



Microfinance in the Caucasus and Central Asia

2024 Edition



In cooperation with:



საქართველოს მიკროსაფინანსო ასოციაცია
Georgian Microfinance Association



Central Asian Microfinance Alliance

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1. Introduction

The report covers the microfinance sector in eight countries of the Caucasus and Central Asia: Armenia Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan.

It captures the developments of the sector in the 2021-2023 period.

2. Methodology

The study covers microfinance institutions which provide over 100 institutions which provide loans to microenterprises and individuals for business and personal needs. It excludes institutions lending solely for personal needs of households and individuals.

To ensure comprehensive coverage of the microfinance sector in Caucasus and Central Asia, data from several sources were used. The sources included the MFC Membership Survey, data and statistics collected by national associations, statistics of the national and central banks as well as financial data presented in the annual reports of microfinance institutions available online.

Definitions of indicators

Portfolio yield: Financial revenue from loan portfolio / Average gross loan portfolio

Personnel expense ratio: (Wages and salaries, other short-term employee benefits, post-employment benefit expense, termination benefit expense, share-based payment transactions, other long-term benefits and other employee benefits)/Average gross loan portfolio

Administrative expense ratio: (Depreciation and amortization expenses, rent, utilities, supplies, advertising, transportation, communications, consulting fees, board fees)/Average gross loan portfolio

Operating expense ratio: (Personnel expense + Administrative expense) / Average gross loan portfolio

Debt to equity ratio: Total liabilities / Total equity

Cost of funds ratio: Interest paid on borrowed funds / Average borrowed funds

Return on assets: Net income after taxes / Average assets

3. Scale and Outreach

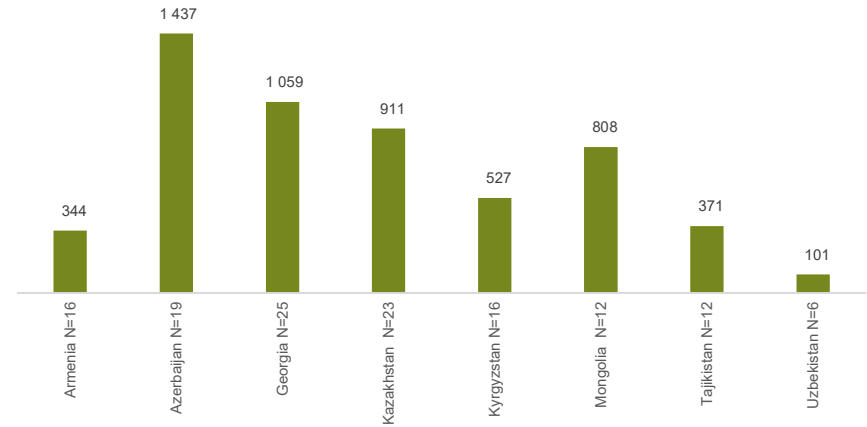
3.1. Loan portfolio

The microfinance sector focused on business loans or a combination of business and personal loans in the Caucasus and Central Asia has seen significant growth. By the end of 2023, the total value of the gross loan portfolio in this sector reached **5.6 billion euros**. Notably, the largest shares of the portfolio were managed by microfinance providers in Azerbaijan and Georgia, followed by Kazakhstan.

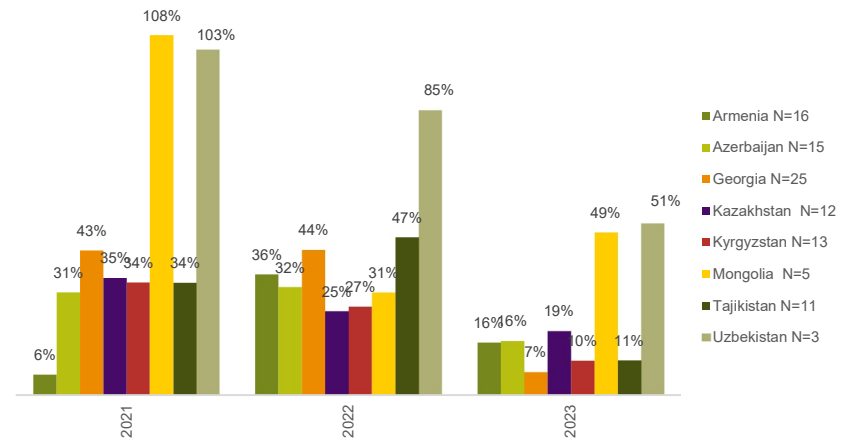
A key feature of this sector is the distribution of the portfolio between different types of institutions. Non-bank financial institutions (NBFIs) have a dominant role, managing .9 billion euros, which represents 53% of the total microfinance loan portfolio. Banks, on the other hand, manage 2.6 billion euros, accounting for 47% of the portfolio. This balance suggests that while banks remain significant players, NBFIs play a crucial role in providing microfinance services, especially to smaller or more underserved segments of the market.

Looking at growth trends, the gross loan portfolio of microfinance institutions (MFIs) grew at impressive rates of over 35% in both 2021 and 2022, as the sector rebounded from the economic impact of the COVID-19 pandemic. However, in 2023, the growth rate slowed to **15%**, reflecting a shift towards more stable and sustainable growth. Despite the overall slowdown, some countries saw exceptionally high growth. Notably, Mongolia and Uzbekistan experienced growth rates of around 50%, indicating the rapidly expanding microfinance markets in these countries.

