and 10 million

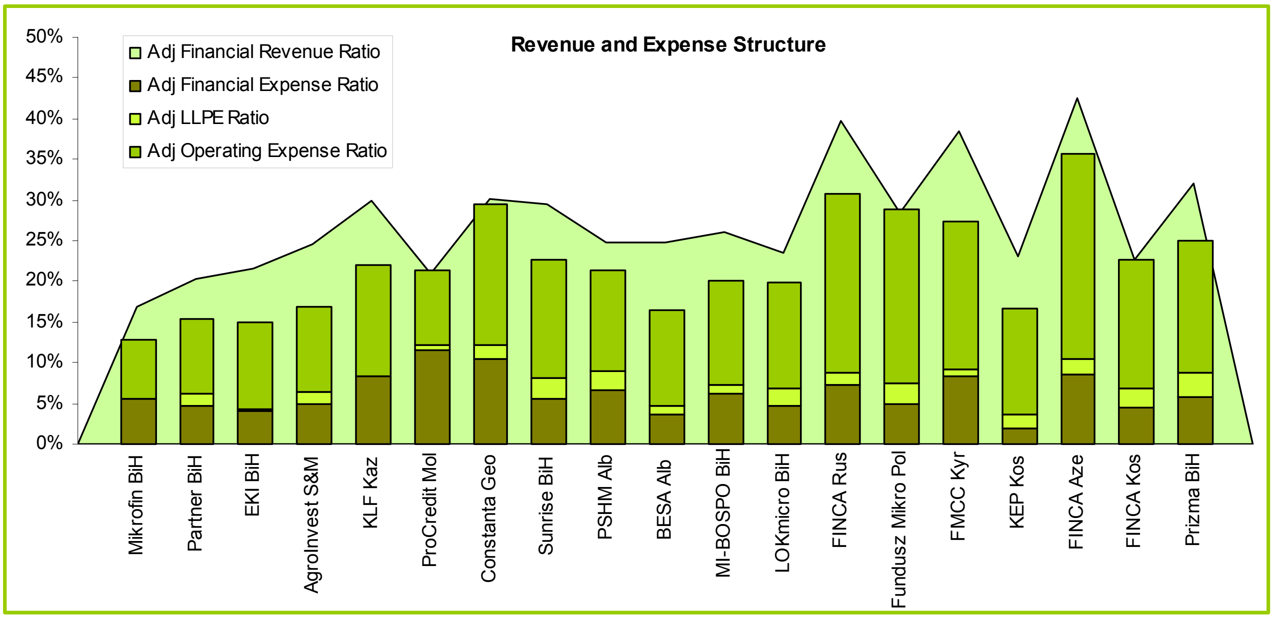
Tier 4 – NGOs/NBFIs with gross loan portfolio below US$1 million

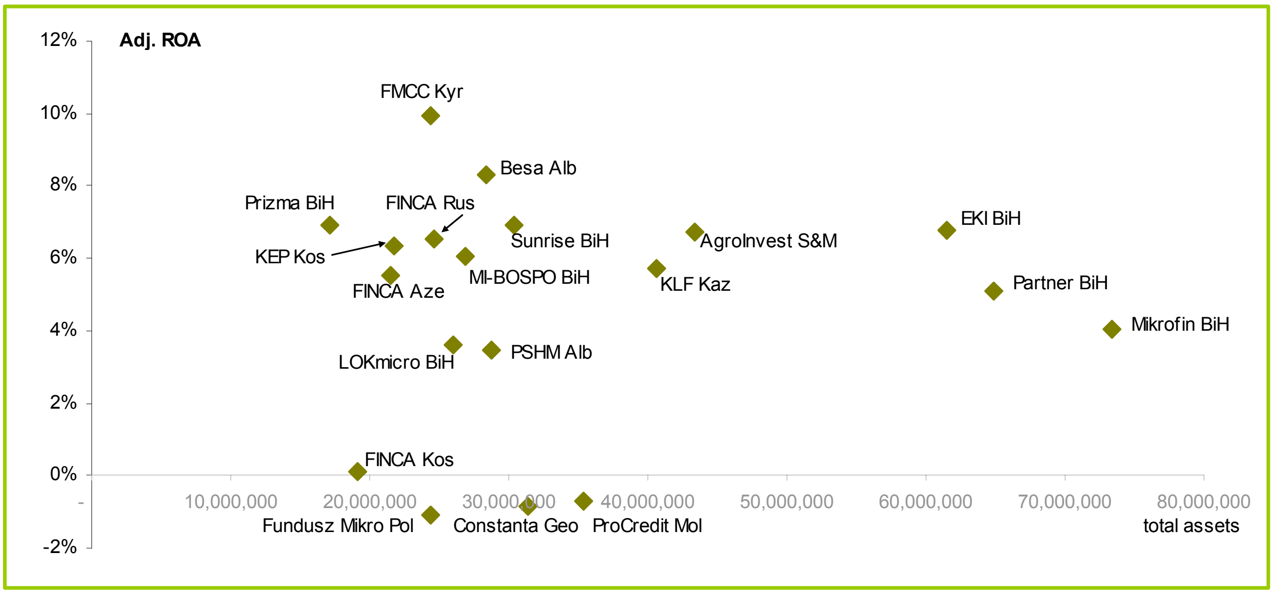
Tier 1

Balkans	CEE
BESA Fund Albania	ProCredit Moldova
PSHM Albania	Fundusz Mikro Poland
EKI Bosnia and Herzegovina	
LOKmicro Bosnia and Herzegovina	**Russia/Ukraine**
MI-BOSPO Bosnia and Herzegovina	FINCA Russia
Mikrofin Bosnia and Herzegovina	
Partner Bosnia and Herzegovina	**Caucasus**
Prizma Bosnia and Herzegovina	FINCA Azerbaijan
Sunrise Bosnia and Herzegovina	Constanta Foundation Georgia
FINCA Kosovo	
KEP Kosovo	**Central Asia**
AgroInvest Montenegro, Serbia	KLF Kazakhstan
	FMCC Kyrgyzstan

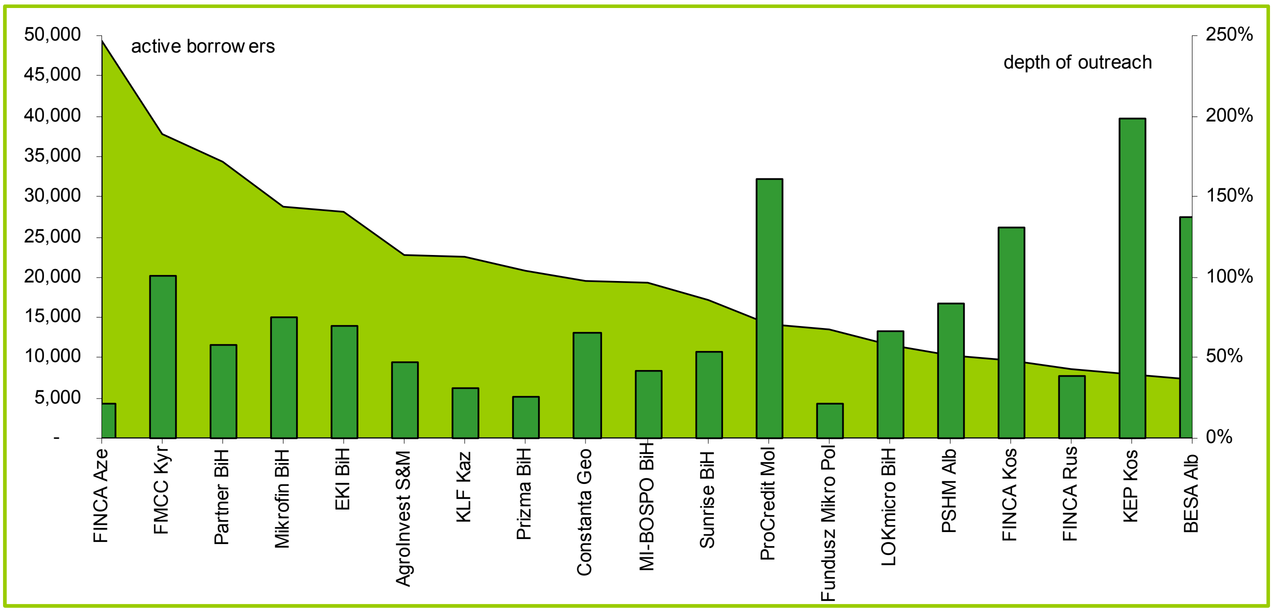


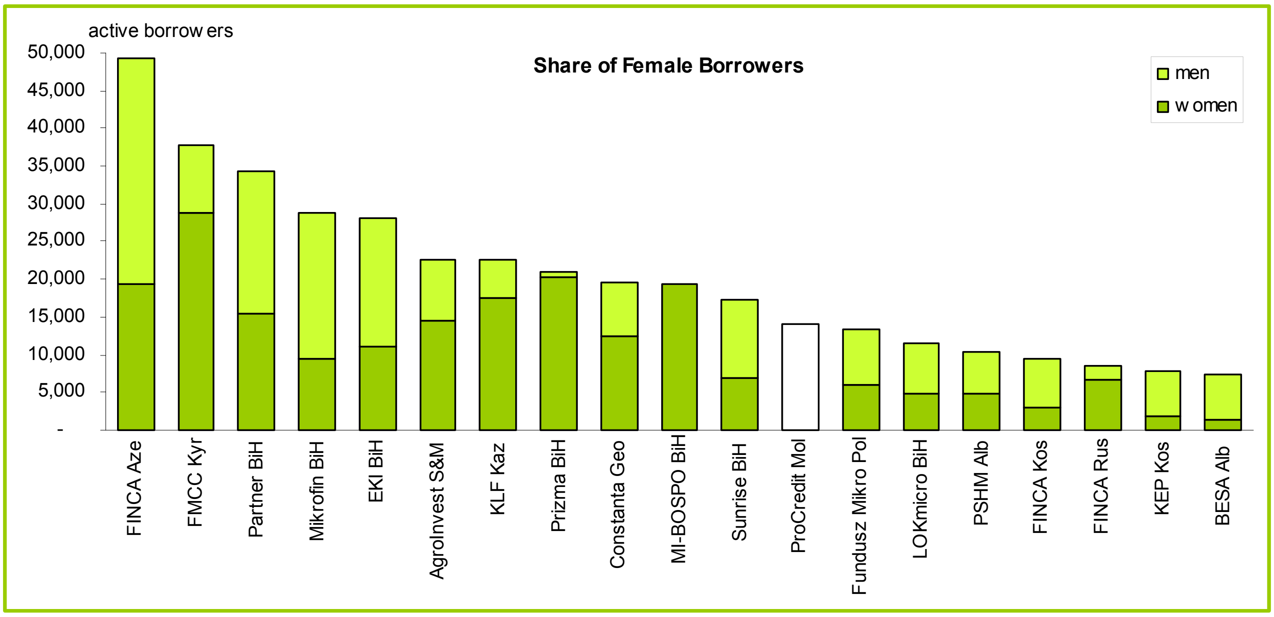


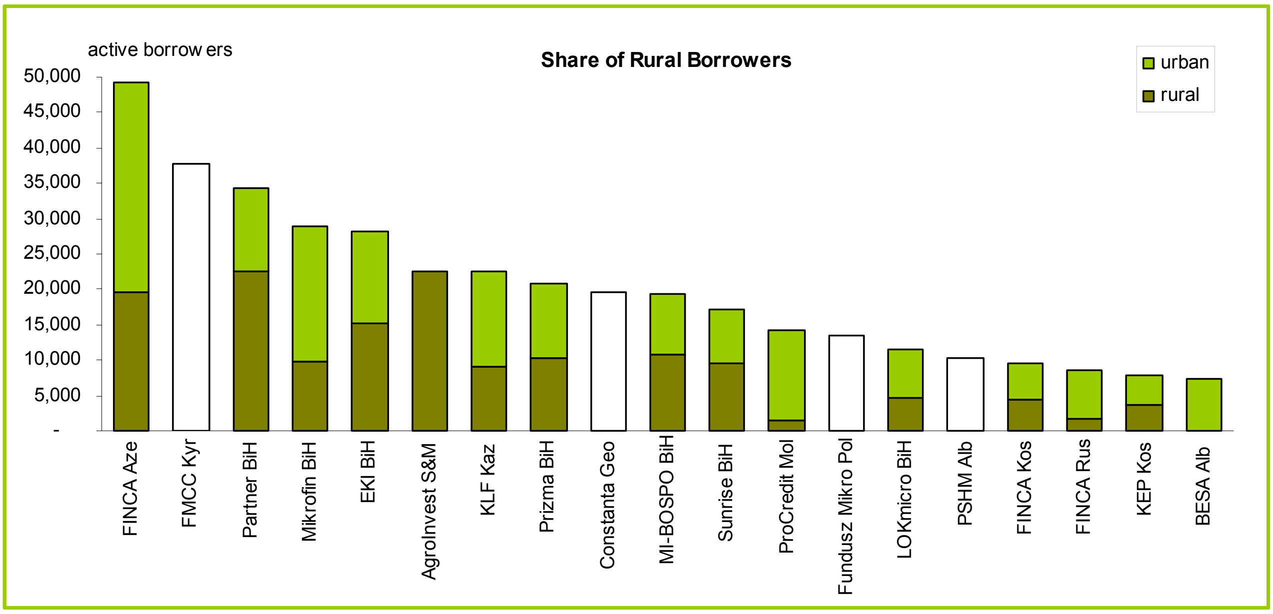

Revenue and Expense Structure
Adj Financial Revenue Ratio
Adj Financial Expense Ratio
Adj LLPE Ratio
Adj Operating Expense Ratio
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
Mikrofin BiH
Partner BiH
EKI BiH
AgroInvest S&M
KLF Kaz
ProCredit Mol
Constanta Geo
Sunrise BiH
PSHM Alb
BESA Alb
MI-BOSPO BiH
LOKmicro BiH
FINCA Rus
Fundusz Mikro Pol
FMCC Kyr
KEP Kos
FINCA Aze
FINCA Kos
Prizma BiH


