Benchmarking Microfinance in Eastern Europe and Central Asia 2005

Microfinance Information eXchange

A report from the Microfinance Information eXchange, Inc. **November 2006**

In Brief

The microfinance sector in Eastern Europe and Central Asia (ECA) remains limited in scale. ECA microfinance institutions (MFIs) serve, on average, the smallest number of borrowers of any region, making loans nearly twice as large as any other region, with limited savings mobilization. However, at the same time, the ECA sector presents one of the best opportunities to observe a central issue for microfinance: the integration of microfinance services with the formal financial sector.

The ECA microfinance sector is still one of the youngest in the world. Based on the 2005 global survey of microfinance institutions conducted by the Microfinance Information Exchange, Inc, it is telling that, of the 108 participating ECA institutions, no institution is more than 14 years old and half of the institutions have started operations only within the last 6 years. Each country in the region is unified by the post-transition experience following the collapse of the Soviet Union and the subsequent restructuring of the financial sector.

Benchmarking Microfinance in Eastern Europe and Central Asia 2005 explores microfinance and financial sector integration through two primary lenses: country-level financial sector development and the target market served by MFIs. In countries with deeper financial sectors, ECA MFIs have lower interest rates on microcredit products, narrower profit margins and higher delinquency levels. Looking at target market provides another view of integration—institutions that provider larger balance loans are more likely to compete with the formal financial sector, although in rural areas or in less developed markets, this may be less true. Throughout the region, returns drop as loan balances increase, with ECA institutions, and especially microfinance banks, providing some of the largest microfinance loans in the world. Banks and other institutions targeting higher-income markets are able to leverage scale and reduce costs per loan, although many still lag in their ability to reach further down-market.

This year's report takes advantage of the most detailed data set available on microfinance in the region—financial and outreach information provided by 108 microfinance institutions—to look at performance, outreach and trends. Record level coverage in this year's survey reflects the widespread adoption of international reporting standards and increasing comfort with financial transparency within the region.

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A number of different peer groups are presented at the conclusion of the report. The peer group analysis allows us to take a more fine-grained view of the sector. Banks have been removed from the sub-regional peer groups on the assumption that banks are more similar to each other across sub-regions than to other microfinance providers within a given sub-region.

Analysis

Scale and Outreach

The infrastructure and scale of microfinance activities broadly reflects the general state of financial sector development in each of the former Soviet Union and Eastern bloc countries. Moving eastward within the region, microfinance institutions generally become younger, with fewer offices or employees and smaller asset bases, reflecting the more remote environments and lower levels of economic development in Central Asia and the Caucasus.

Banks dominate the region as a whole (***see Table 1***), attracting the vast majority of commercial investment and reaching almost half of the borrowers. The ProCredit network boasts nine of the 12 largest institutions in the region by loan portfolio, while the two largest institutions in ECA in terms of borrowers are Khan Bank and XacBank, both in Mongolia. Together, the two served over 225,000 borrowers and 500,000 savers at fiscal year-end – over 8% and 18% of the population of Mongolia respectively. The structure of microfinance banks in the region varies, from restructured state banks, such as Khan Bank or Agroinvestbank (Tajikistan) to start-up institutions such as some members of the ProCredit network or downscaling banks, especially those supported through the international financial institutions. The latter type of institution is especially underrepresented in the sample, due to the difficulty of separating microfinance from non microfinance operations. Nonetheless, looking at standardized indicators among the available banks across all product lines helps to distinguish the level of outreach and extent of services provided overall.

Loan balances broadly reflect income levels within the region, with the smallest loan balances coming from the Caucasus and Central Asia. Bosnian Non-Bank Financial Institutions (NBFIs) are an exception with fairly deep outreach and average loan balances standing at 60% of GNI per capita. Institutions targeting the lowest income populations are concentrated in the Caucasus and Central Asia, markets that also contain some of the most profitable institutions in the region. This likely reflects the weakness of local financial sectors and the limited financing options available to low-income populations and small businesses. Gender outreach is also higher in Central Asia and the Caucasus. A majority of the institutions in Central Asia have over 70% women borrowers, reflecting the increased prevalence of solidarity group-lending and development-oriented microfinance programs there. Gender indicators may be somewhat misleading, as gender outreach is often understated or unreported entirely for banks or other institutions that lend to legal entities rather than only to physical persons.

Microfinance-focused banks in the ECA region reach a higher-end target market than global benchmarks, with average loan balances more than three times global

Table 1: Total portfolio and financing of ECA participants

Charter	Number	Gross Loan Portfolio (USD)	Loans Outstanding (nb)	Commercial Funding (USD)
Bank	20	2,219,383,367	690,745	2,723,699,019
NBFI	45	423,844,754	379,646	149,788,033
NGO	31	123,202,176	162,312	34,465,591
Credit Union	12	43,334,518	23,199	23,654,565
Grand Total	108	2,809,764,815	1,255,902	2,931,607,207

Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results represent totals of all reporting institutions. All figures in USD.

medians. Approximately half of the banks included in the sample have average loan balances below 250% of GNI per capita, the most common dividing line as to what constitutes 'microfinance' rather than SME financing. The only banks with average loan balances approaching 100% of GNP per capita — fairly deep outreach — are those in Mongolia and Armenia, indicating that outreach by banks can be deep in lower income countries. 2005 results show that the most down-market banks have the strongest performance. While operating expenses at microfinance banks are lower in ECA than elsewhere, lending rates are as well, squeezing margins at these institutions. Nonetheless, a high degree of leverage has helped many banks to deliver strong equity returns. These metrics are probably somewhat distorted by not taking into account PPP-income levels or the presence of hard-currency loans.

NGOs are still a significant presence within the region, although their role will decline over time, as many of the participating NGOs, including the two largest, will transform into regulated institutions within the coming year, either as necessitated by changes in local microfinance legislation or of their own volition. While most NGOs in ECA are fairly small, with less than 5,000 borrowers, the median number of borrowers at NGOs increased by almost 60% over the past year, faster than other non-bank microfinance providers.