Total value of gross loan portfolio (expressed in million EUR) N=129



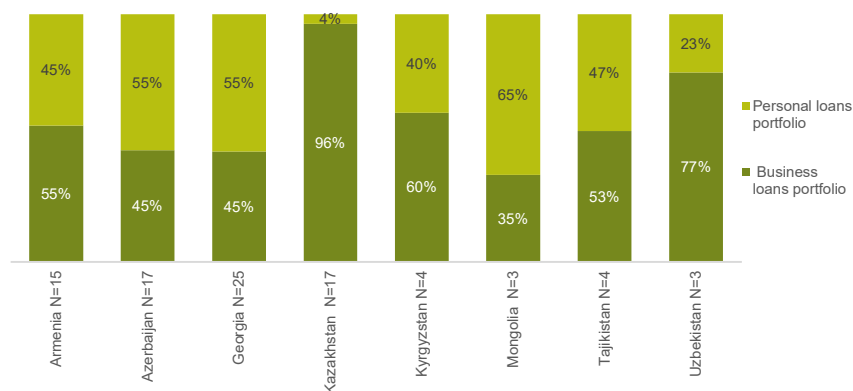
Annual growth rates of the gross loan portfolio by country N=100



Microfinance institutions (MFIs) in the Caucasus and Central Asia typically offer a diverse range of loan products that cater to both business and personal needs. Less than a third of the institutions in this study exclusively provided business loans. The remaining MFIs offered a combination of business and personal loans, which reflects the broader role of microfinance in supporting various aspects of clients' financial needs, beyond just business activities.

On average, **58%** of the total loan portfolio of these MFIs was allocated for business purposes, highlighting the significant demand for business loans within the microfinance sector. However, there were noticeable differences in this share between countries. In some countries, the proportion of business loans may be higher, while in others, MFIs may focus more on household or personal loans, depending on local market conditions and the needs of the population.

Average share of business and personal loans in the MFI portfolio (%) N=88



This variability in loan composition suggests that while the region's microfinance sector is increasingly focused on supporting business growth, particularly for small and medium-sized enterprises (SMEs), there is also a recognition of the need to provide financial services that address personal and household needs. These offerings help foster broader financial inclusion and contribute to improving the livelihoods of clients across different sectors of society.

3.2. Active borrowers

By the end of 2023, the number of active borrowers in the Caucasus and Central Asia's microfinance sector exceeded **2.6 million**, although this figure is likely an underestimation due to reporting gaps. Of the total active borrowers, **1.7 million (65%) were served by non-bank microfinance institutions (MFIs)**, while **0.9 million (35%) were served by banks**. This distribution highlights the significant role of non-bank MFIs in reaching a larger portion of the population, likely due to their more flexible services tailored to smaller businesses and underserved groups.

Key Demographics and Client Outreach:

Women: All MFIs served women, reflecting the sector's inclusiveness in promoting gender equality through access to finance.

Rural Clients: Over half (53%) of MFIs provided services to clients in rural areas, highlighting the sector's role in reaching remote populations where traditional banking services might be limited.

Youth: About 29% of MFIs served young people (below 30 years old), demonstrating an effort to engage a younger demographic, likely for entrepreneurial or educational purposes.

Loan Details and Outreach Depth:

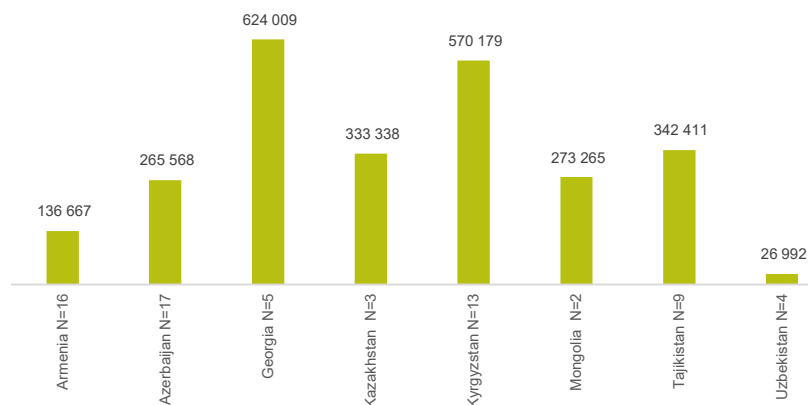
The average loan balance across the sector was **3,700 EUR**, which reflects the typical loan size provided by these MFIs to their clients.

The average **depth of outreach was 97%**, indicating that the sector reaches a very high proportion of low-income clients. However, there were significant variations. MFIs with smaller loan sizes, indicating deeper outreach to poorer clients, issued loans worth only about 7% of the gross national income (GNI) per capita. On the other hand, institutions serving mostly small and medium-sized enterprises (SMEs) issued loans that were over 700% of GNI per capita, highlighting the range of services, from micro-loans for individual or household use to larger loans aimed at business development.

These differences illustrate the diverse nature of the microfinance sector in the region, which caters to a wide variety of clients, from individuals in rural areas with

very small loans to businesses seeking larger amounts for expansion. The high depth of outreach, particularly among the smaller institutions, underscores the role of microfinance in providing financial inclusion for low-income groups, while the larger loan sizes for SMEs reflect the sector's growing support for business development and entrepreneurship.