Adj. ROA
12%
10%
8%
6%
4%
2%
0%
-
-2%
FMCC Kyr
Besa Alb
Prizma BiH
FINCA Rus
Sunrise BiH
AgroInvest S&M
EKI BiH
KEP Kos
MI-BOSPO BiH
FINCA Aze
KLF Kaz
Partner BiH
Mikrofin BiH
LOKmicro BiH
PSHM Alb
FINCA Kos
10,000,000
20,000,000
30,000,000
40,000,000
50,000,000
60,000,000
70,000,000
80,000,000
Fundusz Mikro Pol
Constanta Geo
ProCredit Mol
total assets


adj. operating efficiency
35%
30%
25%
20%
15%
10%
5%
0%
FINCA Aze
FINCA Rus
Constanta Geo
Fundusz Mikro Pol
FINCA Kos
FMCC Kyr
KLF Kaz
Prizma BiH
Sunrise BiH
LOKmicro BiH
PSHM Alb
KEP Kos
MI-BOSPO BiH
Besa Alb
ProCredit Mol
EKI BiH
AgroInvest S&M
Partner BiH
Mikrofin BiH
0%
40%
80%
120%
160%
depth of outreach
200%

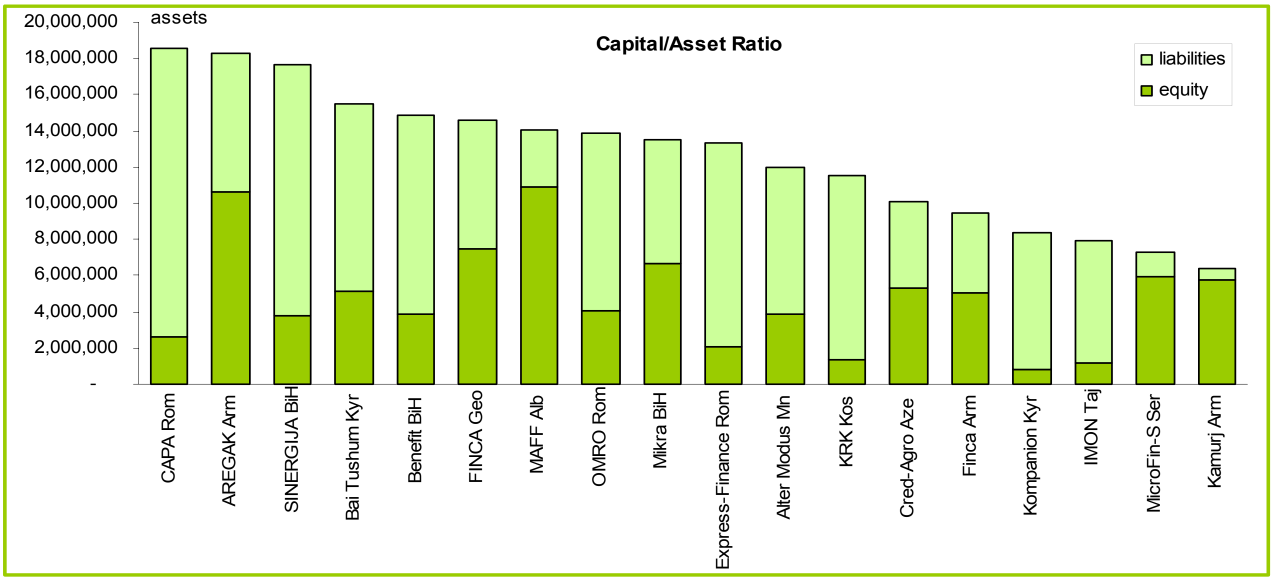

active borrowers
depth of outreach
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
250%
200%
150%
100%
50%
0%
FINCA Aze
FMCC Kyr
Partner BiH
Mikrofin BiH
EKI BiH
AgroInvest S&M
KLF Kaz
Prizma BiH
Constanta Geo
MI-BOSPO BiH
Sunrise BiH
ProCredit Mol
Fundusz Mikro Pol
LOKmicro BiH
PSHM Alb
FINCA Kos
FINCA Rus
KEP Kos
BESA Alb

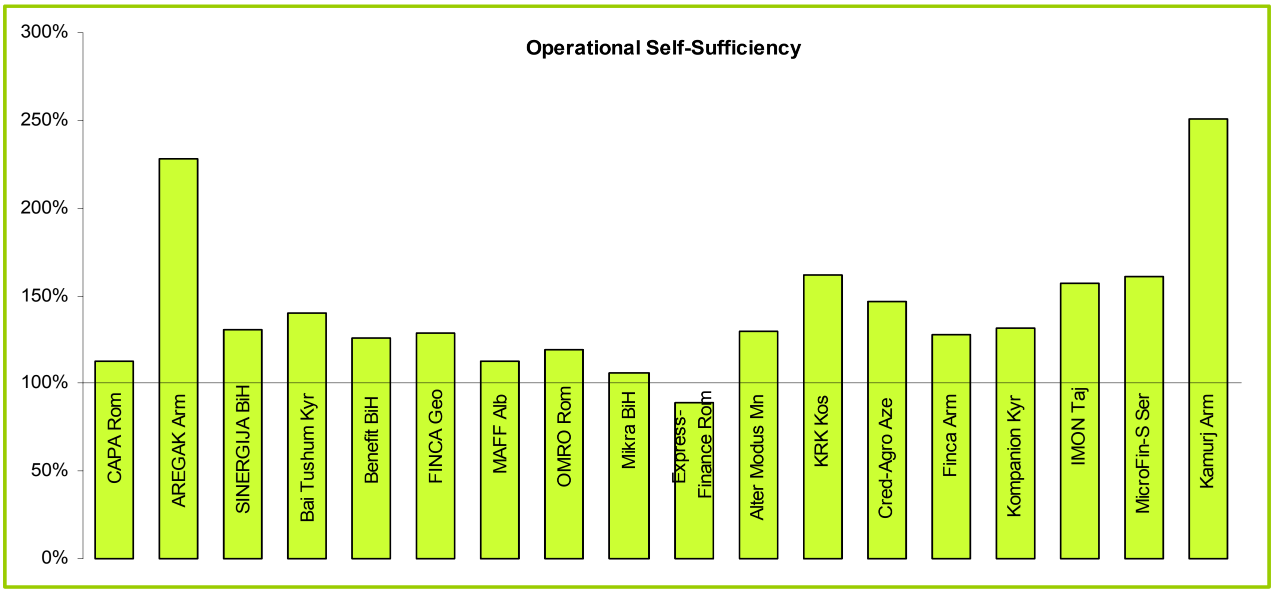

active borrowers
Share of Female Borrowers
men
women
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
FINCA Aze
FMCC Kyr
Partner BiH
Mikrofin BiH
EKI BiH
AgroInvest S&M
KLF Kaz
Prizma BiH
Constanta Geo
MI-BOSPO BiH
Sunrise BiH
ProCredit Mol
Fundusz Mikro Pol
LOKmicro BiH
PSHM Alb
FINCA Kos
FINCA Rus
KEP Kos
BESA Alb

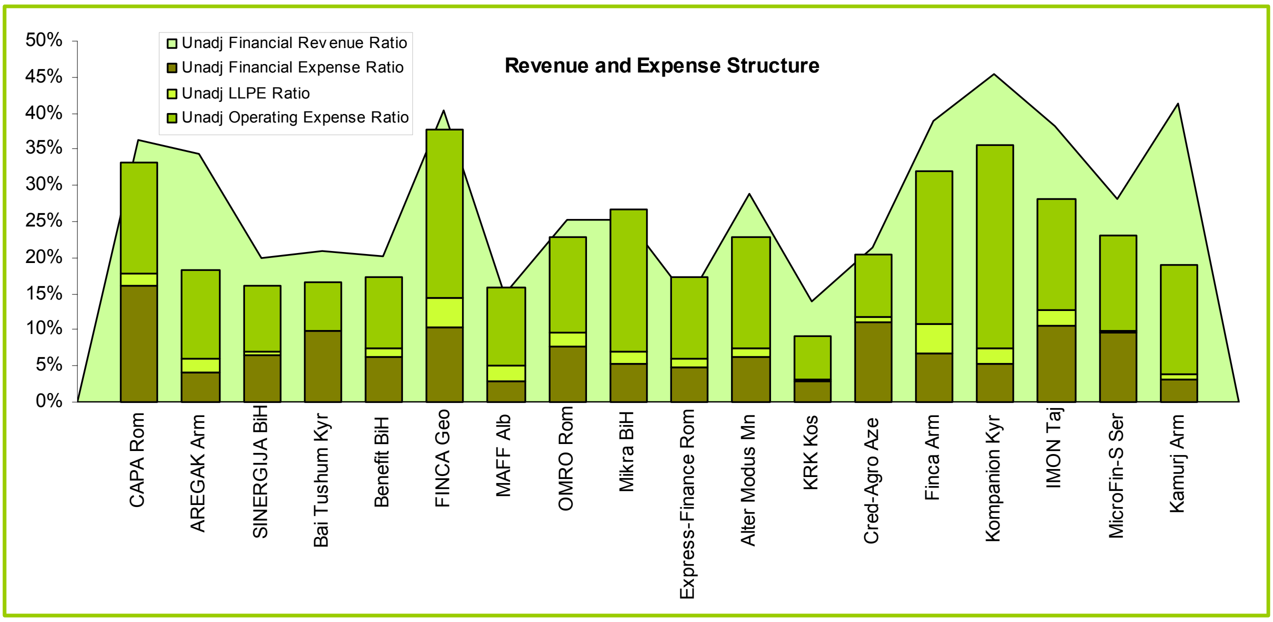

active borrowers
Share of Rural Borrowers
urban
rural
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
FINCA Aze
FMCC Kyr
Partner BiH
Mikrofin BiH
EKI BiH
AgroInvest S&M
KLF Kaz
Prizma BiH
Constanta Geo
MI-BOSPO BiH
Sunrise BiH
ProCredit Mol
Fundusz Mikro Pol
LOKmicro BiH
PSHM Alb
FINCA Kos
FINCA Rus
KEP Kos
BESA Alb