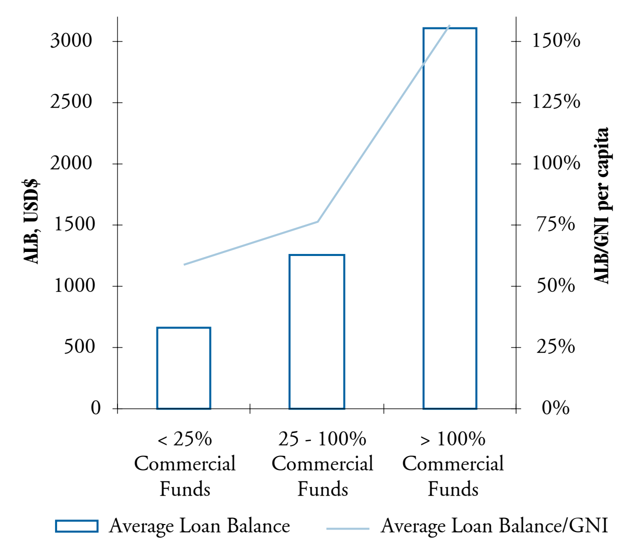
Credit unions provide an important source of finance, and especially savings, in many countries within the region. Credit unions tended to be small, localized institutions, with limited outreach, although taken in the aggregate they reach more borrowers than any form of institution within the region. The majority of credit unions in this survey lost money during the past year, primarily due to high financial expenses, particularly in Russia where high deposit rates and inflation have combined to raise the cost of funds.

Financial Structure

Commercial financing has yet to reach down-market in ECA. Banks and credit unions meet or exceed global norms with debt/equity ratios around 8:1 and 5:1 respectively, while NGOs are still funded primarily through equity. ECA MFIs as a whole are among the least leveraged globally. Since deposit mobilization is still prohibited in many markets in ECA, access to debt financing provides one of the most attractive means to expand loan portfolios. However, the ability of institutions targeting low-end markets to expand remains constrained - leverage ratios jump by almost a factor of three for institutions providing SME lending and high-balance loans, compared to those with broader outreach.

Banks have excelled at attracting commercial funds within ECA, but represent the only type of institution whose loan portfolios are completely commercially funded, although this allocation of funds does not always reflect deep outreach or high profits at these institutions. The overall level of commercial funding is lower than any region globally except MENA, with all charter types except banks lagging global medians. As ***Figure 1*** indicates, investment flows appear to target more up-market institutions, with a strong relationship between average loan balance and the level of commercial funding. In fact, a majority of institutions targeting low-end customers in the region have no commercial funding at all. This is in accordance with the fact that most low-end institutions are NGOs which must rely on donations and retained earnings for growth. Within ECA, Bosnia is the only market in which a majority of MFIs receive any commercial funding (excluding credit

Figure 1 MFIs with the deepest outreach have the lowest commercial financing



Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results represent medians for all reporting institutions.

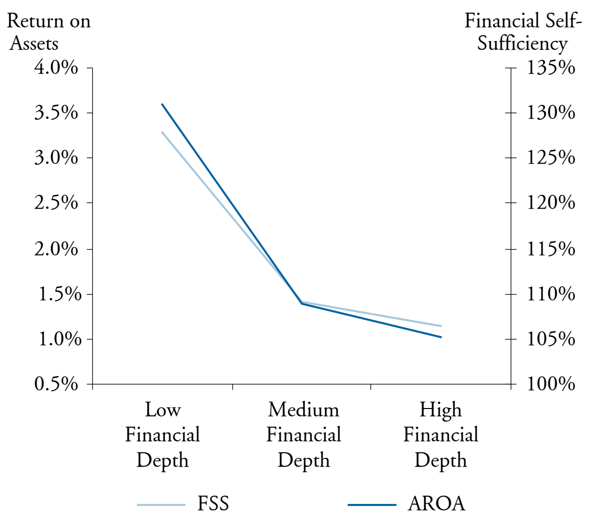
unions that can mobilize savings). In part, the lack of commercial funds for other markets reflects donor and investor attention on downscaling commercial banks, and the perceived difficulties of providing commercial financing to NGOs.

Low-income populations in ECA are still reached primarily by microcredit, rather than microsavings, as the region is among the weakest globally for financial intermediation. While a majority of institutions in ECA cannot mobilize savings, this is true for microfinance institutions in many other global regions as well. Savings mobilization for non bank institutions is allowed in only a few countries and even in these cases, many institutions provide corporate savings or high balance savings.

Revenue and Profitability

ECA MFIs showed slight increases in profitability over the past year, as institutions continued to mature and to reduce expenses and loan rates. Returns on equity showed more of a gain due to broad increases in leverage in the region. Of the 108 institutions in the sample, roughly two thirds had positive adjusted returns during the past year.

Figure 2 Returns decline in countries with deeper financial sectors



Legend: FSS – Financial Self Sufficiency; AROA – Average Return on Assets

Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results represent medians by country for all reporting institutions. Financial depth defined as broad money as a percentage of gross domestic product, based on IMF International Financial Statistics as available. Low financial depth: < 25%; Medium: 25 – 50%; High: > 50%.

A combination of low interest rates and high expenses for non-bank institutions, along with increased delinquency has limited the sustainability of non-bank institutions within the more competitive financial sectors in Eastern Europe. The strongest exceptions have been the highly concentrated markets in the Balkans, especially in Bosnia and Herzegovina and Kosovo, where the substantial development resources devoted to post-conflict reconstruction have been successful in creating efficient and profitable microfinance sectors, which still maintain broad outreach. The level of subsidized funds and donations to the Bosnian sector has declined rapidly over the past three years as local institutions have rapidly developed capacity.

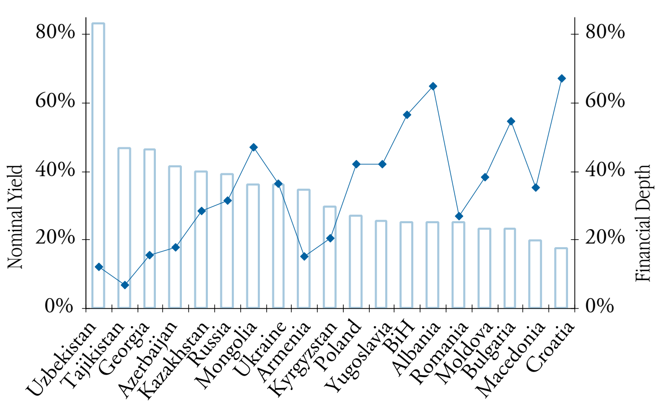
At the same time, there is increasing sustainability and growth among non-bank programs in the Caucasus and Central Asia reaching underserved rural and low-income populations, although the provision of microcredit to these clients often comes at a high price. A handful of institutions in these sub-regions earn supernormal profits, but if evidence from Bosnia and elsewhere is any indicator, these margins will decline as the sector deepens and matures.