Distribution of active borrowers by country (N=69)



Depth of outreach ratio by country (N=69)

	Min. Depth of outreach ratio	Average Depth of outreach ratio	Max. Depth of outreach ratio
Armenia N=16	7%	164%	743%
Azerbaijan N=17	7%	47%	181%
Georgia N=5	24%	33%	44%
Kazakhstan N=3	11%	25%	44%
Kyrgyzstan N=13	36%	128%	405%
Mongolia N=2	12%	57%	103%
Tajikistan N=9	56%	106%	255%
Uzbekistan N=4	26%	72%	136%
Grand Total N=69	7%	97%	743%

4. Products and services

4.1. Loans

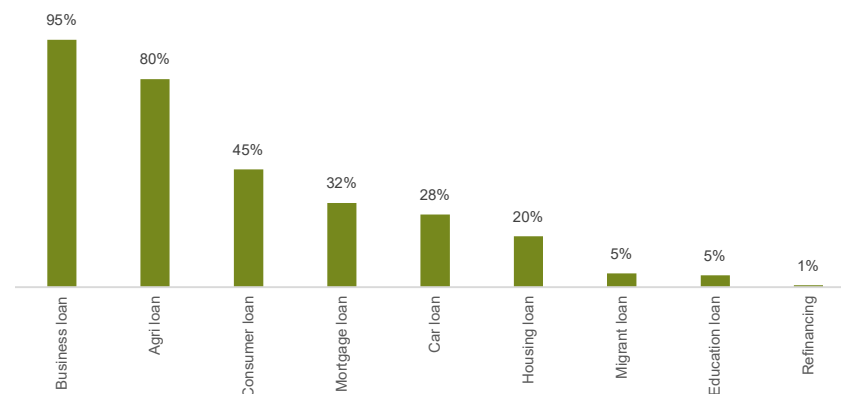
The report highlights the scope of services provided by microfinance institutions (MFIs), focusing on the types of loans they offer. Nearly all MFIs included in the report (95%) provide loans aimed at supporting entrepreneurial non-agricultural activities. These loans are utilized for starting a new business, providing working capital and making small investments in existing businesses.

A significant portion, 80% of MFIs, extend loans for personal or family needs. These are categorized as consumer loans and address basic household necessities.

A smaller subset, 45% of MFIs, cater to agricultural-related financing. These loans are designed for farming or agribusiness purposes.

About one-third of the microfinance providers offer car loans for family or business use. There were also MFIs which provided mortgage loans. (28% of institutions), supporting housing needs.

Distribution of MFIs by types of loan products offered (N=133)



4.2. Deposits

In countries like Kyrgyzstan and Tajikistan, non-bank financial institutions (NBFIs) are allowed to collect deposits, which enhances their role in financial inclusion and savings mobilization. The deposit products offered by these institutions typically include short- and long-term deposit accounts available in both local and foreign currencies, child deposit accounts to secure better future, savings plan accounts designed to encourage savings and accounts tied to specific saving goals.

4.3. Other financial services

While leasing and money transfer services are relatively more common, only a small percentage of MFIs incorporate bill payment options, reflecting a gradual expansion of their service portfolio to address broader customer needs.

16% of MFIs offer leasing, mainly for Business equipment, helping enterprises access critical tools, but also for passenger car purchases, catering to transportation needs for personal or business use.

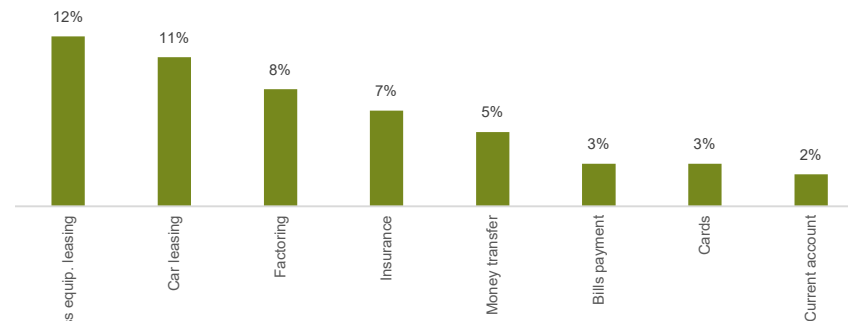
12% of MFIs facilitate international remittances using trusted platforms like: Western Union, MoneyGram, Ria, Intellexpress, Zolotaya Korona, and Contact.

These services support cross-border financial transactions, essential for remittance-dependent households.

6% of MFIs provide bill payment facilities for mobile connections, internet, cable TV, utility bills, and parking fees.

These offerings enhance convenience by integrating essential payment services into the MFI network.