Tier 2

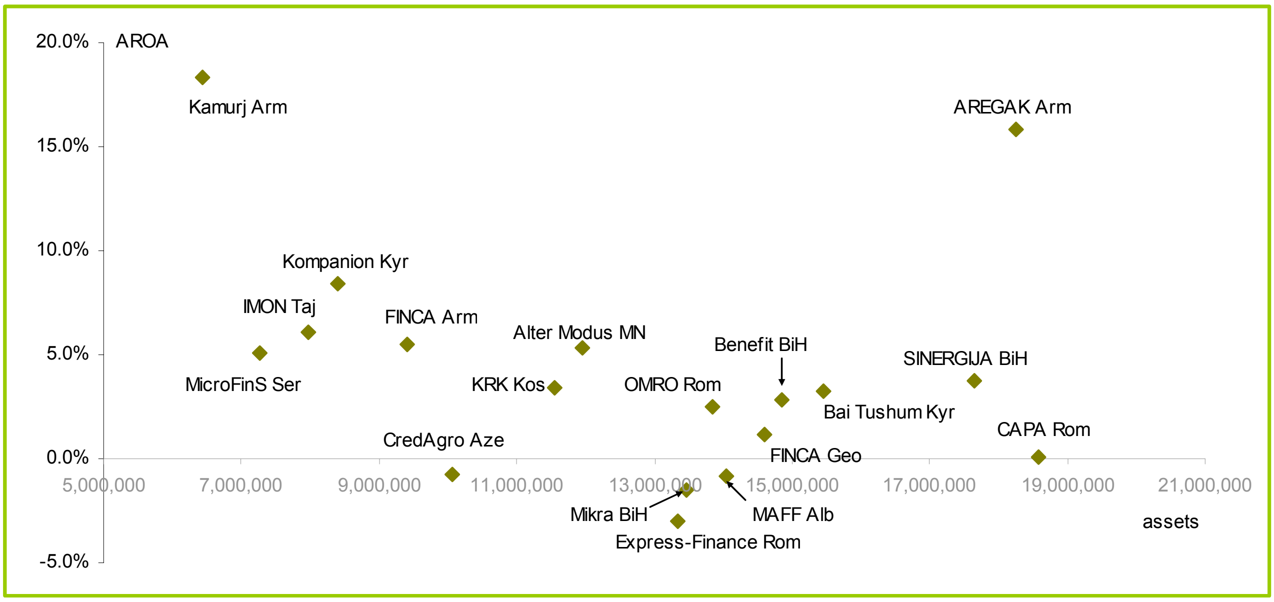
Balkans	Caucasus
Mountain Areas Finance Fund, Albania	Finca Armenia
Benefit, Bosnia and Herzegovina	Kamurj, Armenia
Mikra, Bosnia and Herzegovina	AREGAK, Armenia
SINERGIJA, Bosnia and Herzegovina	Cred-Agro, Azerbaijan
KRK, Kosovo	FINCA Georgia
Alter Modus, Montenegro	
MicroFin-S, Serbia	**Central Asia**
	Bai Tushum, Kyrgyzstan
CEE	Kompanion Financial Group, Kyrgyzstan
CAPA Finance, Romania	IMON, Tajikistan
Express-Finance, Romania	
OMRO, Romania	

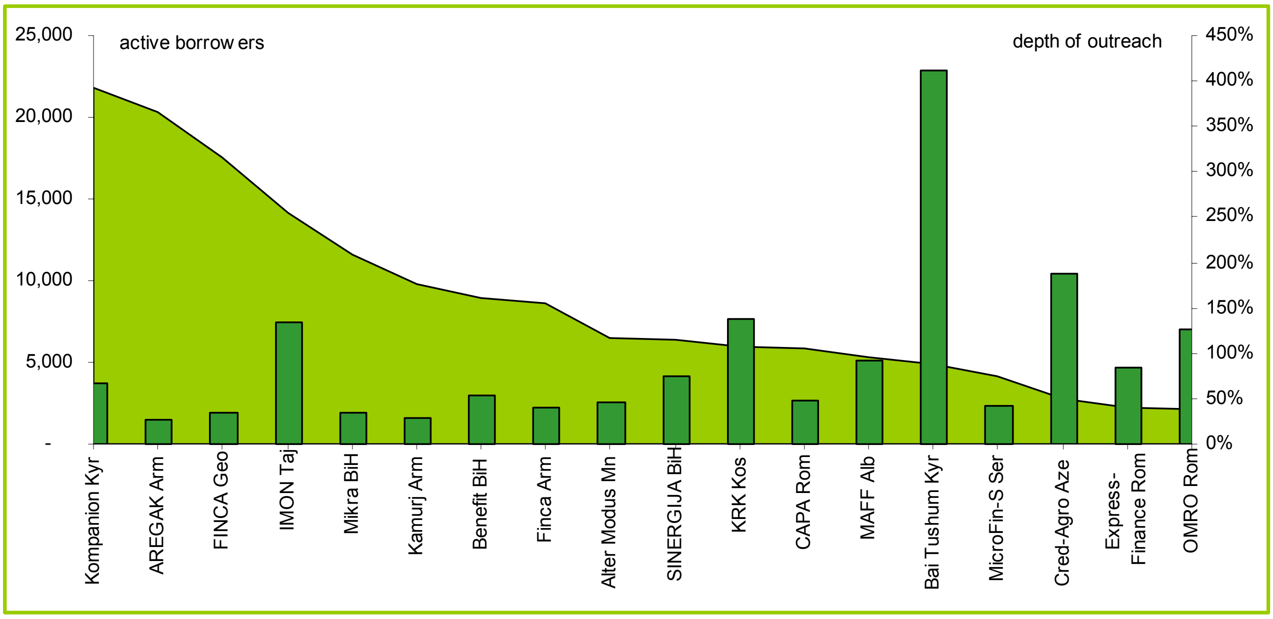


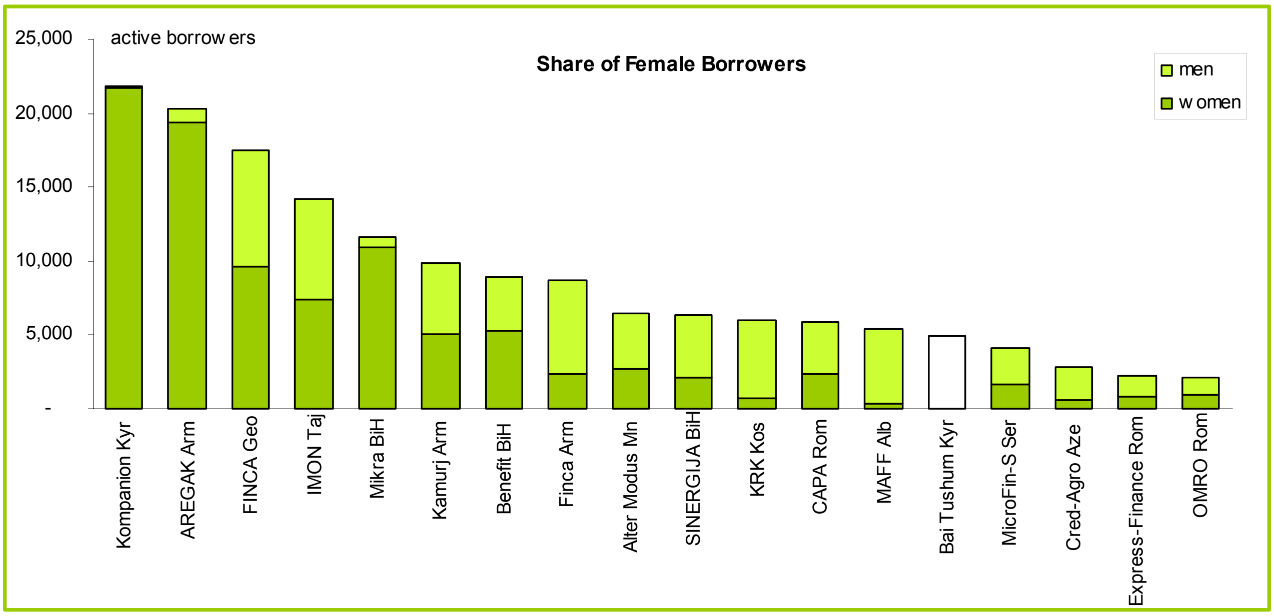


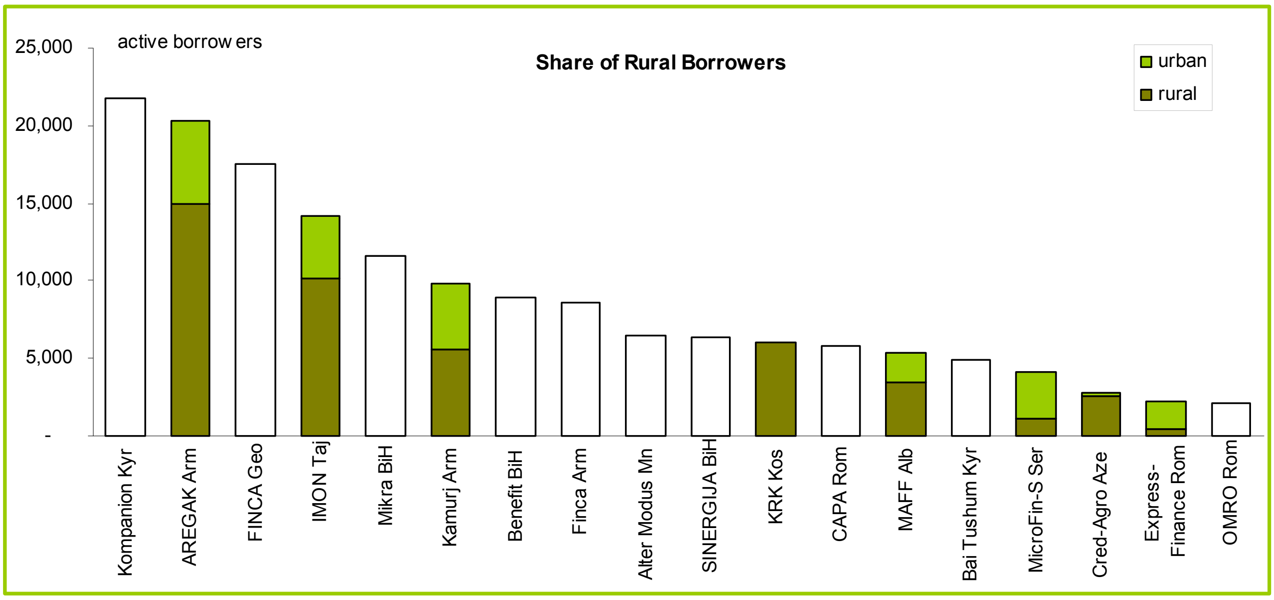

Revenue and Expense Structure
Unadj Financial Revenue Ratio
Unadj Financial Expense Ratio
Unadj LLPE Ratio
Unadj Operating Expense Ratio
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
CAPA Rom
AREGAK Arm
SINERGIJA BiH
Bai Tushum Kyr
Benefit BiH
FINCA Geo
MAFF Alb
OMRO Rom
Mikra BiH
Express-Finance Rom
Alter Modus Mn
KRK Kos
Cred-Agro Aze
Finca Arm
Kompanion Kyr
IMON Taj
MicroFin-S Ser
Kamurj Arm


operating efficiency
40%
35%
30%
25%
20%
15%
10%
5%
0%
Kompanion Kyr
FINCA Geo
FINCA Arm
MIKRA BiH
AREGAK Arm
CAPA Rom
OMRO Rom
Kamurj Arm
Alter Modus MN
IMON Taj
Express-Finance Rom
MicroFinS Ser
MAFF Alb
Benefit BiH
SINERGIJA BiH
CredAgro Aze
KRK Kos
Bai Tushum Kyr
0%
80%
160%
240%
320%
400%
480%
depth of outreach


AROA
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
Kamurj Arm
AREGAK Arm
Kompanion Kyr
IMON Taj
FINCA Arm
Alter Modus MN
Benefit BiH
SINERGIJA BiH
MicroFinS Ser
KRK Kos
OMRO Rom
Bai Tushum Kyr
CAPA Rom
CredAgro Aze
FINCA Geo
5,000,000
7,000,000
9,000,000
11,000,000
13,000,000
15,000,000
17,000,000
19,000,000
21,000,000
Mikra BiH
MAFF Alb
Express-Finance Rom
assets