As shown in ***Figure 2***, there is a broad trend for lower returns in countries with deeper financial sectors, compared to the less developed markets in the Caucasus and Central Asia, although Bosnia proves the persistent exception to the rule. It could be the case that investors prefer the better business environment in these more developed markets or that the higher cost of commercial financing has lowered returns at those institutions. While commercial funding is primarily directed towards up-market institutions in more developed countries, returns are markedly lower for the same set of institutions. There is a very sharp drop in ROA by target market–low-end institutions have average returns around 10%, while at SME-lending institutions (targeting above 250% of GNP) median returns are only 0.1%. Increased leverage is not enough to overcome the narrower margins in many cases, with the median return on equity for even the very highly-leveraged SME lenders barely registering at a positive 0.5%.

The key to understanding these trends in returns lies in the cost and revenue structures of ECA microfinance providers. Microcredit yields in ECA are closely related to the level of financial depth in the country. As seen in ***Figure 3***, in the weaker financial sectors of Central Asia and the Caucasus, microfinance lending rates are considerably higher than in the EU accession countries or Balkans, where a wider range of financing options are available to borrowers. Interest rates range from over 80% in the essentially closed market of Uzbekistan, to below 20% in Croatia, which has the deepest financial sector in the region. While microcredit interest rates are higher in less-developed financial sectors, the cost of doing business is similarly higher in those same countries.

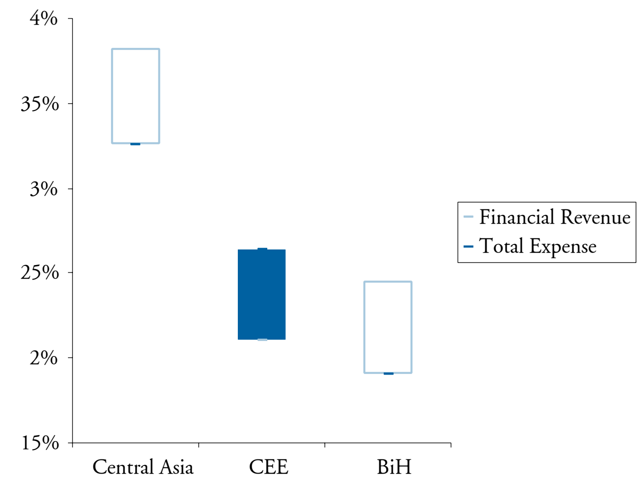
Yield and expense levels generally move hand-in-hand across the region, as institutions charge the rates necessary to cover costs. The comparison of cost and revenue structures between the EU and EU acceding countries within Central and Eastern Europe (CEE) and Central Asia in ***Figure 4*** helps to explain the differing returns across the region. Yields in Central Asia are almost twice

Figure 3 Microcredit rates are lower in countries with deeper financial sectors



Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results represent medians by country for all reporting institutions. Financial depth defined as broad money as a percentage of gross domestic product, based on IMF International Financial Statistics as available.

Figure 4 Spreads: (Financial Revenue – Total Expenses) for three sub-regions



Legend: CEE — Central and Eastern Europe; BiH — Bosnia and Herzegovina

Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results represent medians by sub-region for all reporting institutions. Shaded results represent negative margins, empty boxes represent positive margins.

the level of CEE yields, even excluding banks, meaning that the price of credit is that much higher for borrowers. Operating costs and financial expenses are also higher in Central Asia, but by less of a margin (less than 5% difference in both cases). The combination of low yields and high expense in CEE leads to less sustainable institutions, while the ability to charge higher rates in Central Asia due to lack of strong competition means that most institutions there are sustainable, at least for the time being. The example of Bosnia indicates that MFIs can, however, be sustainable with both low rates and low expenses given sufficient initial support and capacity building.

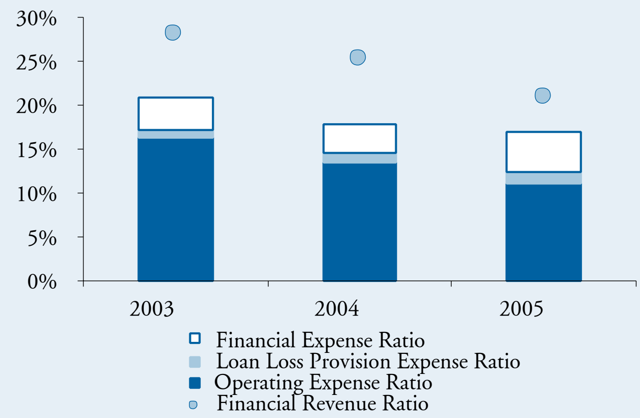
The question then arises as to whether institutions operating in less competitive financial sectors can or should begin to lower interest rates on microcredit. Since financing constraints and a lack of access to capital still requires most of these institutions to pursue a strategy of growth through retained earnings it may take a shift in the allocation of donor and investor funds within the region for this to occur.

Performance Trends in Bosnia and Herzegovina:

Bosnia and Herzegovina boasts the most developed microfinance sector within the region with a broad cross section of institutions that are rapidly growing and profitable, while still maintaining broad outreach. Over the past three years, total expenses have decreased to the lowest levels in the region, but returns in Bosnia have also declined as margins are squeezed in the increasingly competitive environment.

The primary driver of this drop in return on assets has been the sharp decline in interest rates, although Bosnian MFIs have increased leverage enough to bring about gains for equity investors. These effects of increasing competition – rapidly falling interest rates and expenses, along with increased costs for financing and loan loss - are being echoed elsewhere, most notably in Latin America, as microfinance institutions begin to shift from donor-funded development programs to self-sufficient institutions more fully integrated into the broader financial sector.

2003 – 2005 *Expense and Revenue Trends for Bosnian NBFIs*



Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results represent aggregate adjusted data for reporting institutions. For full report and list of MFIs see: http://www.mixmarket.org/medialibrary/mixmarket/BiH_Performance_Trends_Report_2005.pdf.

