



2012 Eastern Europe and Central Asia Regional Snapshot

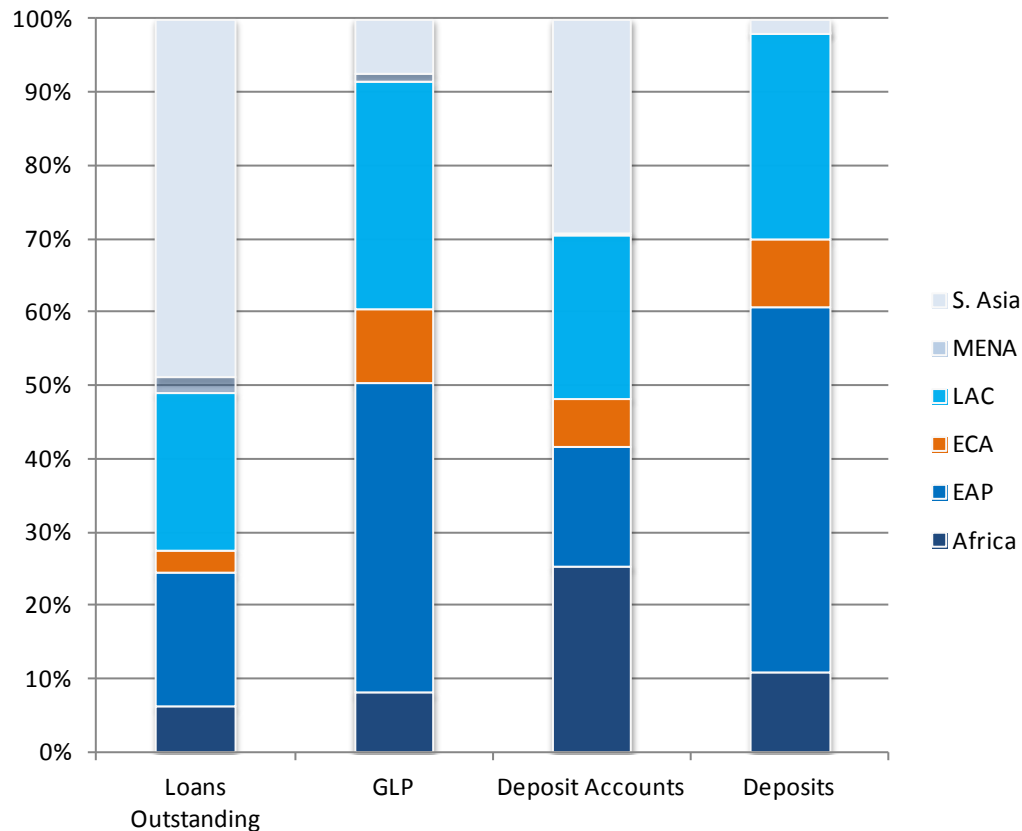
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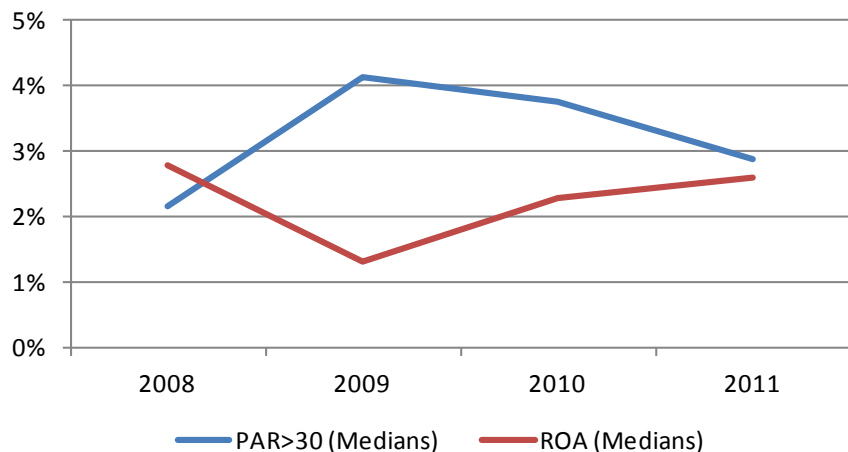
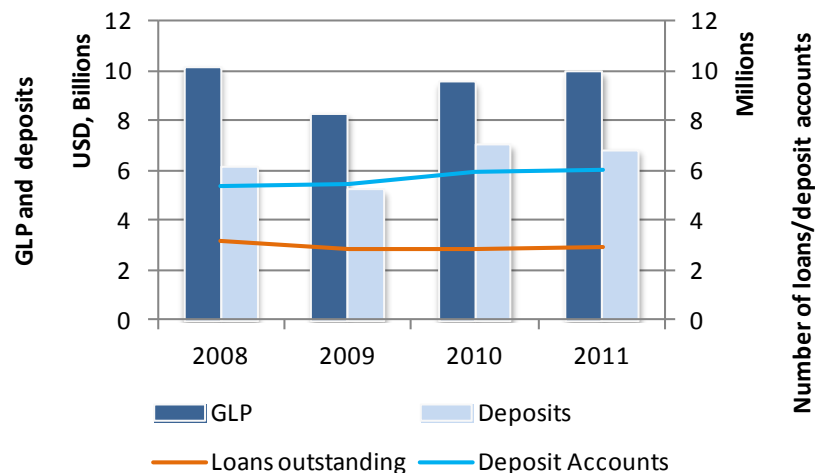
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Source: MIX Market, 2013. View the graph data [here](#).