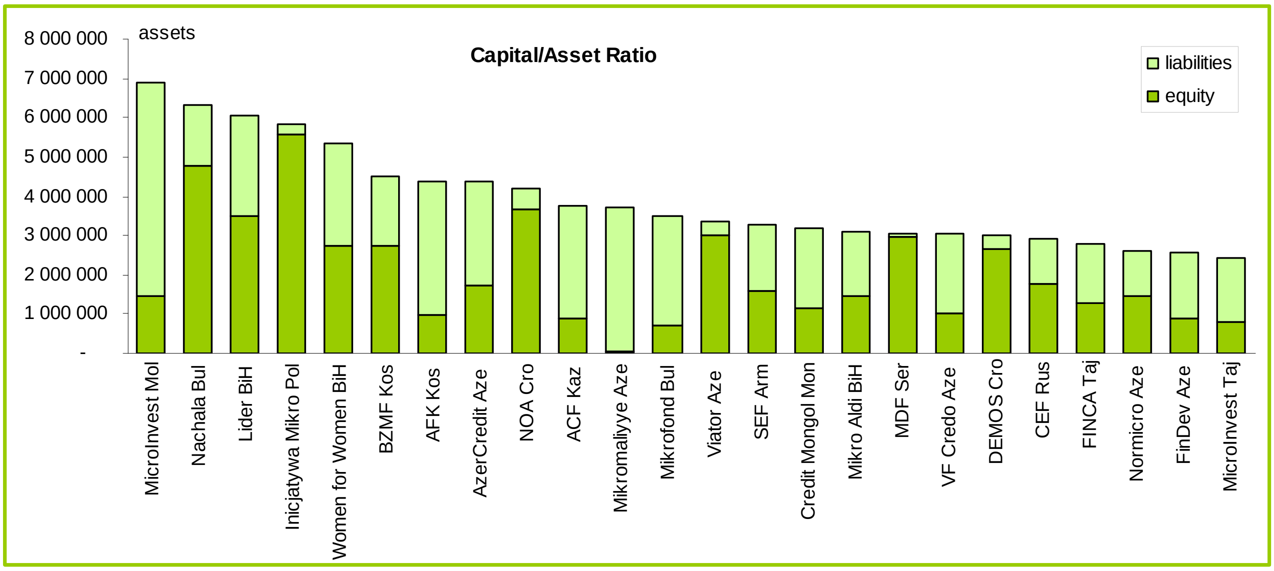

active borrow ers
depth of outreach
25,000
20,000
15,000
10,000
5,000
-
450%
400%
350%
300%
250%
200%
150%
100%
50%
0%
Kompanion Kyr
AREGAK Arm
FINCA Geo
IMON Taj
Mikra BiH
Kamurj Arm
Benefit BiH
Finca Arm
Alter Modus Mn
SINERGIJA BiH
KRK Kos
CAPA Rom
MAFF Alb
Bai Tushum Kyr
MicroFin-S Ser
Cred-Agro Aze
Express-Finance Rom
OMRO Rom

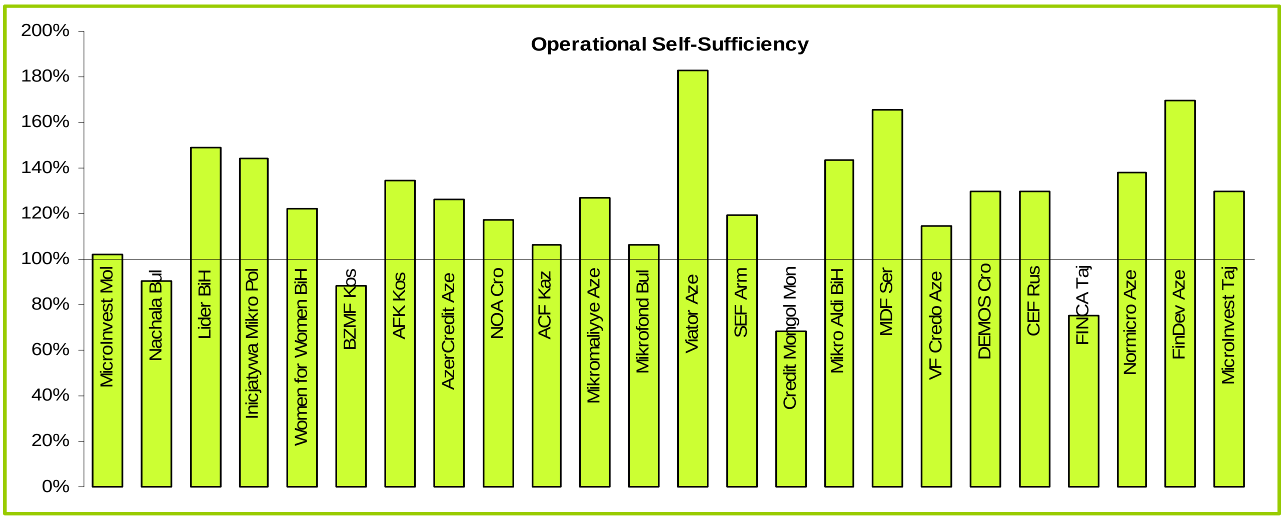

active borrow ers
Share of Female Borrowers
men
w omen
25,000
20,000
15,000
10,000
5,000
-
Kompanion Kyr
AREGAK Arm
FINCA Geo
IMON Taj
Mikra BiH
Kamurj Arm
Benefit BiH
Finca Arm
Alter Modus Mn
SINERGIJA BiH
KRK Kos
CAPA Rom
MAFF Alb
Bai Tushum Kyr
MicroFin-S Ser
Cred-Agro Aze
Express-Finance Rom
OMRO Rom

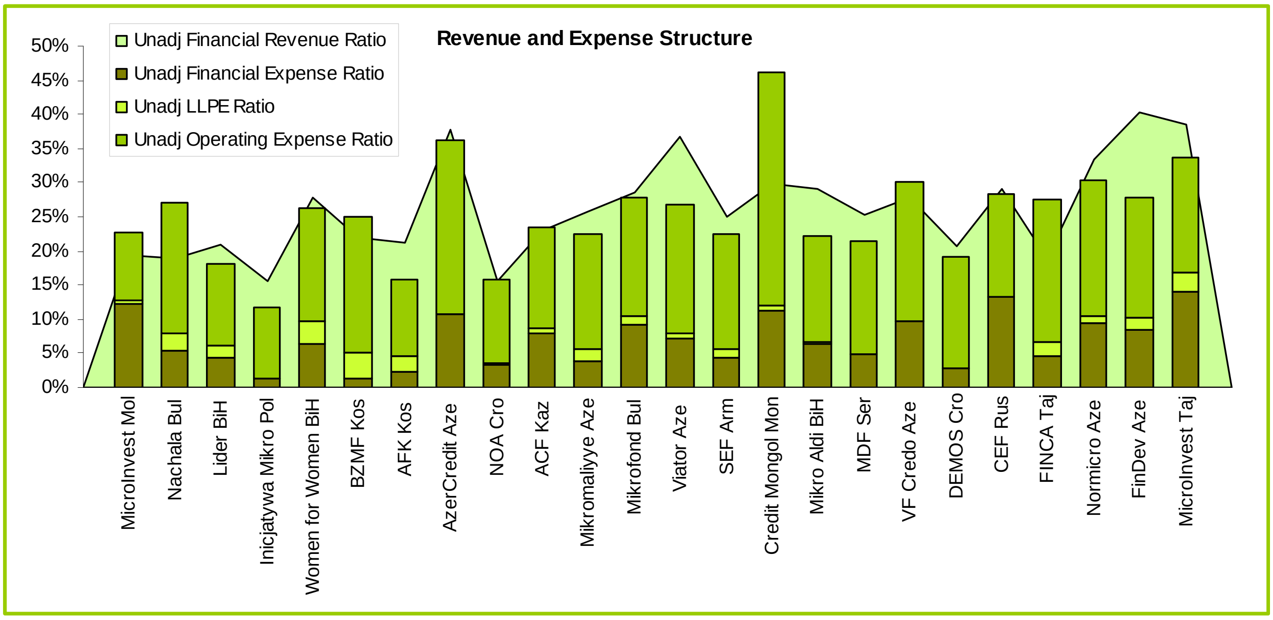

Share of Rural Borrowers
active borrow ers
25,000
20,000
15,000
10,000
5,000
-
urban
rural
Kompanion Kyr
AREGAK Arm
FINCA Geo
IMON Taj
Mikra BiH
Kamurj Arm
Benefit BiH
Finca Arm
Alter Modus Mn
SINERGIJA BiH
KRK Kos
CAPA Rom
MAFF Alb
Bai Tushum Kyr
MicroFin-S Ser
Cred-Agro Aze
Express-Finance Rom
OMRO Rom