Efficiency, Productivity and Risk

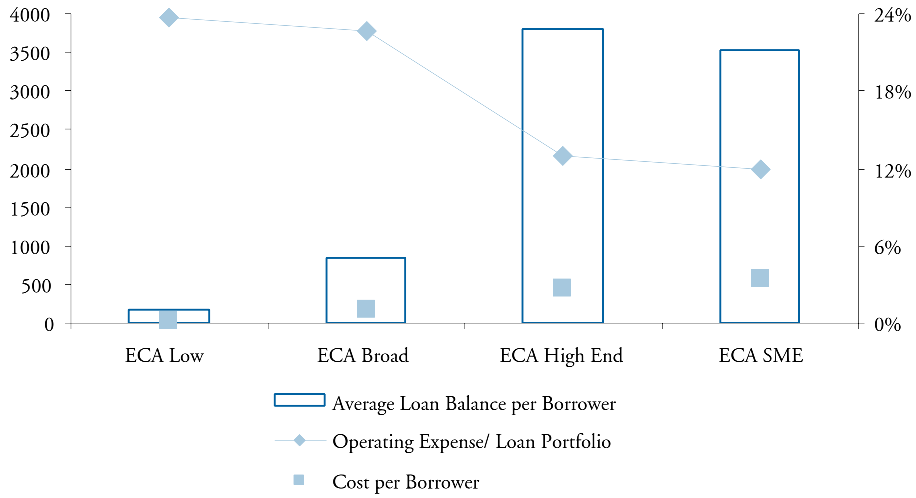
Since most ECA microfinance institutions, including banks, are still donor-funded (albeit often at commercial rates), efficiency and productivity are important considerations for the utilization of limited funds. What portion of the donor (or investor) dollar eventually ends up in a client's hands and which institutions are able to reach the most borrowers (or savers) at the lowest cost?

Efficiency and expense both reflect the target market: it costs more to reach higher-end markets, but loan sizes increase faster than expenses, reducing overall expenses. Overall costs are highest at NGOs, some 23% of the total budget, with personnel expenses accounting for half of that, while ECA microfinance banks have the lowest operating expenses – only 9% of total assets, albeit also with low productivity. Costs per loan are highest at banks, rising above $1,000 per loan for a few banks. As ***Figure 5*** indicates though, institutions targeting higher-end markets are able to offset the high costs by providing even larger loans. Relative salaries are highest at the same higher target market MFIs, which reflects the anecdotal evidence from many non-bank institutions that they face competition in the job market from formal sector microfinance providers. Personnel expenses were highest in the Caucasus and Central Asia, presumably due to a premium on skilled labor.

Those institutions in ECA that provide the smallest loans also had the highest productivity levels, reaching more clients and more lower-income clients per staff member and per dollar of expenses than at higher-market MFIs. Productivity levels for ECA MFIs remain low in comparison to global figures; although, this is partly due to the prevalence of individual loans. While expenses generally decrease as loan balances increase within ECA, productivity also rapidly decreases for institutions targeting the same higher-income markets. The low cost per loan and high staff productivity at low-end institutions indicates they have been able to reduce costs enough to deliver smaller loans more effectively, either through group-lending methodology, tighter credit management or other factors.

The preceding analysis of expense structure within the region is mirrored in the productivity indicators. Bosnian MFIs serve by far the highest number of clients per staff member in the region, while Central Asian and CEE MFIs are among the lowest, although in Central Asia the financial bottom line is cushioned by high interest rates. The causes of this low productivity differ regionally as well, as some areas may have low productivity due to weak infrastructure and hard-to-reach rural populations, while in more developed markets, productivity may drop as institutions struggle to reach an increasingly thin customer base that has broader access to finance.

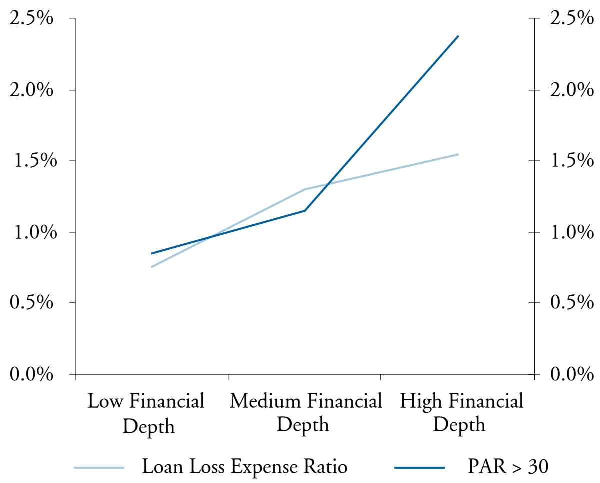
Figure 5 Relative costs decrease as loan balances increase



Legend: ECA – Eastern Europe and Central Asia
Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results represent medians by target market.

Loan loss expenses were also low globally, with only MENA having lower expenses or portfolio-at-risk levels. Even with the low levels of portfolio delinquency, there is variation within the region between countries. Countries with deeper financial sectors within ECA tend to have higher delinquency levels (*see Figure 6*)–in these markets, microfinance institutions may only be able to access clients with weaker repayment capacity or worse credit histories. This is illustrated by the highest PAR>30 levels occurring in the two countries with highest GNI per capita. At the institutional level, delinquency levels for banks, NBFIs and NGOs are all similarly low, while credit unions are somewhat higher in ECA (as globally), likely due to the more lenient repayment culture in member-based institutions.

Figure 6 Loan loss levels and expenses rise in countries with deeper financial sectors



Legend: PAR – Portfolio at Risk
Source: Microfinance Information Exchange, Inc., 2005 Benchmarks. Results represent medians by country for all reporting institutions. Financial depth defined as broad money/GDP, based on IMF International Financial Statistics. Low financial depth: < 25%; Medium: 25–50%; High: > 50%.

Conclusion

The development of microfinance in the ECA region illustrates some of the potential tradeoffs between outreach and financial performance. Commercial funds have been primarily directed at higher-end MFIs, while those institutions focusing on lower-income populations are funded through donated funds and retained earnings. This allocation of funds occurs despite a precipitous drop in returns as loan balances increase. Both revenues and expenses fall as loan size increases and institutions move up-market, but margins are squeezed at the same time, reflecting the increased difficulty of competition with the formal financial sector. As in many cases, Bosnia provides a partial counter-example—a market where productivity and efficiency have rapidly increased without a substantial slippage up-market. Smaller institutions in the EU accession countries or the Balkans have the hardest time recovering costs, and the same is largely true for credit unions. At the same time, NGOs and NBFIs in the weaker financial sectors of Central Asia and the Caucasus have extremely high levels of self-sufficiency and have seen the fastest growth since last year.