On MIX Market, ECA accounts for only 3% of global loans outstanding, but has 10% of the global portfolio. ECA MFIs have the highest median outstanding loan balance globally equal to USD 1,930.

ECA's median outstanding deposit amount accounts for over USD 2,037, which is almost 4 times that of the second highest average in LAC, driven by the fact that most ECA NBFIs are not allowed to attract deposits and banks are the primary deposit-taking institutions. The downscaling banks increase the average deposit balance due to the inclusion of commercial deposit accounts. ECA's global coverage share is small, with 7% of global depositors and 9% of global deposits volume.



Loan portfolio growth continues for ECA, while the number of loans outstanding and deposits remain flat.

Banks are the main drivers of deposits trends, considering NBFIs are not allowed to attract deposits outside of Central Asia. Deposit-taking NBFIs in Central Asia, however, continue to grow. In 2011, deposits in Tajikistan nearly doubled, Mongolian NBFIs experienced 50% growth in deposits, and the one deposit-taking NFI in Kyrgyzstan increased deposits from USD 100,000 in early 2011 to almost USD 1 million by 3rd quarter 2012 serving over 1,500 depositors.

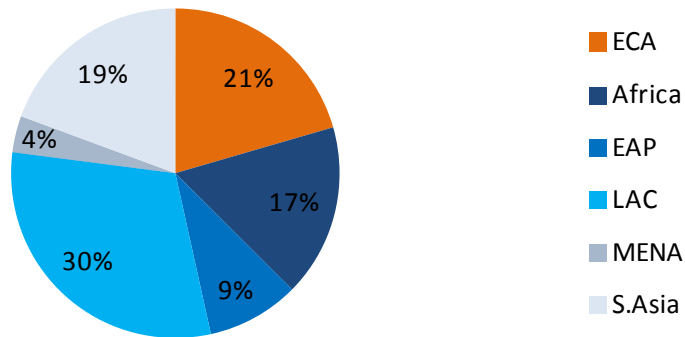
Portfolio quality continued to improve since 2009, as PAR>30 decreased to 2.9%. Meanwhile, profitability for ECA MFIs increased by 0.3% since 2010. Positive trends signal an ECA recovery from the crisis.

Source: MIX Market, 2013. View the 1st graph data [here](#). View 2nd graph data [here](#).