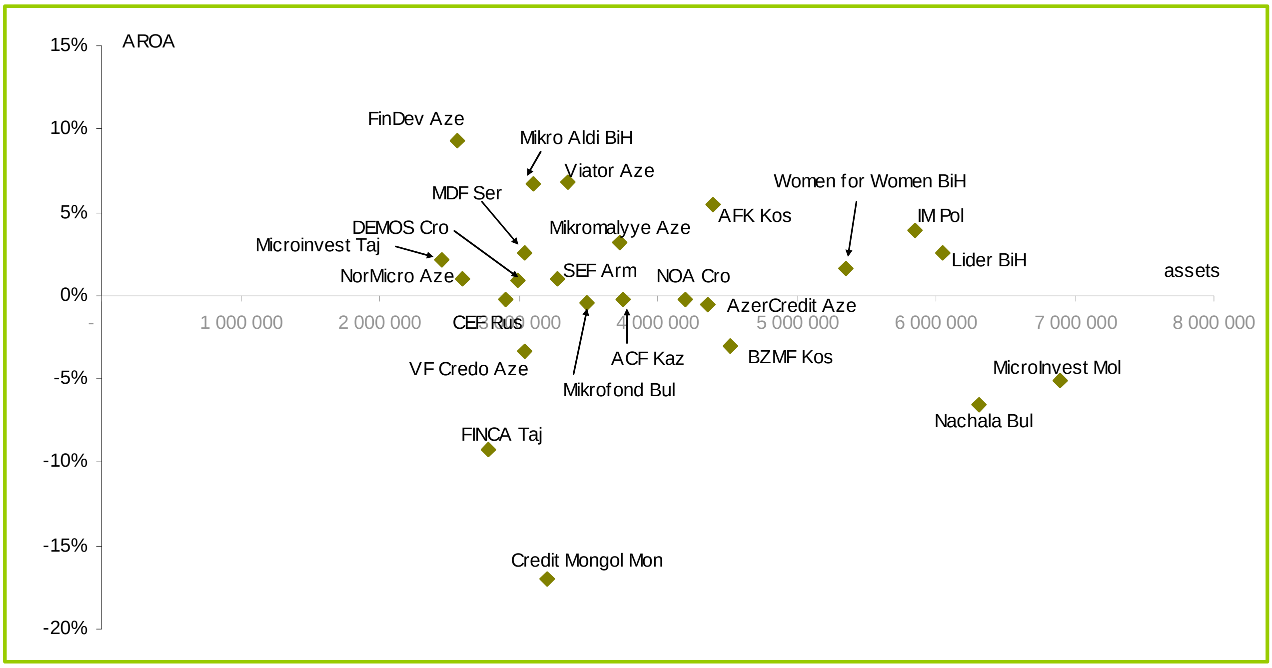
Tier 3

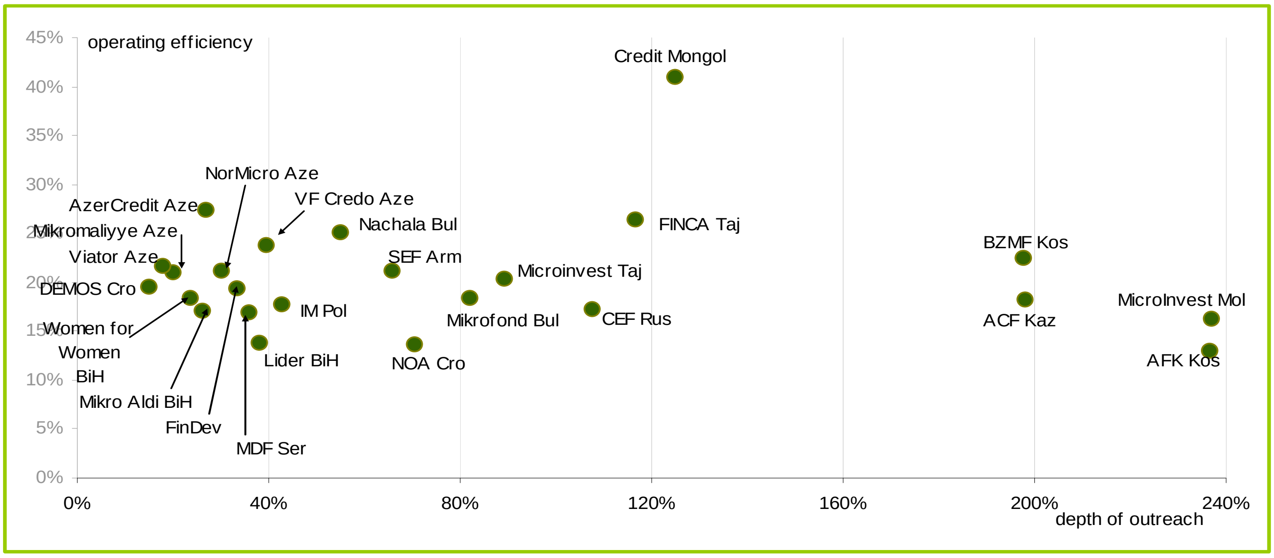
Balkans	Russia/Ukraine
Lider, Bosnia and Herzegovina	Counterpart Enterprise Fund, Russia
Mikro Aldi, Bosnia and Herzegovina	
Women for Women, Bosnia and Herzegovina	**Caucasus**
DEMOS, Croatia	SEF, Armenia
NOA, Croatia	Finance for Development, Azerbaijan
Agency for Finance in Kosovo	Mikromaliyye, Azerbaijan
Beselidhja/Zavet Microfinance, Kosovo	Normicro, Azerbaijan
Micro Development Fund, Serbia	Viator Microcredit Fund, Azerbaijan
	AzerCredit, Azerbaijan
CEE	VF Credo Foundation, Georgia
Mikrofond EAD, Bulgaria	
Nachala Cooeprative, Bulgaria	**Central Asia**
MicroInvest, Moldova	Credit Mongol, Mongolia
Inicjatywa Mikro, Poland	Asian Credit Fund, Kazakhstan
	FINCA Tajikistan
	MicroInvest, Tajikistan

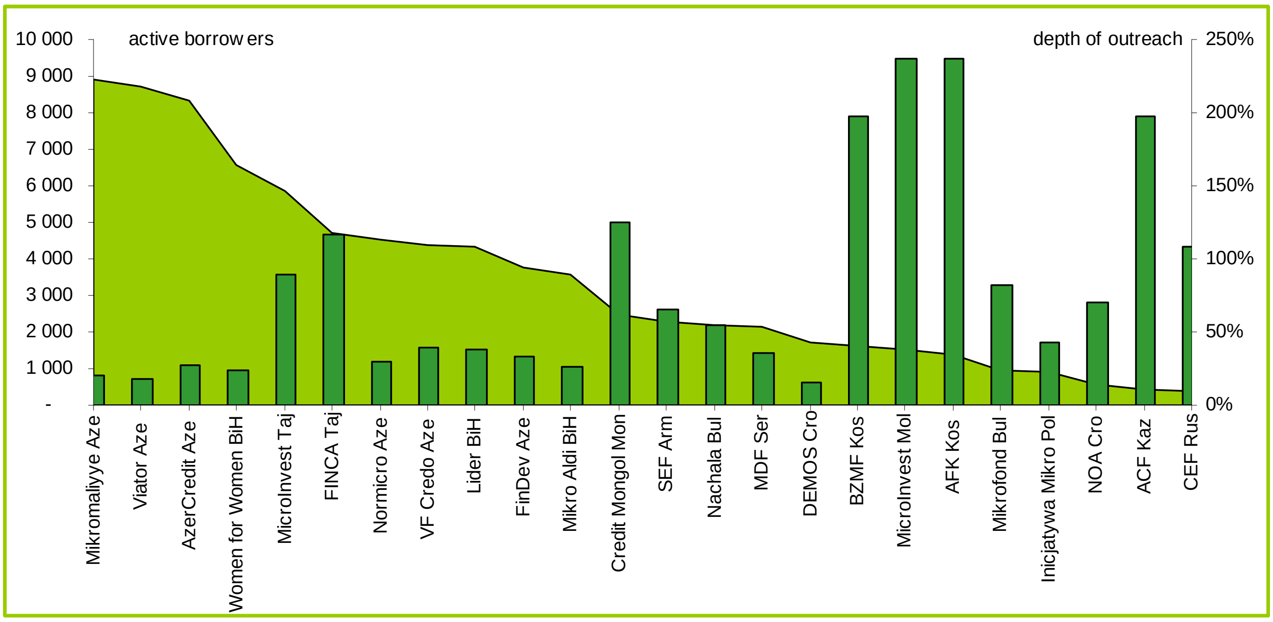


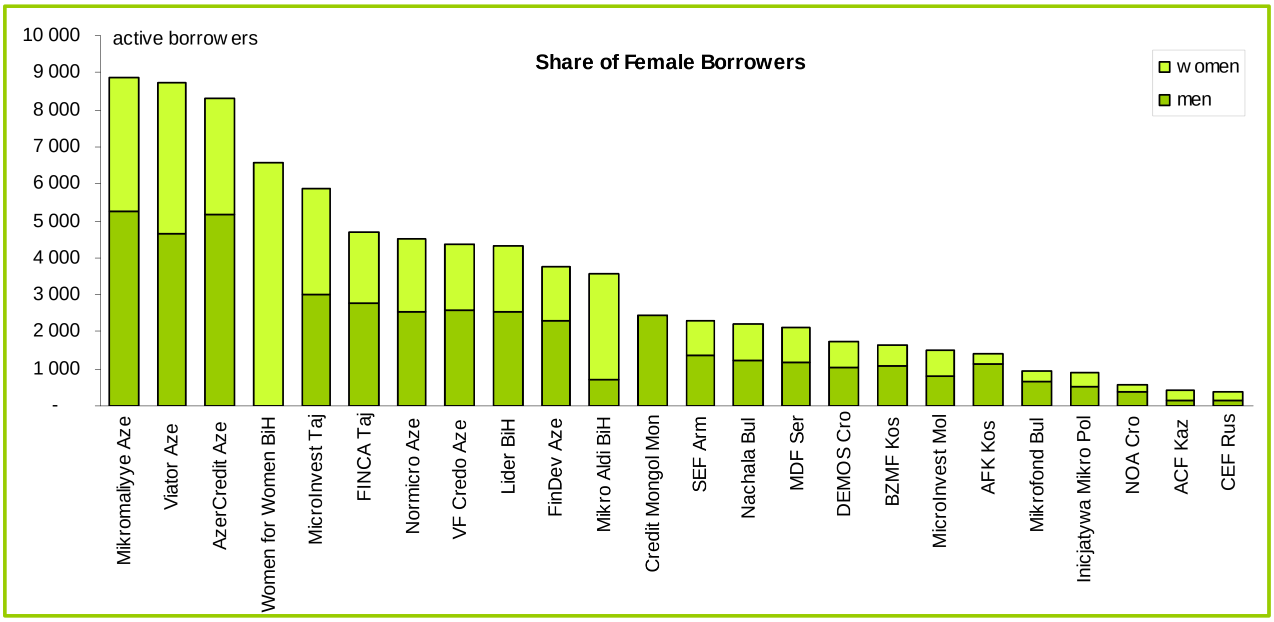


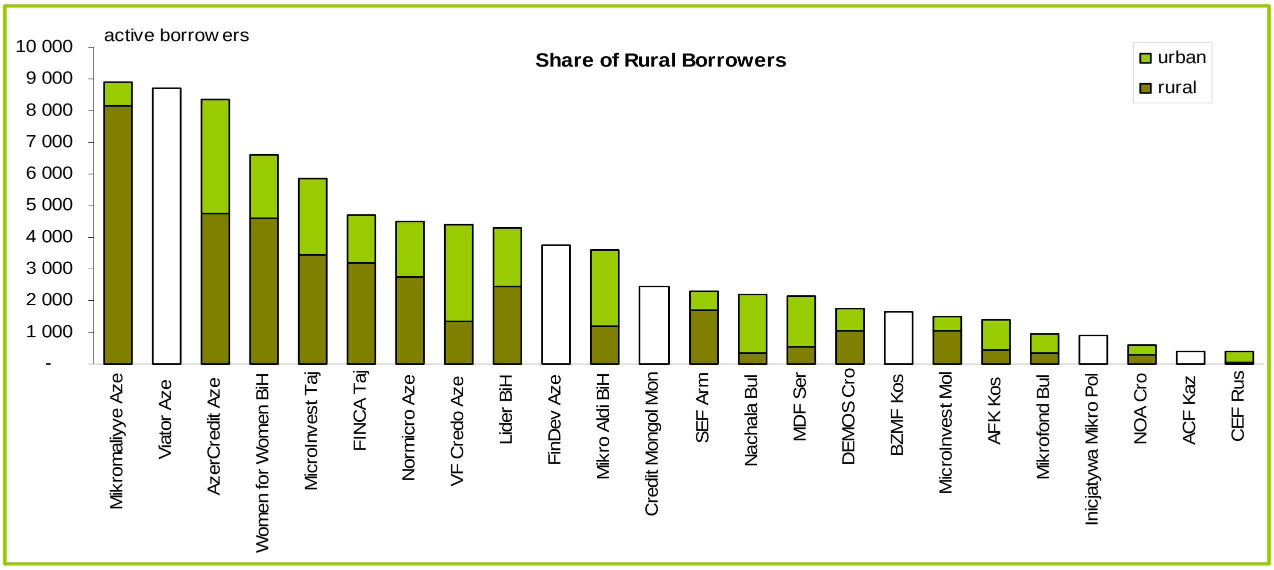

Revenue and Expense Structure
Unadj Financial Revenue Ratio
Unadj Financial Expense Ratio
Unadj LLPE Ratio
Unadj Operating Expense Ratio
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
MicroInvest Mol
Nachala Bul
Lider BiH
Inicjatywa Mikro Pol
Women for Women BiH
BZMF Kos
AFK Kos
AzerCredit Aze
NOA Cro
ACF Kaz
Mikromaliyye Aze
Mikrofond Bul
Viator Aze
SEF Arm
Credit Mongol Mon
Mikro Aldi BiH
MDF Ser
VF Credo Aze
DEMOS Cro
CEF Rus
FINCA Taj
Normicro Aze
FinDev Aze
Microinvest Taj


AROA
15%
10%
5%
0%
-5%
-10%
-15%
-20%
1 000 000
2 000 000
3 000 000
4 000 000
5 000 000
6 000 000
7 000 000
8 000 000
assets
FinDev Aze
Mikro Aldi BiH
Viator Aze
MDF Ser
Women for Women BiH
AFK Kos
IM Pol
DEMOS Cro
Mikromalyye Aze
Microinvest Taj
Lider BiH
NorMicro Aze
SEF Arm
NOA Cro
CEF Rus
AzerCredit Aze
ACF Kaz
BZMF Kos
VF Credo Aze
Mikrofond Bul
MicroInvest Mol
Nachala Bul
FINCA Taj
Credit Mongol Mon


operating efficiency
45%
40%
35%
30%
20%
10%
5%
0%
0%
40%
80%
120%
160%
200%
240%
depth of outreach
Credit Mongol
NorMicro Aze
VF Credo Aze
AzerCredit Aze
Nachala Bul
FINCA Taj
Mikromaliyye Aze
BZMF Kos
Viator Aze
SEF Arm
Microinvest Taj
DEMOS Cro
IM Pol
MicroInvest Mol
Mikrofond Bul
CEF Rus
ACF Kaz
Women for Women BiH
Lider BiH
NOA Cro
AFK Kos
Mikro Aldi BiH
FinDev
MDF Ser