Data and Data Preparation

For benchmarking purposes, MIX collects and prepares MFI financial and outreach data according to international microfinance reporting standards as applied in the MicroBanking Bulletin. Raw data are collected from the MFI, inputted into standard reporting formats and crosschecked with audited financial statements, ratings and other third party due diligence reports, as available. Performance results are then adjusted, using industry standard adjustments, to eliminate subsidy, guarantee minimal provisioning for risk and reflect the impact of inflation on institutional performance. This process increases comparability of performance results across institutions. MIX would like to thank AMFA (Azerbaijan), CAC (Central Asia), MEDI (Armenia) and RMC (Russia) for their valuable support throughout the year.

Eastern Europe and Central Asia MFI Participants

2005 Benchmarks (108 MFIs)
2004–2005 Balanced Panel Data (57 MFIs) *names in italics*

ACBA (Armenia), *ACF* (Kazakhstan), *AFK* (Kosovo), Agroinvest (Montenegro), Agroinvestbank (Tajikistan), *Alternativa* (Russia), *AREGAK* (Armenia), *Azercredit* (Azerbaijan), Azeri Star (Azerbaijan), *BAI* (Georgia), Bank Eskhata (Tajikistan), *Barakot* (Uzbekistan), *Benefit* (Bosnia and Herzegovina), Bereke (Kazakhstan), *BESA* (Albania), BTFF (Kyrgyzstan), *CAPA* (Romania), *CEF* (Russia), *Constanta* (Georgia), CredAgro (Azerbaijan), *CREDO* (Georgia), *Crystal Fund* (Georgia), Daulet (Uzbekistan), DEMOS (Croatia), *ECLOF - ARM* (Armenia), *EKI* (Bosnia and Herzegovina), *FFECC* (Russia), *FINCA - ARM* (Armenia), *FINCA - AZE* (Azerbaijan), *FINCA - GEO* (Georgia), *FINCA* - KOS (Kosovo), *FINCA - Samara* (Russia), FINCA - TJK (Tajikistan), *FINCA - Tomsk* (Russia), FINCA - UZB (Uzbekistan), *FinDev* (Azerbaijan), *FMCC* (Kyrgyzstan), FMFB - TJK (Tajikistan), *FORA* (Russia), FULM (Macedonia), Fundusz Mikro (Poland), *HOPE Ukraine* (Ukraine), *Horizon* (Armenia), Horizonti (Macedonia), Imkoniyat (Tajikistan), *IMON* (Tajikistan), INECO (Armenia), Intellekt (Russia), KAFC (Kyrgyzstan), Kamurj (Armenia), KEP (Kosovo), Khan Bank (Mongolia), KKBWA (Uzbekistan), *KLF* (Kazakhstan), KMB (Russia), Kompanion (Kyrgyzstan), KosInvest (Kosovo), KRK (Kosovo), LAM (Romania), LIDER (Bosnia and Herzegovina), *LOKmicro* (Bosnia and Herzegovina), *MDF* (Yugoslavia), *MFBA* (Azerbaijan), *MI-BOSPO* (Bosnia and Herzegovina), Microinvest (Moldova), *MIKRA* (Bosnia and Herzegovina), *Mikro ALDI* (Bosnia and Herzegovina), *MIKROFIN* (Bosnia and Herzegovina), Mikrofond (Bulgaria), MLF HUMO (Tajikistan), MLF Microinvest (Tajikistan), Moznosti (Macedonia), *Nachala* (Bulgaria), *NOA* (Croatia), *Normicro* (Azerbaijan), *OBM* (Montenegro), *OIS* (Yugoslavia), *OMRO* (Romania), *Partner* (Bosnia and Herzegovina), *PRIZMA* (Bosnia and Herzegovina), ProCredit - ALB (Albania), ProCredit - BGR (Bulgaria), ProCredit - BiH (Bosnia and Herzegovina), ProCredit - GEO (Georgia), ProCredit - KOS (Kosovo), ProCredit - MDA (Moldova), ProCredit - MKD (Macedonia), ProCredit - ROM (Romania), ProCredit - UKR (Ukraine), ProCredit - YUG (Yugoslavia), *PSHM* (Albania), *Razvitiye* (Russia), Rost (Russia), SBDF (Georgia), SBS (Russia), *SEF - ARM* (Armenia), *SINERGIJAplus* (Bosnia and Herzegovina), *Sodeystviye* (Russia), Sodeystviye (Pyatigorsk) (Russia), *Sunrise* (Bosnia and Herzegovina), TFS (Mongolia), UPI Bank (Bosnia and Herzegovina), *USTOI* (Bulgaria), Valyut-Transit (Kazakhstan), *VMCA* (Azerbaijan), *VRFSMES* (Russia), *Women for Women BiH* (Bosnia and Herzegovina), *XacBank* (Mongolia)

Peer Groups	Definition	Description
Charter Type	ECA Bank (20 MFIs)	ECA MFIs with Bank charter type
	ECA CU (12 MFIs)	ECA MFIs with Credit Union / Cooperative charter type
	ECA NBFI (45 MFIs)	ECA MFIs with Non-Bank Financial Intermediary charter type
	ECA NGO (31 MFIs)	ECA MFIs with Non-Governmental Organization charter type
Financial Intermediation	ECA FI (24 MFIs)	ECA MFIs with Voluntary Savings / Total Assets ≥ 20%
	ECA Non FI (84 MFIs)	ECA MFIs with Voluntary Savings / Total Assets < 20%
Target	ECA Low (7 MFIs)	ECA MFIs with average loan balance per borrower < 20% of GNP per capita or < $150 USD
	ECA Broad (73 MFIs)	ECA MFIs with average loan balance per borrower >= 20 % and < 150% of GNP per capita
	ECA High-End (16 MFIs)	ECA MFIs with average loan balance per borrower >= 150% and < 250% of GNP per capita
	ECA SME (12 MFIs)	ECA MFIs with average loan balance per borrower >= 250% of GNP per capita
Sub-region	Bosnia and Herzegovina (13 MFIs)	ECA non-bank MFIs from Bosnia and Herzegovina
	Balkans (excl. Bosnia) (15 MFIs)	ECA non-bank MFIs from Albania, Croatia, Kosovo, Macedonia and Serbia and Montenegro
	CEE (10 MFIs)	ECA non-bank MFIs from Bulgaria, Moldova, Poland, Romania and Ukraine
	Russia (13 MFIs)	ECA non-bank MFIs from Russia
	Caucasus (19 MFIs)	ECA non-bank MFIs from Armenia, Azerbaijan and Georgia
	Central Asia (18 MFIs)	ECA non-bank MFIs from Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan and Uzbekistan