Distribution of MFIs by other financial services offered (N=133)



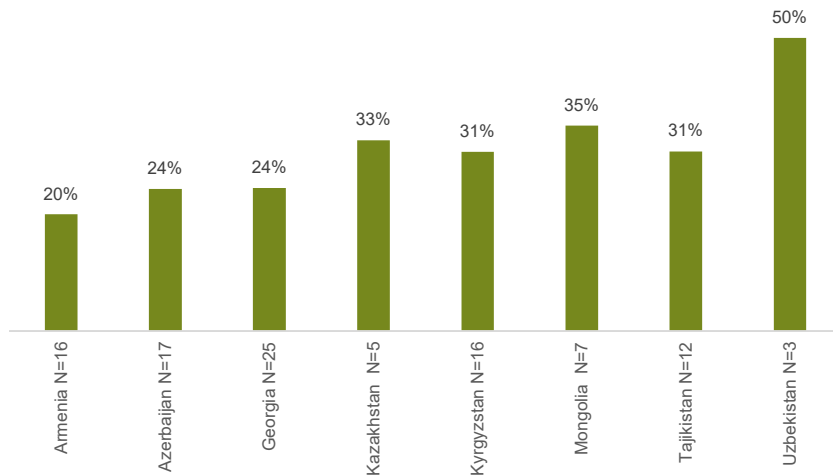
5. Financial performance

5.1. Portfolio yield

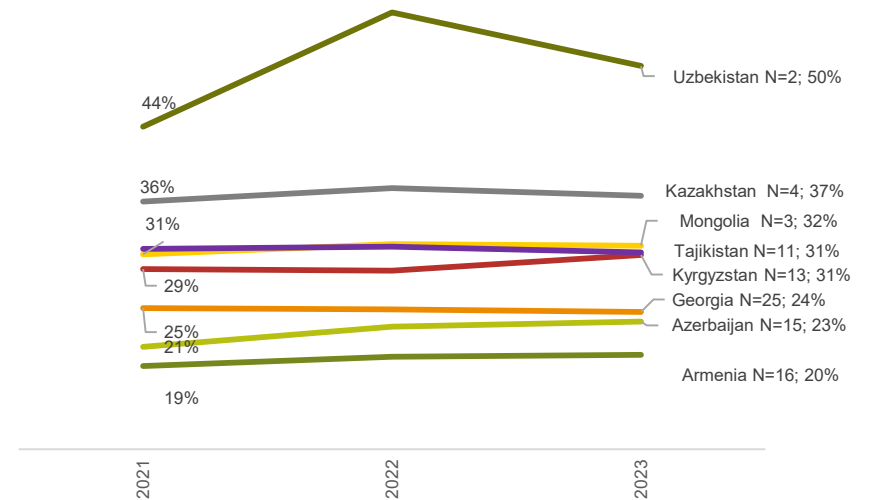
The average portfolio yield across microfinance institutions stood at **27%**, with notable variations between countries. Uzbekistan recorded the highest yields, while Armenia had the lowest. When comparing types of institutions, banks generally exhibited lower portfolio yields, averaging 22%, compared to 28% for non-bank microfinance providers.

Over the past three years, portfolio yields have remained largely stable, with only modest changes. In three countries, yields rose by 1–3 percentage points, while in five others, they fell by 0–3 percentage points.

Average portfolio yield ratio by country in 2023 (N=101)



Average portfolio yield ratio in 2021-2023 by country (N=89)



5.2. Operating expense

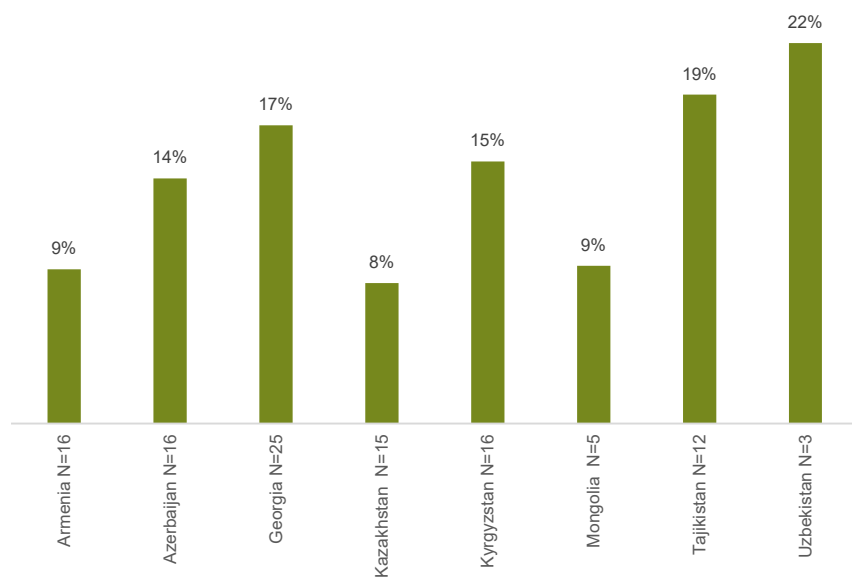
The average operating expense (personnel and administrative expense) ratio was **14%** and was the lowest in Armenia (9%) and the highest in Uzbekistan (22%).

Staff costs on average constituted **62%** of the total personnel and administrative expenses.

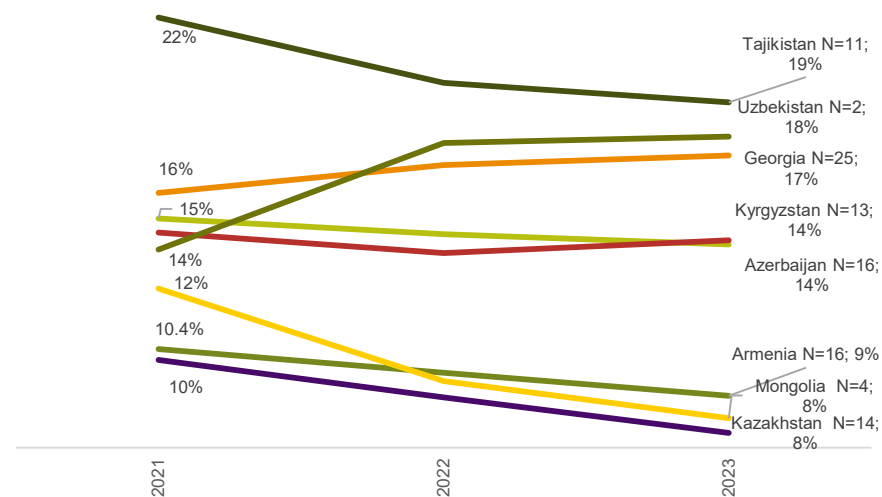
Banks had lower operational costs with the average personnel and admin expense ratio of 10% compared to 14% in case of NBFs.