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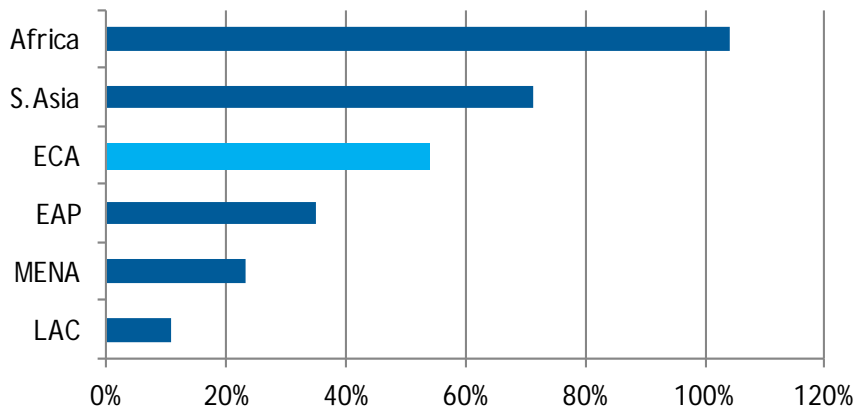
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Share of ECA in global SP reporting



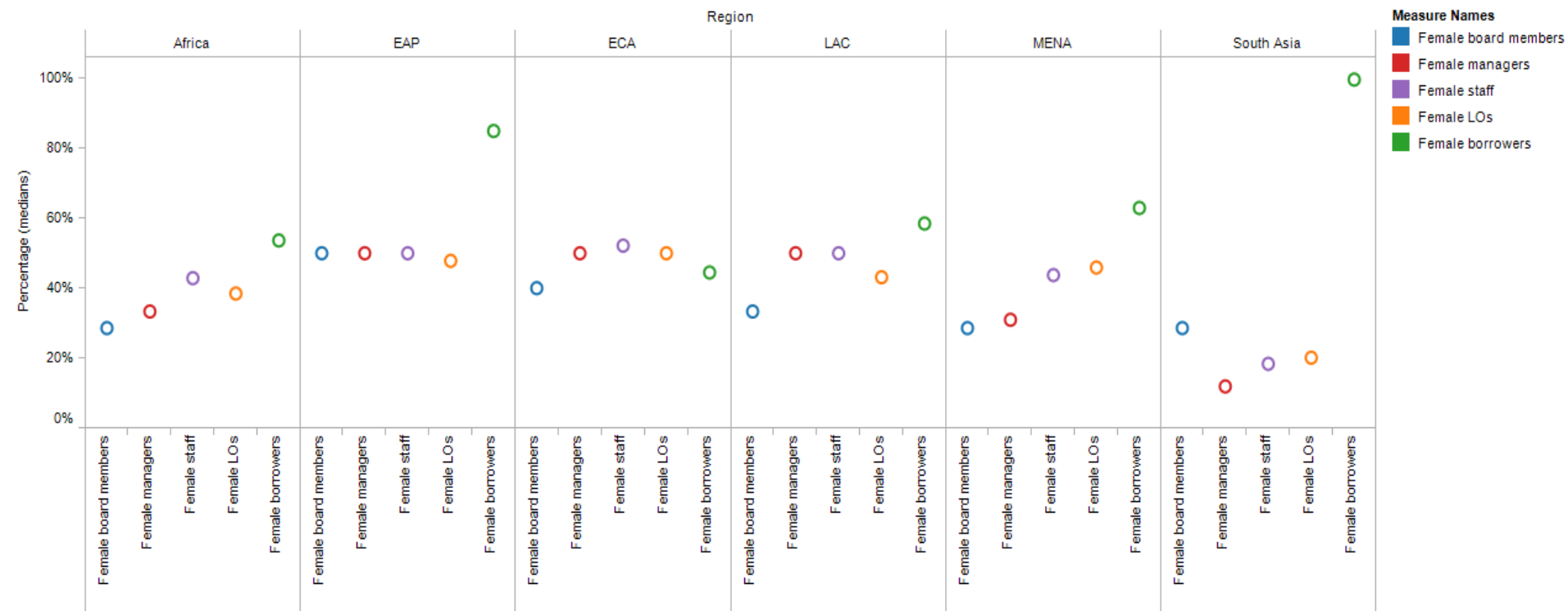
ECA accounts for 21% of the global social performance reporting, as MFIs in the region continue to focus on social performance management.