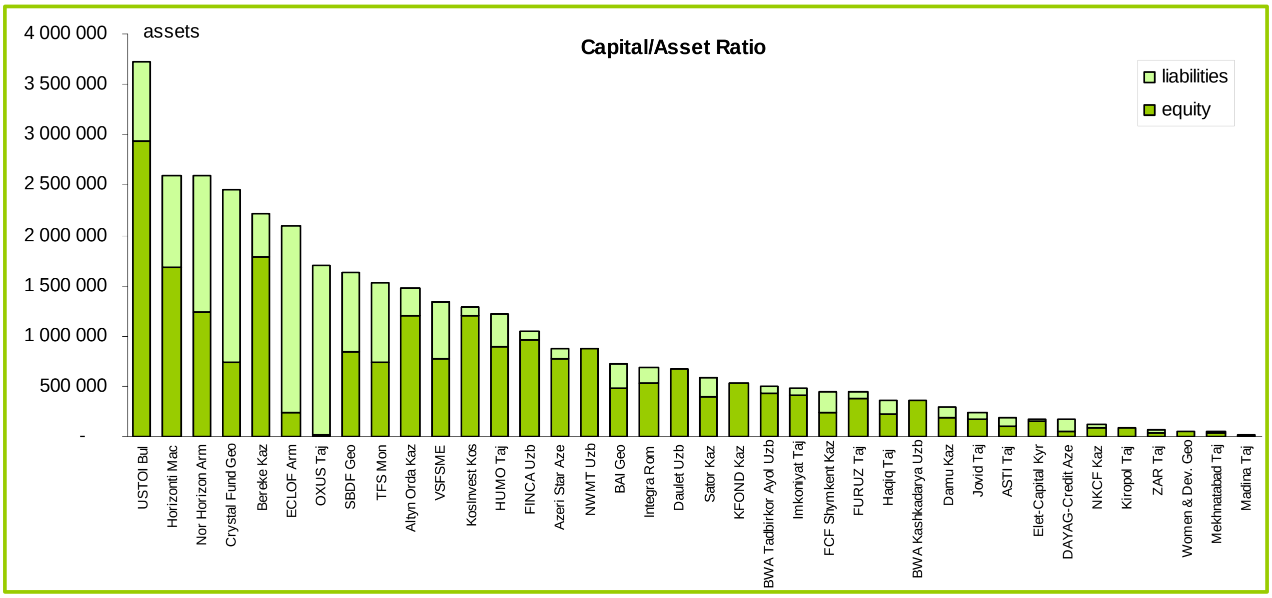

active borrow ers
depth of outreach
10 000
9 000
8 000
7 000
6 000
5 000
4 000
3 000
2 000
1 000
-
250%
200%
150%
100%
50%
0%
Mikromaliyye Aze
Viator Aze
AzerCredit Aze
Women for Women BiH
MicroInvest Taj
FINCA Taj
Normicro Aze
VF Credo Aze
Lider BiH
FinDev Aze
Mikro Aldi BiH
Credit Mongol Mon
SEF Arm
Nachala Bul
MDF Ser
DEMOS Cro
BZMF Kos
MicroInvest Mol
AFK Kos
Mikrofond Bul
Inicjatywa Mikro Pol
NOA Cro
ACF Kaz
CEF Rus

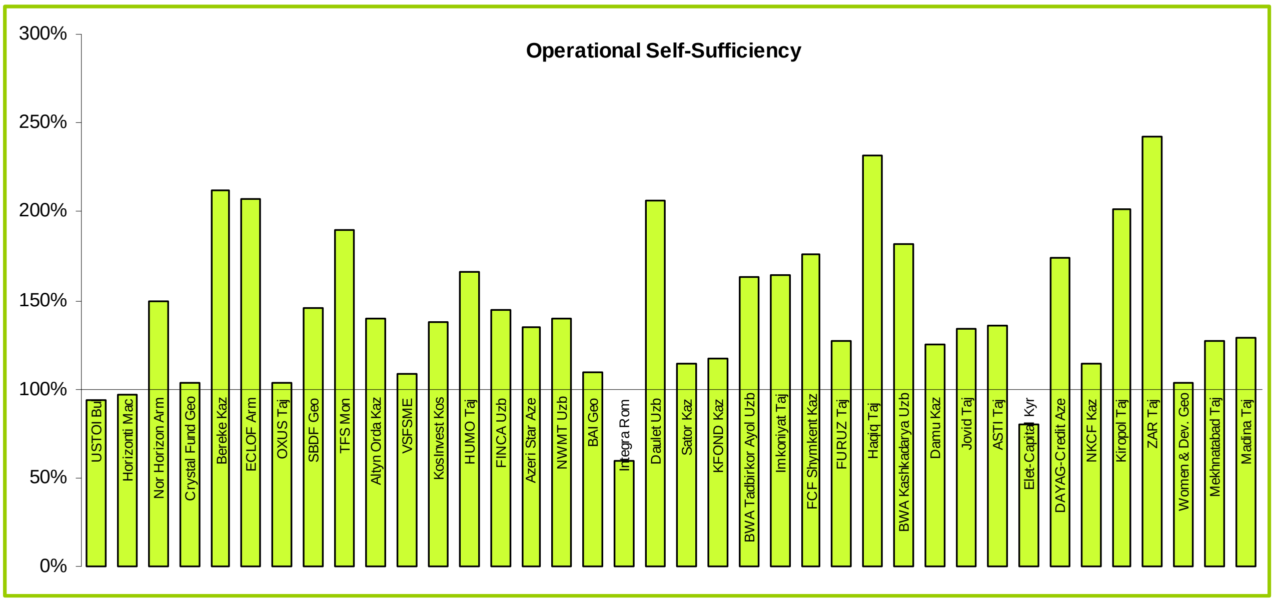

active borrow ers
Share of Female Borrowers
w omen
men
10 000
9 000
8 000
7 000
6 000
5 000
4 000
3 000
2 000
1 000
-
Mikromaliyye Aze
Viator Aze
AzerCredit Aze
Women for Women BiH
MicroInvest Taj
FINCA Taj
Normicro Aze
VF Credo Aze
Lider BiH
FinDev Aze
Mikro Aldi BiH
Credit Mongol Mon
SEF Arm
Nachala Bul
MDF Ser
DEMOS Cro
BZMF Kos
MicroInvest Mol
AFK Kos
Mikrofond Bul
Inicjatywa Mikro Pol
NOA Cro
ACF Kaz
CEF Rus

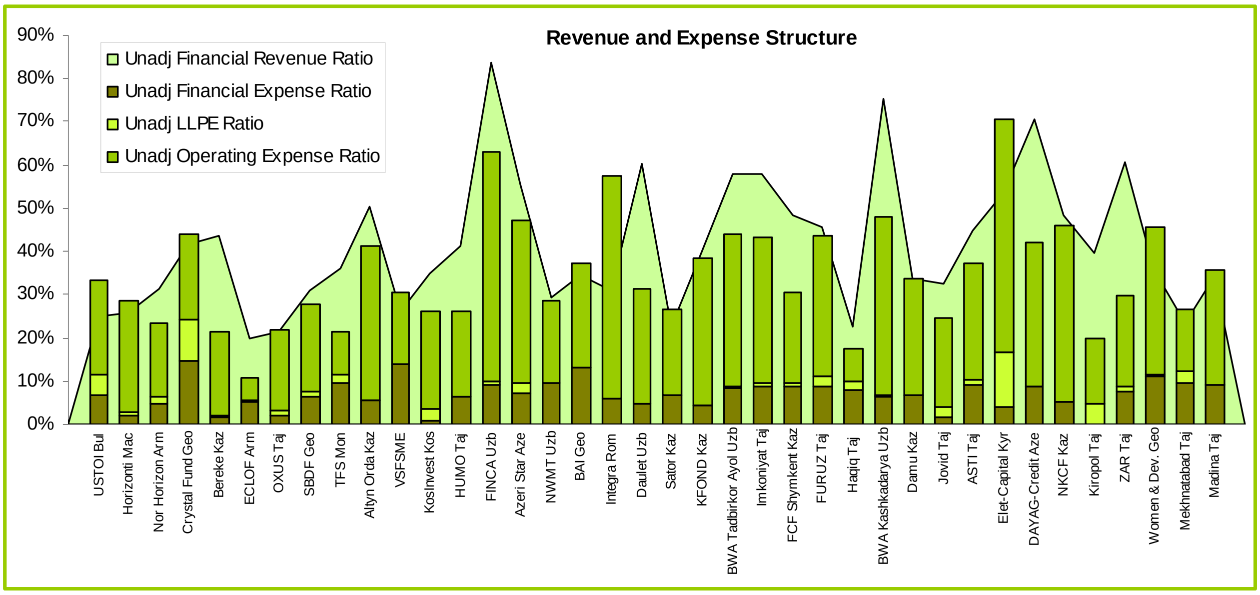

active borrow ers
Share of Rural Borrowers
urban
rural
10 000
9 000
8 000
7 000
6 000
5 000
4 000
3 000
2 000
1 000
-
Mikromaliyye Aze
Viator Aze
AzerCredit Aze
Women for Women BiH
MicroInvest Taj
FINCA Taj
Normicro Aze
VF Credo Aze
Lider BiH
FinDev Aze
Mikro Aldi BiH
Credit Mongol Mon
SEF Arm
Nachala Bul
MDF Ser
DEMOS Cro
BZMF Kos
MicroInvest Mol
AFK Kos
Mikrofond Bul
Inicjatywa Mikro Pol
NOA Cro
ACF Kaz
CEF Rus

Tier 4

Balkans	Central Asia
KosInvest, Kosovo	TFS, Mongolia
Horizonti, Macedonia	Altyn Orda, Kazakhstan
	Bereke, Kazakhstan
CEE	Damu, Kazakhstan
USTOI, Bulgaria	KFOND, Kazakhstan
Integra SA, Romania	Sator, Kazakhstan
	NKCF, Kazakhstan
Russia/Ukraine	FCF Shymkent, Kazakhstan
Voronezh State Fund for Support of SMEs, Russia	Elet-Capital, Kyrgyzstan
	OXUS Tajikistan
Caucasus	ASTI, Tajikistan
ECLOF Armenia	HUMO, Tajikistan
Nor Horizon, Armenia	ZAR, Tajikistan
Azeri Star, Azerbaijan	Jovid, Tajikistan
DAYAG-Credit, Azerbaijan	Madina, Tajikistan
BAI, Georgia	FURUZ, Tajikistan
Crystal Fund, Georgia	Kiropol, Tajikistan
SBDF, Georgia	Haqiq, Tajikistan
Women and Development, Georgia	Mekhnatabad, Tajikistan
	Imkoniyat, Tajikistan
	BWA Kashkadarya, Uzbekistan
	BWA Tadbirkor Ayol, Uzbekistan
	FINCA Uzbekistan
	Daulet, Uzbekistan
	NWMT, Uzbekistan




Operational Self-Sufficiency
300%
250%
200%
150%
100%
50%
0%
USTOI Bul
Horizonti Mac
Nor Horizon Arm
Crystal Fund Geo
Bereke Kaz
ECLOF Arm
OXUS Taj
SBDF Geo
TFS Mon
Altyn Orda Kaz
VSFSME
KosInvest Kos
HUMO Taj
FINCA Uzb
Azeri Star Aze
NWMT Uzb
BAI Geo
Integra Rom
Daulet Uzb
Sator Kaz
KFOND Kaz
BWA Tadbirkor Ayol Uzb
Imkoniyat Taj
FCF Shymkent Kaz
FURUZ Taj
Haqiq Taj
BWA Kashkadarya Uzb
Damu Kaz
Jovid Taj
ASTI Taj
Elet-Capital Kyr
DAYAG-Credit Aze
NKCF Kaz
Kiropol Taj
ZAR Taj
Women & Dev. Geo
Mekhnatabad Taj
Madina Taj