Indicator Definitions

INSTITUTIONAL CHARACTERISTICS	
Number of MFIs	Sample size of group
Age	Years functioning as an MFI
Total Assets	Total Assets, adjusted for Inflation and standardized loan portfolio provisioning and write-offs
Offices	Number, including head office
Personnel	Total number of employees

FINANCING STRUCTURE	
Capital/Asset Ratio	Adjusted Total Equity/Adjusted Total Assets
Commercial Funding Liabilities Ratio	All liabilities with "market" price/Adjusted Gross Loan Portfolio
Debt/ Equity Ratio	Adjusted Total Liabilities/Adjusted Total Equity
Deposits to Loans	Voluntary Savings/Adjusted Gross Loan Portfolio
Deposits to Total Assets	Voluntary Savings/Adjusted Total Assets
Gross Loan Portfolio/ Total Assets	Adjusted Gross Loan Portfolio/Adjusted Total Assets

OUTREACH INDICATORS	
Number of Active Borrowers	Number of borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/GNI per Capita	Adjusted Average Loan Balance per Borrower/GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio/Adjusted Number of Loans Outstanding
Average Outstanding Balance/GNI per Capita	Adjusted Average Outstanding Balance/GNI per Capita
Number of Voluntary Savers	Number of savers with voluntary savings demand deposit and time deposit accounts
Number of Voluntary Savings Accounts	Number of voluntary savings demand deposit and time deposit accounts
Voluntary Savings	Total value of voluntary savings demand deposit and time deposit accounts
Average Savings Balance per Saver	Voluntary Savings/ Number of Voluntary Savers
Average Savings Account Balance	Voluntary Savings/ Number of Voluntary Savings Accounts

MACROECONOMIC INDICATORS	
GNI per Capita	US Dollars
GDP Growth Rate	Annual Average
Deposit Rate	%
Inflation Rate	%
Financial Depth	M3/ GDP

OVERALL FINANCIAL PERFORMANCE	
Return on Assets	Adjusted Net Operating Income, net of taxes/Adjusted Average Total Assets
Return on Equity	Adjusted Net Operating Income, net of taxes/Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)

REVENUES	
Financial Revenue Ratio	Adjusted Financial Revenue/Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income/Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio/Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/ (1 + Inflation Rate)

EXPENSES	
Total Expense Ratio	Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)/Adjusted Average Total Assets
Financial Expense Ratio	Adjusted Financial Expense/ Adjusted Average Total Assets
Loan Loss Provision Expense Ratio	Adjusted Net Loan Loss Provision Expense/Adjusted Average Total Assets
Operating Expense Ratio	Adjusted Operating Expense/Adjusted Average Total Assets
Personnel Expense Ratio	Adjusted Personnel Expense/Adjusted Average Total Assets
Administrative Expense Ratio	Adjusted Administrative Expense/Adjusted Average Total Assets
Adjustment Expense Ratio	(Adjusted Net Operating Income - Unadjusted Net Operating Income)/Adjusted Average Total Assets

EFFICIENCY	
Operating Expense/ Loan Portfolio	Adjusted Operating Expense/Adjusted Average Gross Loan Portfolio
Personnel Expense/ Loan Portfolio	Adjusted Personnel Expense/Adjusted Average Gross Loan Portfolio
Average Salary/ GNI per Capita	Adjusted Average Personnel Expense/ GNI per capita
Cost per Borrower	Adjusted Operating Expense/Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense/Adjusted Average Number of Loans

PRODUCTIVITY	
Borrowers per Staff Member	Adjusted Number of Active Borrowers/Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding/Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding/ Number of Loan Officers
Voluntary Savers per Staff Member	Number of Voluntary Savers/Number of Personnel
Savings Accounts per Staff Member	Number of Saving Accounts/Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/ Number of Personnel

RISK AND LIQUIDITY	
Portfolio at Risk > 30 Days	Outstanding balance, loans overdue> 30 Days/Adjusted Gross Loan Portfolio
Portfolio at Risk > 90 Days	Outstanding balance, loans overdue> 90 Days/Adjusted Gross Loan Portfolio
Write-off Ratio	Value of loans written-off/Adjusted Average Gross Loan Portfolio
Loan Loss Rate	Adjusted Write-offs, net of recoveries/Adjusted Average Gross Loan Portfolio
Risk Coverage	Adjusted Loan Loss Reserve/ PAR > 30 Days
Non-earning Liquid Assets as % Total Assets	Adjusted Cash and banks/ Adjusted Total Assets
Current Ratio	Short Term Assets/Short Term Liabilities