In the last three years the ratio went down in most of the countries. In six countries the expenses decreased by 0.5-4 percentage points. Only in two countries (Georgia and Uzbekistan) the expenses went up by 1-4 percentage points.

Average operating expense ratio by country in 2023 (N=108)



Average operating expense ratio in 2021-2023 by country (N=101)



5.3. Profitability

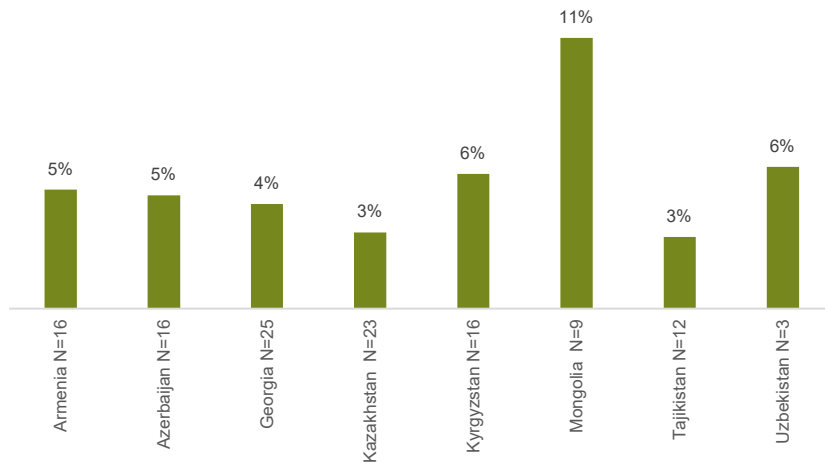
The vast majority of MFIs in the Caucasus and Central Asia generated positive financial results with the average return on assets (ROA) of 5%.

The lowest ROA was observed in Tajikistan (3%) and the highest in Mongolia (11%).

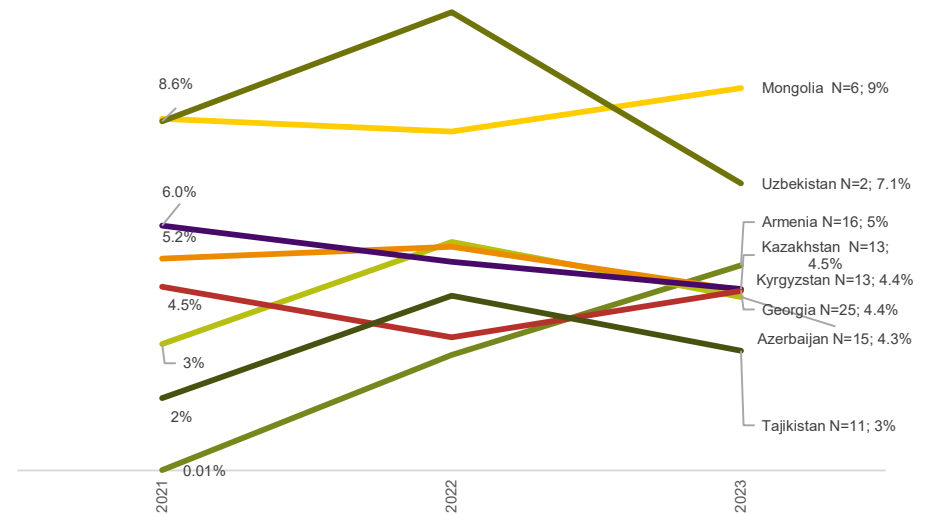
Banks had lower returns with the average ROA reaching 2%, compared to NBFIs whose average return on assets in 2023 was 5%.

Compared to the previous years, the average return on assets decreased in 2023 compared to the year earlier (Azerbaijan, Georgia, Tajikistan, Uzbekistan) while in the other countries (Armenia, Kazakhstan, Kyrgyzstan, Mongolia) the profitability increased compared to 2022.

Average ROA by country in 2023 (N=120)



Average ROA ratio in 2021-2023 by country (N=101)



6. Funding

6.1. Leverage and funding sources

The average debt to equity ratio was **2.8** in 2023, with Azerbaijan having the highest ratio at 4.0, and Mongolia the lowest at 2.1.

Over the last three years, leverage has increased in most countries, while it has decreased in Georgia, Mongolia, and Tajikistan.