Revenue and Expense Structure
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Unadj Financial Revenue Ratio
Unadj Financial Expense Ratio
Unadj LLPE Ratio
Unadj Operating Expense Ratio
USTOI Bul
Horizonti Mac
Nor Horizon Arm
Crystal Fund Geo
Bereke Kaz
ECLOF Arm
OXUS Taj
SBDF Geo
TFS Mon
Altyn Orda Kaz
VSFSME
KosInvest Kos
HUMO Taj
FINCA Uzb
Azeri Star Aze
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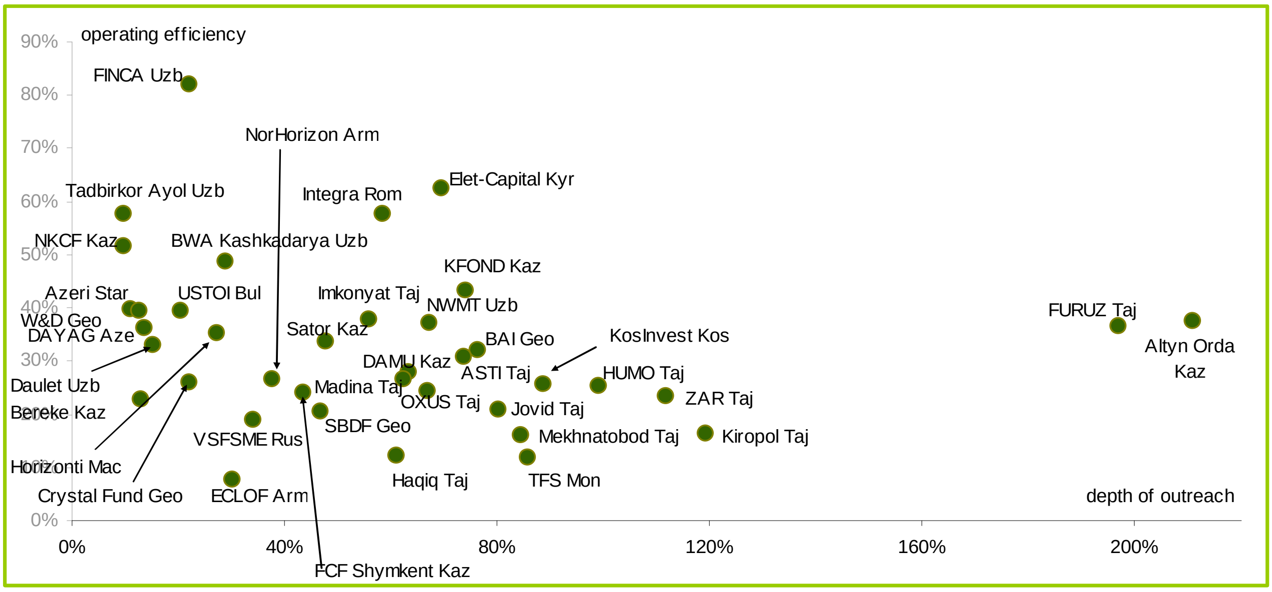
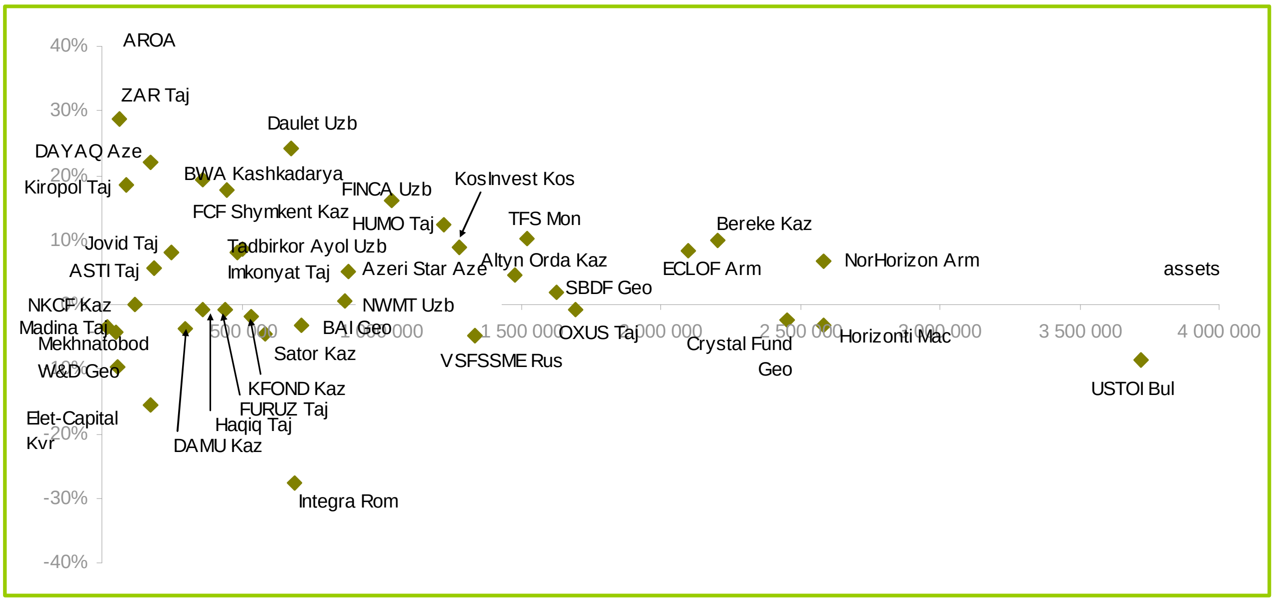
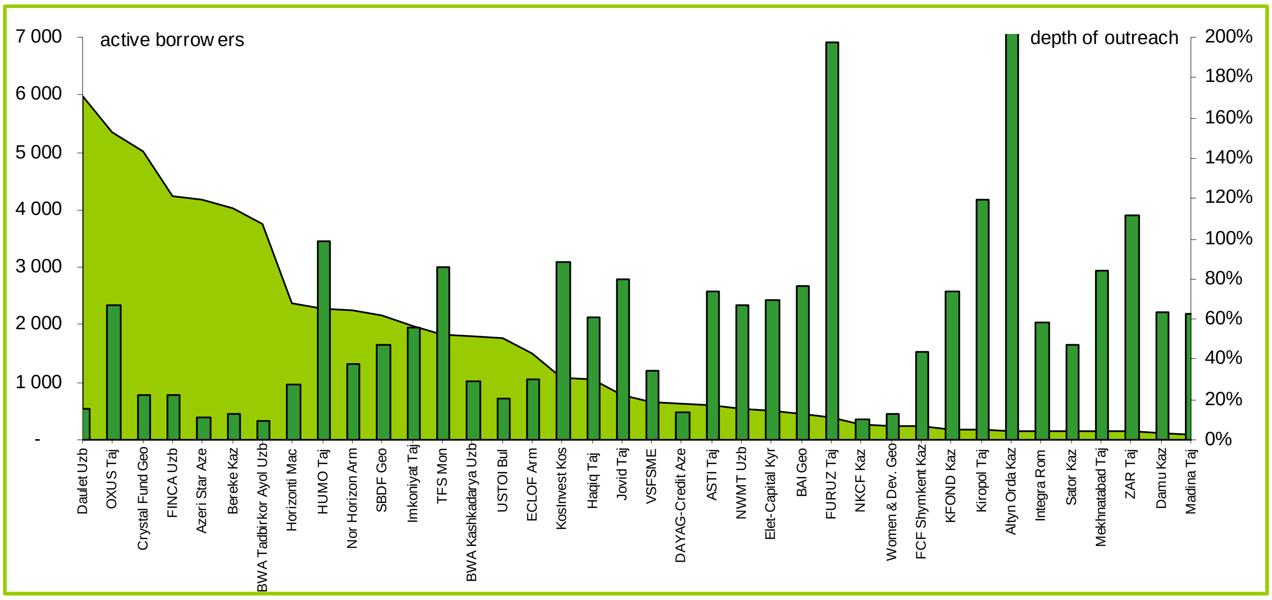
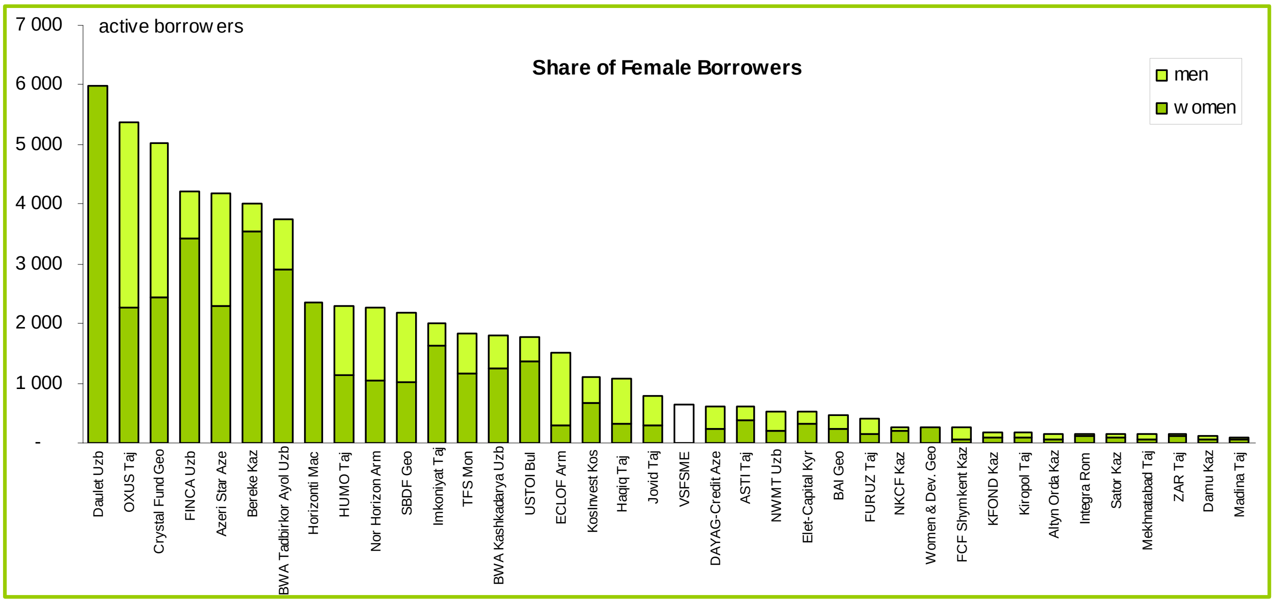
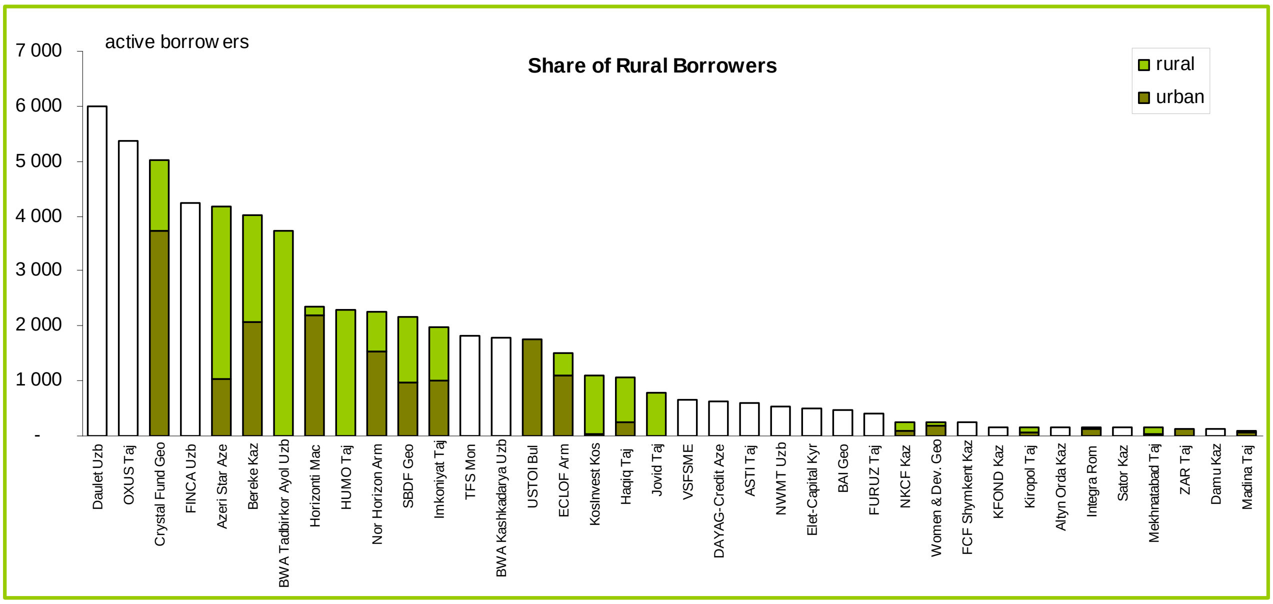
Imkoniyat Taj
FCF Shymkent Kaz
FURUZ Taj
Haqiq Taj
BWA Kashkadarya Uzb
Damu Kaz
Jovid Taj
ASTI Taj
Elet-Capital Kyr
DAYAG-Credit Aze
NKCF Kaz
Kiropol Taj
ZAR Taj
Women & Dev. Geo
Mekhnatabad Taj
Madina Taj


operating efficiency
90%
80%
70%
60%
50%
40%
30%
0%
FINCA Uzb
NorHorizon Arm
Tadbirkor Ayol Uzb
Integra Rom
Elet-Capital Kyr
NKCF Kaz
BWA Kashkadarya Uzb
KFOND Kaz
Azeri Star
USTOI Bul
Imkonyat Taj
NWMT Uzb
W&D Geo
DAYAG Aze
Sator Kaz
BAI Geo
KosInvest Kos
FURUZ Taj
Altyn Orda Kaz
DAMU Kaz
ASTI Taj
HUMO Taj
Daulet Uzb
Madina Taj
OXUS Taj
Jovid Taj
ZAR Taj
Bereke Kaz
SBDF Geo
VSFSME Rus
Mekhnatobod Taj
Kiropol Taj
Horizonti Mac
Haqiq Taj
TFS Mon
Crystal Fund Geo
ECLOF Arm
depth of outreach
0%
40%
80%
120%
160%
200%
FCF Shymkent Kaz