Eastern Europe Central Asia

				Regions (ECA)			
	ECA	Bosnia and Herzegovina	Balkans (excl. Bosnia)	CEE	Russia	Caucasus	Central Asia
INSTITUTIONAL CHARACTERISTICS							
Number of MFIs	103	13	14	10	10	18	19
Age	6	8	5.5	8.5	6	7	4.5
Total Assets	7,283,002	12,363,914	8,537,109	4,511,751	2,983,077	2,560,434	1,504,190
Offices	10	20	11	12	4	6	7
Personnel	58	62	43	44	29	50	49
FINANCING STRUCTURE							
Capital/Asset Ratio	37.3%	30.8%	67.0%	27.8%	27.6%	69.2%	46.7%
Commercial Funding Liabilities Ratio	27.6%	36.7%	0.1%	3.4%	85.8%	0.0%	0.2%
Debt/Equity Ratio	1.7	2.3	0.5	2.6	2.7	0.4	1.3
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	7.3%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	5.6%	0.0%	0.0%
Gross Loan Portfolio/ Total Assets	82.6%	92.8%	89.1%	75.3%	78.5%	87.8%	82.8%
OUTREACH INDICATORS							
Number of Active Borrowers	4,798	8,900	3,167	2,876	1,333	3,815	3,725
Percent of Women Borrowers	0	0	0	0	1	0	1
Number of Loans Outstanding	4,991	8,900	3,167	2,876	1,446	3,815	3,725
Gross Loan Portfolio	4,895,848	11,120,950	7,813,248	3,896,186	2,392,344	2,210,084	1,180,741
Average Loan Balance per Borrower	1,141	1,207	1,940	1,722	1,733	498	335
Average Loan Balance per Borrower/GNI per Capita	73.1%	59.1%	101.2%	86.3%	50.9%	44.9%	73.0%
Average Outstanding Balance	1,170	1,207	1,940	1,722	1,577	498	334
Average Outstanding Balance/GNI per Capita	73.7%	59.1%	101.2%	77.2%	46.3%	44.9%	73.0%
Number of Voluntary Savers	-	-	-	-	115	-	-
Number of Voluntary Savings Accounts	-	-	-	-	119	-	-
Voluntary Savings	-	-	-	-	163,690	-	-
Average Savings Balance per Saver	6,557		16,204		6,557	8,022	5,652
Average Savings Account Balance	1,244		16,204		6,198	4,241	6,565
MACROECONOMIC INDICATORS							
GNI per Capita	1,304	2,040	2,215	2,740	3,410	1,040	400
GDP Growth Rate	7.1%	4.7%	3.1%	7.2%	3.7%	10.1%	9.4%
Deposit Rate	5.2%	3.6%	2.8%	5.2%	4.0%	7.6%	9.8%
Inflation Rate	7.8%	3.6%	1.2%	9.0%	12.7%	8.2%	7.8%
Financial Depth	28.5%	56.4%	35.4%	38.3%	31.6%	15.6%	12.0%
OVERALL FINANCIAL PERFORMANCE							
Return on Assets	1.4%	4.0%	3.3%	-0.7%	-0.6%	2.1%	1.6%
Return on Equity	5.1%	15.9%	6.7%	-1.1%	-3.4%	3.5%	6.3%
Operational Self-Sufficiency	123.3%	129.0%	127.6%	111.7%	108.5%	137.0%	135.9%
Financial Self-Sufficiency	113.3%	124.1%	122.2%	97.5%	101.1%	113.8%	115.0%
REVENUES							
Financial Revenue Ratio	25.5%	24.5%	24.3%	21.0%	32.7%	34.3%	38.2%
Profit Margin	11.7%	19.4%	18.2%	-2.7%	1.1%	12.1%	13.0%
Yield on Gross Portfolio (nominal)	30.5%	26.8%	26.3%	25.0%	39.0%	40.6%	45.3%
Yield on Gross Portfolio (real)	23.2%	22.4%	22.5%	17.1%	23.3%	29.5%	34.6%
EXPENSES							
Total Expense Ratio	24.1%	19.0%	20.5%	26.4%	34.4%	27.9%	32.6%
Financial Expense Ratio	6.3%	5.2%	3.0%	5.1%	15.1%	6.7%	8.2%
Loan Loss Provision Expense Ratio	1.1%	1.1%	0.6%	1.8%	1.0%	0.7%	1.3%
Operating Expense Ratio	16.0%	13.5%	15.3%	17.6%	17.1%	21.3%	22.8%
Personnel Expense Ratio	8.9%	8.7%	8.2%	7.8%	8.9%	12.1%	12.2%
Administrative Expense Ratio	6.2%	4.2%	6.9%	8.5%	5.5%	8.6%	8.2%
Adjustment Expense Ratio	2.0%	1.0%	0.6%	3.9%	2.4%	4.7%	4.4%
EFFICIENCY							
Operating Expense/Loan Portfolio	20.3%	15.0%	17.9%	20.4%	20.3%	24.9%	27.6%
Personnel Expense/Loan Portfolio	11.7%	9.4%	9.2%	9.9%	12.1%	13.9%	14.6%
Average Salary/GNI per Capita	5.5	7.6	6.4	3.2	2.8	5.6	5.2
Cost per Borrower	200	159	296	270	372	130	106
Cost per Loan	199	157	296	264	436	130	110
PRODUCTIVITY							
Borrowers per Staff Member	80	151	87	57	36	93	66
Loans per Staff Member	80	155	87	57	39	93	67
Borrowers per Loan Officer	157	236	143	111	93	180	168
Loans per Loan Officer	165	239	143	115	111	180	169
Voluntary Savers per Staff Member	6		0		14	5	3
Savings Accounts per Staff Member	33		0		15	6	3
Personnel Allocation Ratio	50.6%	62.7%	62.3%	58.0%	43.5%	47.1%	48.5%
RISK AND LIQUIDITY							
Portfolio at Risk > 30 Days	0.9%	1.1%	1.1%	2.4%	0.9%	0.9%	0.7%
Portfolio at Risk > 90 Days	0.4%	0.4%	0.8%	1.1%	0.2%	0.6%	0.3%
Write-off Ratio	0.5%	0.7%	0.6%	0.7%	0.9%	1.4%	0.2%
Loan Loss Rate	0.4%	0.4%	0.4%	0.6%	0.9%	1.0%	0.0%
Risk Coverage	1.6	2.2	1.0	1.0	0.9	1.2	1.7
Non-earning Liquid Assets as % Total Assets	5.0%	2.1%	2.5%	4.7%	5.9%	6.7%	7.8%