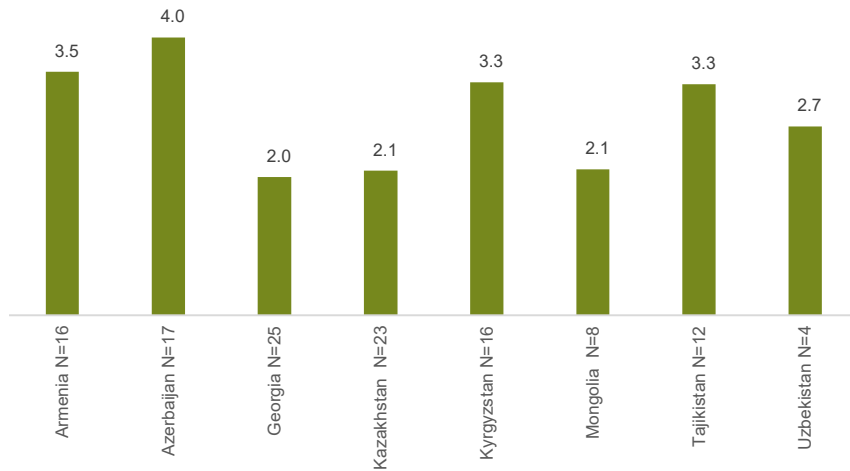
Banks had a higher leverage than non-bank institutions, with a DE ratio of 8.2 in case of banks compared to 2.4 for NBFIs.

Microfinance institutions utilize various funding sources, including commercial banks, international impact investors, government funds, local market investors, and private individuals.

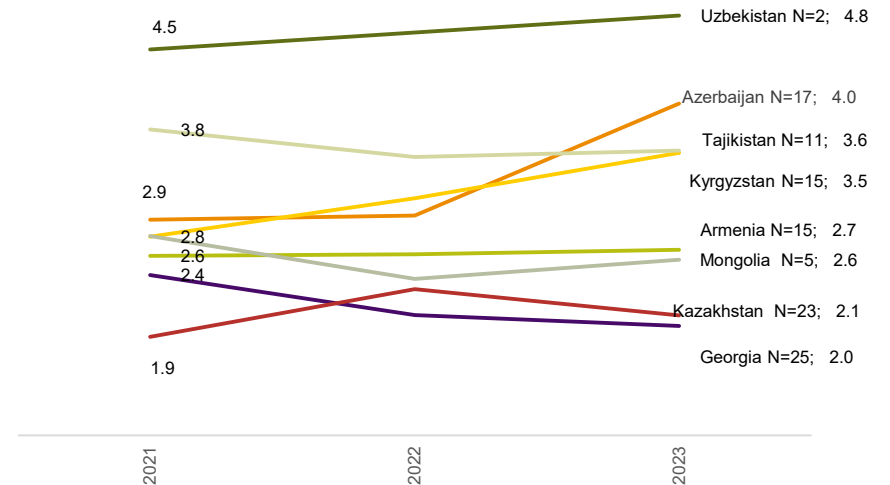
In Azerbaijan, Armenia, Georgia, Kazakhstan, and Kyrgyzstan, MFIs benefit from large-scale governmental programs that support agricultural lending.

In Georgia and Kazakhstan, non-bank microfinance institutions issue bonds that are tradeable on the national stock exchange.

Average debt to equity ratio by country in 2023 (N=121)



Average debt to equity ratio in 2021-2023 by country (N=113)



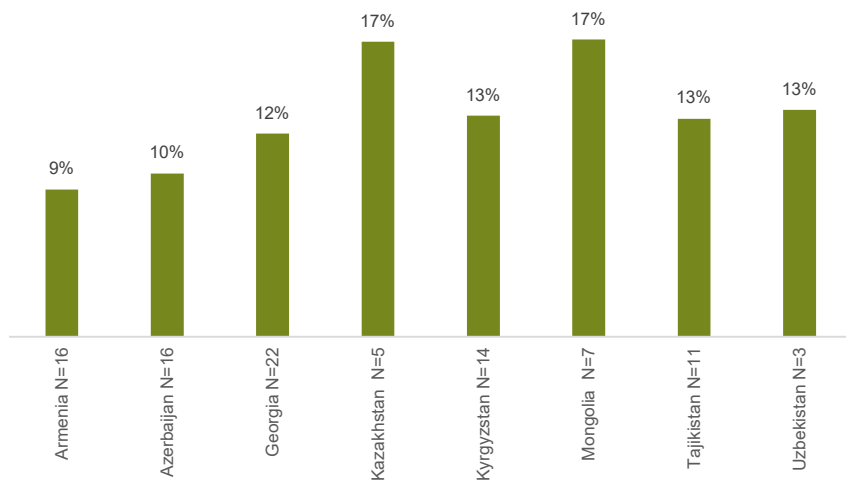
6.2. Cost of funds ratio

The average cost of funds ratio for the whole region was **12%** in 2023 and it was the lowest in Armenia (9%) and the highest in Kazakhstan and Mongolia (17%).