AROA
assets
ZAR Taj
Daulet Uzb
DAYAQ Aze
BWA Kashkadarya
Kiropol Taj
FINCA Uzb
KosInvest Kos
FCF Shymkent Kaz
HUMO Taj
TFS Mon
Bereke Kaz
Jovid Taj
Tadbirkor Ayol Uzb
ASTI Taj
Imkonyat Taj
Azeri Star Aze
Altyn Orda Kaz
ECLOF Arm
NorHorizon Arm
SBDF Geo
NKCF Kaz
NWMT Uzb
Madina Taj
BAI Geo
OXUS Taj
Crystal Fund Geo
Horizonti Mac
Mekhnatobod
Sator Kaz
VSFSSME Rus
W&D Geo
KFOND Kaz
USTOI Bul
FURUZ Taj
Elet-Capital Kyr
Haqiq Taj
DAMU Kaz
Integra Rom


active borrowers
depth of outreach


active borrowers
Share of Female Borrowers
men
women


Share of Rural Borrowers
active borrow ers
rural
urban
7 000
6 000
5 000
4 000
3 000
2 000
1 000
-
Daulet Uzb
OXUS Taj
Crystal Fund Geo
FINCA Uzb
Azeri Star Aze
Bereke Kaz
BWA Tadbirkor Ayol Uzb
Horizonti Mac
HUMO Taj
Nor Horizon Arm
SBDF Geo
Imkoniyat Taj
TFS Mon
BWA Kashkadarya Uzb
USTOI Bul
ECLOF Arm
KosInvest Kos
Haqiq Taj
Jovid Taj
VSFSME
DAYAG-Credit Aze
ASTI Taj
NWMT Uzb
Elet-Capital Kyr
BAI Geo
FURUZ Taj
NKCF Kaz
Women & Dev. Geo
FCF Shymkent Kaz
KFOND Kaz
Kiropol Taj
Altyn Orda Kaz
Integra Rom
Sator Kaz
Mekhnatabad Taj
ZAR Taj
Damu Kaz
Madina Taj

Annex 1 – Ethnic Minorities in ECA

Country	Share of minorities	Main minorities
Balkans		
Albania	3.1%	Greeks
Bosnia and Herzegovina	7.6%	Other from Bosniaks, Serbs and Croats
Croatia	19.5%	Serbs, Others
Macedonia	31.3%	Albanians, Turks, Roma, Serbs
Montenegro	37.0%	Albanians, Serbians
Serbia	17.0%	Hungarians, Roma, Others
Central and Eastern Europe		
Bulgaria	9.4%	Turks
Estonia	30%	Russophones
Hungary	5%	Roma, Germans
Latvia	33.1%	Russians
Lithuania	15.%	Poles, Russians
Poland	2.4%	Germans
Romania	8.9%	Hungarians Roma
Slovakia	10.8%	Hungarians, Russians
Russia / Ukraine		
Russian Federation	20.0%	Tatar, Ukrainian, Bashkir, Chuvash, Chechen, Armenian other
Ukraine	22%	Russians, Belarussians, Moldovans, Crimean Tatars
Caucasus		
Armenia	2.0%	Yazidi
Azerbaijan	4.0%	Lezgins
Georgia	16.0%	Azeris, Armenians, Russians, Abkhazians, Ossetians
Central Asia		
Kazakhstan	40%	Russians, Ukrainians, Uzbeks, Germans, Chechens, Uyghurs
Kyrgyzstan	31%	Russians, Uzbeks , Tatars, Uyghurs, Kazakhs , Ukrainians
Tajikistan	20%	Uzbeks, Russians
Turkmenistan	15%	Uzbeks, Russians
Mongolia	5.9%	Kazaks
Uzbekistan	20%	Russians, Tajiks, Kazakhs, Karakalpaks, Tatars

Annex 2 – Laws and regulations of microfinance introduced in the last 5 years

Country	Date		Description
Bosnia and Herzegovina	June and August 2006	Law on Microcredit Organizations	All existing MCOs will have to transform into non-profit Micro credit Foundations or for-profit Micro credit Companies with clear ownership structure by Sept 2007. The law introduces the limit on the maximum loan size of BAM 10,000 (approx. EURO 5,000) for Micro credit Foundations and BAM 50,000 (approx. EURO 50,000) for Micro credit Companies. Supervision and regulation is transferred to the Banking Agencies of RS and FB&H. Neither McFs nor McCs are not to be allowed to capture savings.[21]
Croatia	23rd December 2006	Croatian Law on Banking	The updated law provides for a sub-category of banks called Savings Banks which can be registered with 8 million HRK (US$1,3 million) in equity, can access foreign equity capital and loans.
	27rd December 2006	Law on Credit Unions	Under the new law credit unions can perform only the following activities: - receive monetary deposits from members in domestic currency - disburse loans to members in domestic currency - perform currency exchange activities for members - donate financial aid to members - provide guarantees for members' financial commitments in domestic currency Founding capital was increased to 500,000 HRK (US$80,000).
Armenia	December 2002, amended in 2005	Law on Credit Organizations	Credit organizations need to be registered and licensed by the Central Bank. The minimum capital requirement is US$300,000. The Central Bank of Armenia is a supervisory authority.
Azerbaijan	Draft law submitted to Parliament for consideration during second 2007 session		Submitted draft law has the following important features: – No cap on loan size or interest rate – Deems that micro-finance is inherently a commercial operation, but does allow for non-commercial institutions or operations – Requires NBCOs to participate in the NBA administered credit registry – Sets minimum standards for directors and chief accountants – Requires an independent audit function – Allows NBCOs to take cash collateral, provided it is held for safekeeping by a bank.
Georgia	18th July 2006	Law on Microfinance Organizations	According to the new law, a company will be considered a microfinance institution if it is a limited liability organization or a joint stock company

[21] 'New Law on microcredit organizations in Bosnia and Herzegovina', Erceg B., MCO Mikrofin, MFC Policy Monitor No.1/2007

	12th September 2006	Regulation for Registration of a Microfinance Organization at the National Bank of Georgia	registered at the National Bank of Georgia upon its request for registration that carries out microfinance activities under the supervision of the National Bank. To create a microfinance organization, it is necessary to have the initial capital in the amount of GEL 250,000 (US$ 146,000) whereas the maximum amount of loan is GEL 50,000 (US$29,000).[22]
Kazakhstan	6th March 2003	Law on microcredit organizations	The new law defines Microcrediting Organizations (MCOs) as legal entities engaged in microcrediting activity. Two forms of MCOs, commercial (established as a economical partnership) and noncommercial (established as a public fund), are permissible. The law stipulates that a noncommercial MCO can be established only to provide legal persons and individuals engaged in micro and small business with the financial support for their entrepreneurial activities.
Uzbekistan	20th September 2006	Law "On microcredit organizations"	According to the Law an MCO is a legal entity engaged rendering services related to the extension of microcredit, microloan, microleasing and other microfinance services; MCOs need a license to carry out operations and in order to obtain one, they will have to submit documents that include the application for license, the constituent documents of the MCO, etc;
	15th September 2006.	The Law on Microfinance	
Kyrgyzstan	23th July 2002	Law of the Kyrgyz Republic on microfinancial organisations	According to the Law on Micro-finance Organizations, the goal of a microfinance organization is to provide accessible microfinance services to alleviate poverty, increase employment, and assist in the development of entrepreneurship and social mobilization.[23]
Tajikistan	27th May 2004	Law on Microfinance Organizations	This law regulates the legal and organizational grounds for microfinance activity with a view to form and develop the market of microfinance services and entrepreneurship in the Republic of Tajikistan. [24]

[22] Source: http://www.iesc.org/

[23] http://microfinancegateway.com/resource_centers/reg_sup/micro_reg/country/26/

[24] http://www.microfinancegateway.org/content/article/detail/24623

Annex 3 – List of participating MFIs

Balkans

Country	NGOs/NBFIs	Microfinance banks	Downscaling commercial banks	Credit unions and cooperatives
Albania	BESA Fund	ProCredit Bank Albania		ASC Union
	For the Future Foundation			Jehona National Union of SCAs
	MAFF			
	PSHM			
	WV Building Futures			
Bosnia and Herzegovina	Benefit	ProCredit Bank BiH	ABS	
	EKI		Gospodarska Bank	
	Lider		Nova Banka Bijeljina	
	LOKmicro		Raiffeisen Bank	
	MI-BOSPO		UniCredit Zagrebacka Bank	
	Mikra		UPI Bank	
	MIKRO ALDI		Volksbank	
	Mikrofin			
	SINERGIJAplus			
	Partner			
	Prizma			
	Sunrise			
	Women for Women			
	Zdravo			
Croatia				DEMOS
				MikroPlus
				NOA
Kosovo	AFK	ProCredit Bank Kosovo	Kasabank	
	Beselidhja/Zavet MicroFinance		Raiffeisen Bank	
	FINCA Kosovo		New Bank of Kosovo	
	KEP			
	Kosovo Grameen Missione Arcobaleno Microcredit Fund			
	KosInvest			
	KRK			
	START			
Macedonia	Horizonti	ProCredit Bank Skopje	IK Bank	FULM Savings House
				Moznosti Savings House
Montenegro	Agroinvest	OBM	Crnogorska Komercijalna Banka	
	Alter Modus		NLB Montenegrobanka	
Serbia	Agroinvest	ProCredit Bank Serbia	Komercijalna Banka	
	Micro Development Fund	Stedionica Opportunity Bank	Kulska Banka	
	MicroFinS		LHB Banka	
			Zepter Bank	

Central and Eastern Europe

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

Belarus/Russia/Ukraine

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

Caucasus

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

Central Asia

Country	NGOs/NBFIs	Microfinance banks	Downscaling commercial banks	Credit unions and cooperatives
Kazakhstan	A-Invest		Alliance Bank	
	Altyn Orda		ATF Bank	
	Asian Credit Fund		CenterCredit Bank	
	Atyrau Valyut		KazkommertzBank	
	Baspana		TuranAlem Bank	
	Bereke			
	Damu			
	KFOND			
	KLF			
	Kyzylorda-kredit			
	Moldir			
	NKCF			
	Orken			
	Orlan			
	OZAT			
	FCF Shymkent			
	Sator			
	TAT Senim			
Kyrgyzstan	Arysh-Kench	Aiyl Bank	AKB Bank	Credit Unions of Kyrgyzstan
	Bai Tushum		ECO Bank	
	Elet-Capital		Halyk Bank	
	FMCC		KICB	

	KAFC		KyrgyzEnergo Bank	
	Kompanion Financial Group		Inexim Bank	
	Mekhr-Shafkat		KyrgyzKKB Bank	
	OXUS Kyrgyzstan			
Mongolia	Credit Mongol	XAC Bank		
	TFS	Khan Bank		
Tajikistan	ASTI	First Microfinance Bank	Agroinvest Bank	
	Baror		Eskhata Bank	
	Borshud		Tajprombank	
	FINCA Tajikistan		Tojiksodirotbonk	
	FURUZ			
	Gender va Taraqieet			
	Haft-Gang			
	Haqiq			
	HUMO			
	Imkoniyat			
	IMON			
	Jovid			
	Kiropol			
	Madina			
	Mekhnatabad			
	MicroInvest			
	OXUS Microfinance			
	Phoenix			
	ZAR			
Uzbekistan	Barakot		Hamkorbank	Credit Unions of Uzbekistan
	BWA Kashkadarya (Karshi)		Ipak Yuli Bank	
	BWA Tadbikor Ayol		Ipoteka Bank	
	Daulet		Pakhta Bank	
	FINCA Uzbekistan			
	FV MARD			
	JDA			
	NWMT			
	OXUS Uzbekistan			
	Parwaz			
	SABR			

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