	Charter Type (ECA)				Target Market (ECA)			
	Credit Unions	NGOs	NBFIs	Banks	Low end	Broad	High end	SME
INSTITUTIONAL CHARACTERISTICS								
Number of MFIs	8	31	45	19	7	69	15	12
Age	9	5	7	6	5	7	6	5
Total Assets	3,255,310	2,198,093	8,095,054	120,813,600	1,488,592	4,624,673	14,022,862	55,612,928
Offices	4	4	11	20	6	8	16	24
Personnel	17	40	53	489	39	54	74	423
FINANCING STRUCTURE								
Capital/Asset Ratio	32.3%	73.8%	35.2%	11.5%	82.7%	48.1%	26.2%	22.4%
Commercial Funding Liabilities Ratio	53.9%	0.0%	27.1%	118.0%	0.0%	26.1%	48.6%	108.9%
Debt/ Equity Ratio	2.4	0.4	1.8	7.7	0.1	1.1	2.8	4.2
Deposits to Loans	38.9%	0.0%	0.0%	50.0%	0.0%	0.0%	0.0%	37.6%
Deposits to Total Assets	35.3%	0.0%	0.0%	30.2%	0.0%	0.0%	0.0%	29.3%
Gross Loan Portfolio/ Total Assets	82.8%	83.6%	87.6%	62.6%	83.0%	84.7%	78.6%	73.9%
OUTREACH INDICATORS								
Number of Active Borrowers	1,546	2,935	5,272	29,247	3,815	4,604	6,068	5,374
Percent of Women Borrowers	0	1	0	0	1	1	0	0
Number of Loans Outstanding	1,732	2,935	5,429	29,371	3,815	4,604	6,068	17,179
Gross Loan Portfolio	2,974,691	1,950,738	6,183,392	94,489,160	1,091,499	3,725,434	12,983,908	41,811,312
Average Loan Balance per Borrower	1,861	514	1,198	3,333	163	814	3,809	3,529
Average Loan Balance per Borrower/GNI per Capita	60.8%	51.9%	68.7%	179.6%	17.9%	58.9%	172.8%	430.4%
Average Outstanding Balance	1,649	514	1,197	3,369	163	814	3,809	3,809
Average Outstanding Balance/GNI per Capita	54.6%	51.9%	68.7%	187.9%	17.9%	58.9%	169.5%	399.4%
Number of Voluntary Savers	232	-	-	3,235	-	-	-	315
Number of Voluntary Savings Accounts	249	-	-	42,649	-	-	119	6,743
Voluntary Savings	765,116	-	-	37,871,564	-	-	-	21,701,364
Average Savings Balance per Saver	4,053		28,563	4,526	57,324	2,351	4,008	12,417
Average Savings Account Balance	3,252		28,563	1,134	57,324	3,252	654	1,269
MACROECONOMIC INDICATORS								
GNI per Capita	3,410	1,120	2,040	1,260	950	2,040	2,080	950
GDP Growth Rate	3.7%	8.5%	6.3%	8.5%	7.7%	7.1%	6.2%	9.6%
Deposit Rate	4.0%	6.6%	4.0%	6.1%	8.5%	5.8%	4.0%	8.1%
Inflation Rate	8.9%	7.9%	4.4%	7.9%	7.8%	7.6%	7.6%	7.9%
Financial Depth	33.5%	15.1%	31.6%	27.0%	18.0%	28.5%	31.6%	18.0%
OVERALL FINANCIAL PERFORMANCE								
Return on Assets	-0.5%	2.9%	3.0%	1.0%	10.7%	2.0%	0.2%	0.1%
Return on Equity	-1.5%	6.4%	5.2%	7.1%	10.8%	5.2%	1.4%	0.5%
Operational Self-Sufficiency	108.3%	137.6%	125.4%	120.3%	187.4%	125.6%	114.6%	119.6%
Financial Self-Sufficiency	100.7%	114.6%	117.1%	109.1%	165.8%	114.3%	107.2%	104.0%
REVENUES								
Financial Revenue Ratio	23.5%	40.4%	25.2%	17.1%	41.1%	27.9%	20.2%	17.8%
Profit Margin	0.7%	12.7%	14.6%	8.4%	39.7%	12.5%	6.7%	3.8%
Yield on Gross Portfolio (nominal)	28.3%	47.8%	29.5%	22.3%	49.6%	35.9%	25.0%	20.8%
Yield on Gross Portfolio (real)	20.9%	36.9%	23.2%	17.2%	39.0%	27.3%	16.8%	14.0%
EXPENSES								
Total Expense Ratio	25.0%	31.1%	23.1%	16.8%	24.9%	26.9%	18.5%	17.3%
Financial Expense Ratio	13.4%	6.7%	5.5%	5.1%	4.2%	6.6%	4.3%	6.3%
Loan Loss Provision Expense Ratio	1.4%	0.8%	1.1%	1.1%	0.2%	1.2%	0.9%	0.7%
Operating Expense Ratio	10.7%	23.0%	15.4%	9.0%	20.2%	17.2%	10.5%	9.0%
Personnel Expense Ratio	5.9%	12.8%	8.5%	4.2%	12.2%	10.4%	5.1%	4.2%
Administrative Expense Ratio	4.0%	10.1%	6.4%	5.0%	7.2%	7.7%	5.5%	4.9%
Adjustment Expense Ratio	2.3%	5.7%	1.8%	1.2%	4.2%	2.4%	0.9%	1.7%
EFFICIENCY								
Operating Expense/Loan Portfolio	12.7%	28.8%	17.5%	13.0%	23.7%	23.3%	13.0%	12.0%
Personnel Expense/Loan Portfolio	6.5%	14.6%	9.9%	6.3%	14.6%	12.9%	6.3%	5.7%
Average Salary/GNI per Capita	2.8	5.1	6.3	5.3	3.0	5.6	4.9	7.9
Cost per Borrower	283	161	173	504	37	162	453	569
Cost per Loan	283	158	170	528	37	163	451	611
PRODUCTIVITY								
Borrowers per Staff Member	69	82	94	51	125	87	49	29
Loans per Staff Member	78	81	93	51	122	87	49	34
Borrowers per Loan Officer	136	156	181	191	215	168	124	127
Loans per Loan Officer	136	157	181	191	215	169	124	127
Voluntary Savers per Staff Member	17		0	6	0	17	66	4
Savings Accounts per Staff Member	19		0	106	0	13	139	12
Personnel Allocation Ratio	57.3%	49.4%	56.0%	33.4%	61.5%	52.0%	48.3%	31.4%
RISK AND LIQUIDITY								
Portfolio at Risk > 30 Days	2.7%	0.9%	1.1%	0.8%	0.3%	1.2%	0.8%	0.8%
Portfolio at Risk > 90 Days	1.4%	0.4%	0.4%	0.5%	0.3%	0.6%	0.4%	0.3%
Write-off Ratio	3.3%	0.5%	0.5%	0.5%	0.2%	0.7%	0.3%	0.8%
Loan Loss Rate	1.2%	0.4%	0.2%	0.4%	0.2%	0.5%	0.2%	0.4%
Risk Coverage	0.4	1.2	1.7	2.9	0.5	1.2	2.1	3.1
Non-earning Liquid Assets as % Total Assets	2.4%	6.7%	2.4%	8.9%	2.6%	5.2%	4.2%	7.8%

MIX 2005 Benchmarks

This publication is part of a series of regional industry benchmarking reports presented by the Microfinance Information Exchange, Inc. (MIX):

- Benchmarking African Microfinance 2005
- Benchmarking Asian Microfinance 2005
- Benchmarking Arab Microfinance 2005
- Benchmarking Latin American Microfinance 2005
- Benchmarking Microfinance in Eastern Europe and Central Asia 2005

The five regional 2005 performance reports are based on the 2005 benchmark data, collected from 446 microfinance institutions from 78 countries, located in Sub-Saharan Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, as well as the Middle East and North Africa. The series represents the most methodologically consistent and in-depth reports on the performance of microfinance providers produced to date.

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