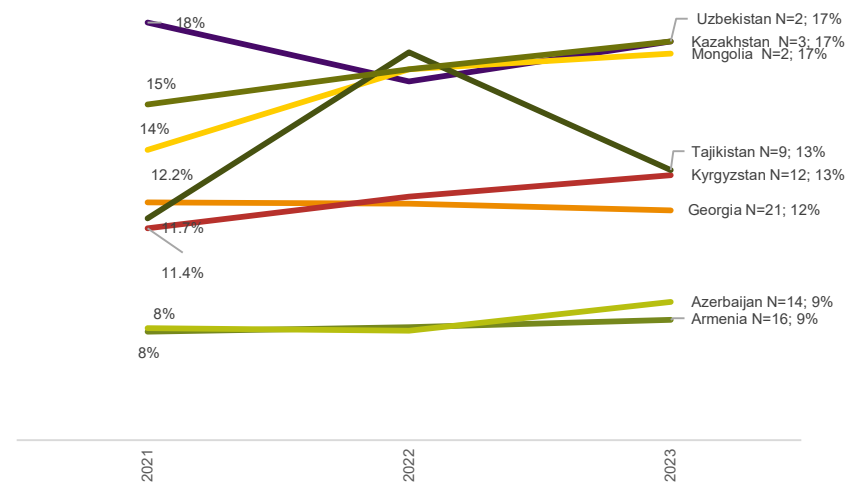
There were differences between banks and non-bank institutions: the average cost of funds ratio for banks was 9% compared to that of the NBFIs of 12%.

On the country level, five countries observed an increase in the cost of funds from 2021 to 2023 of up to 3 percentage points while three countries observed a slight decrease in the cost of funds of less than 1 percentage point.

Average cost of funds ratio by country in 2023 (N=94)



Average cost of funds ratio in 2021-2023 by country (N=79)

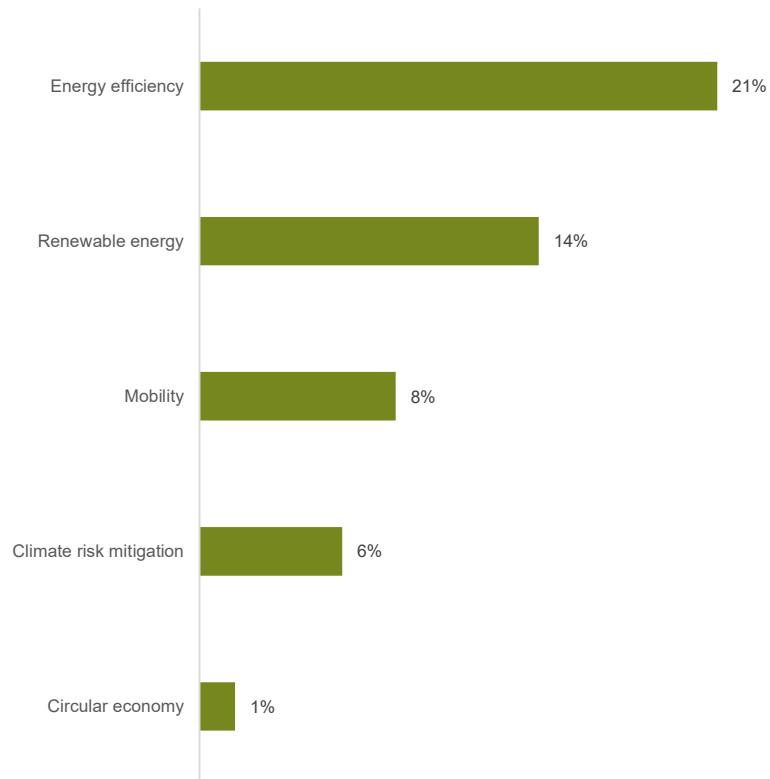


7. Green microfinance

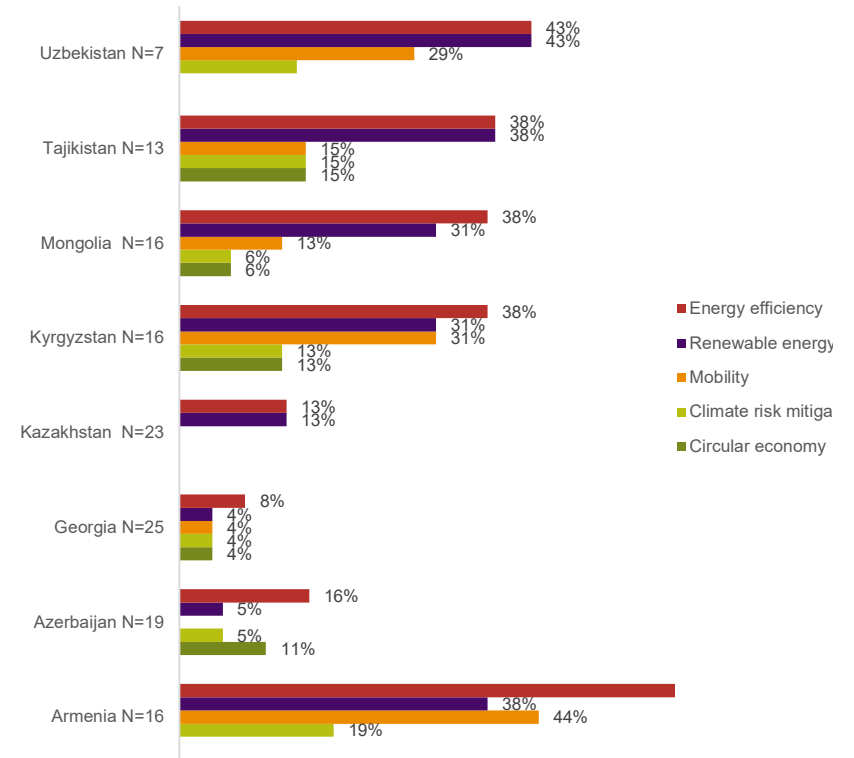
Only **28%** of MFIs offer loans to finance green solutions. Most often, the purpose of a green loan is the improvement of the energy efficiency of a buildings for household and/or business use (20% of MFIs).

The main challenges for which MFIs should support include targeted, affordable funding, capacity building for MFI staff to develop a green product, assessing the potential demand for green microfinance product, develop capacity of clients to understand green solutions.

Distribution of MFIs by type of green loans offered (N=135)



Distribution of MFIs by type of green loans and country (N=135)



8. Regional comparisons

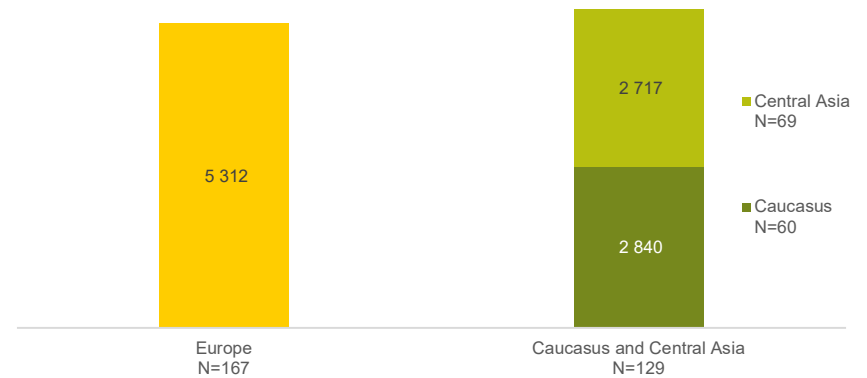
The microfinance sector in the Caucasus and Central Asia continues to outperform Europe in several key metrics, notably in the size of the gross loan portfolio. At the end of 2023, the loan portfolio in this region reached 5.6 billion euros, slightly surpassing Europe's 5.3 billion euros. This reflects the growing prominence of microfinance in the Caucasus and Central Asia, despite the different economic contexts between the two regions.

Both regions show a similar distribution of the loan portfolio, with banks playing a significant role. In Europe, banks manage 51% of the portfolio, while in the Caucasus and Central Asia, this figure is slightly higher at 53%. This demonstrates that banks are the dominant entities in both regions, responsible for the bulk of loan distribution and management. Despite the differences in market size, the structural role of banks in both regions remains consistent.

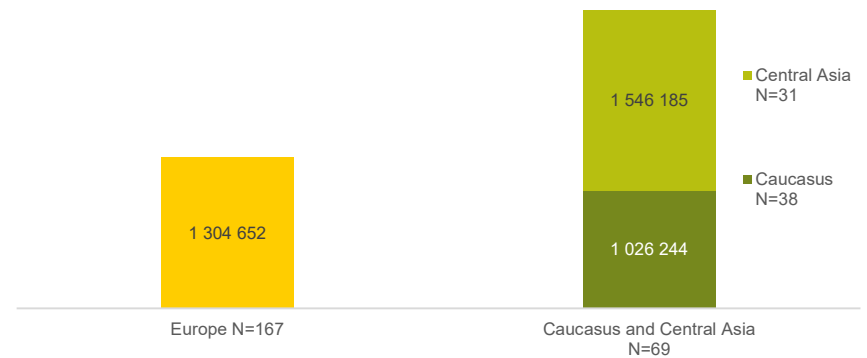
Additionally, the outreach of microfinance institutions (MFIs) in the Caucasus and Central Asia is notably higher than in Europe. The number of active borrowers in the Caucasus and Central Asia exceeds 2.5 million, compared to 1.3 million in Europe. However, this number is likely an underestimate, as it only covers around two-thirds of the MFIs in the region. This suggests that the actual number of borrowers may be even higher, highlighting the significant reach and demand for microfinance services in the region.

Overall, while Europe's microfinance sector is well-established, the sector in the Caucasus and Central Asia is not only larger in terms of loan volume but also serves a greater number of borrowers, pointing to its expanding role in economic development and financial inclusion.

Gross loan portfolio by region (expressed in million EUR)¹



Number of active borrowers by region



¹ Data from Europe as of Dec 2022; Source: "Microfinance in Europe. Survey Report. 2023 Edition"

9. Conclusions

The microfinance sector in the Caucasus and Central Asia region has made significant strides, with the loan portfolio reaching 6.2 million euros by the end of 2023, marking a 15% annual growth rate. Microfinance institutions (MFIs) in this region, comprising both banks and non-bank financial institutions, are crucial players in offering financial services that cater to various needs, including business, agriculture, and household requirements.

These institutions provide a broad range of loan products, and many extend additional services such as money transfers, business equipment leasing, and car leasing. The sector's ability to meet these diverse demands demonstrates its role in supporting both small businesses and broader economic activities across the region.

In terms of financial performance, the microfinance sector has maintained stability over the past three years. One positive sign is the operating cost ratio, which has decreased to around 14% in some countries. This reduction suggests that operational efficiencies may have improved. Additionally, the cost of funds has remained relatively stable at around 12%, signaling a degree of consistency in the external financing environment for these institutions.

Importantly, most MFIs in the region are profitable, with an average return on assets (ROA) of 5%. This indicates that, despite the challenges of operating in developing markets, the sector remains financially healthy and continues to generate positive returns. The overall growth, stability in cost ratios, and profitability highlight the resilience of the microfinance sector in the region, which is positioned to continue playing an essential role in driving economic development in Central Asia and the Caucasus.