SP reporting growth



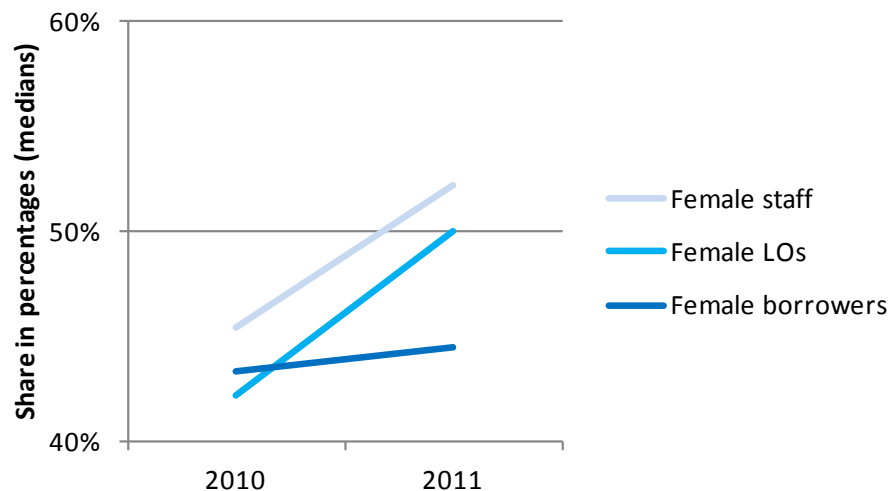
ECA increased its social performance reporting by 54% in 2012 with a total of over 180 MFIs reporting to MIX. National associations participating in [the Start-up Fund](#) for social performance reporting supported their member MFIs in reporting data. MIX has played a fundamental role by facilitating this reporting.

Source: MIX Market, 2013



Source: MIX Market, 2013. View graph data [here](#).

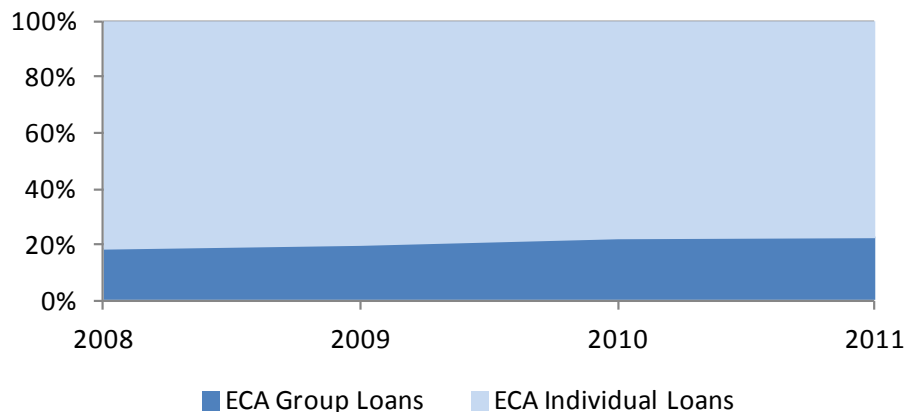
Although female outreach in ECA is the lowest globally, it has increased by 2% since 2010. However, ECA has the second highest percentage of female board members, managers and staff. Conversely, in South Asia where female borrowers comprise a large percentage of borrowers, the board and management's gender composition are comparatively low.



ECA's portion of female staff and female loan officers increased almost in unison over 2011, which indicates MFIs hired female staff mostly for the front office. The share of female borrowers also grew by 2%.

Of the countries in the ECA region, Russia has the highest median share of female board members, loan officers, staff and borrowers.

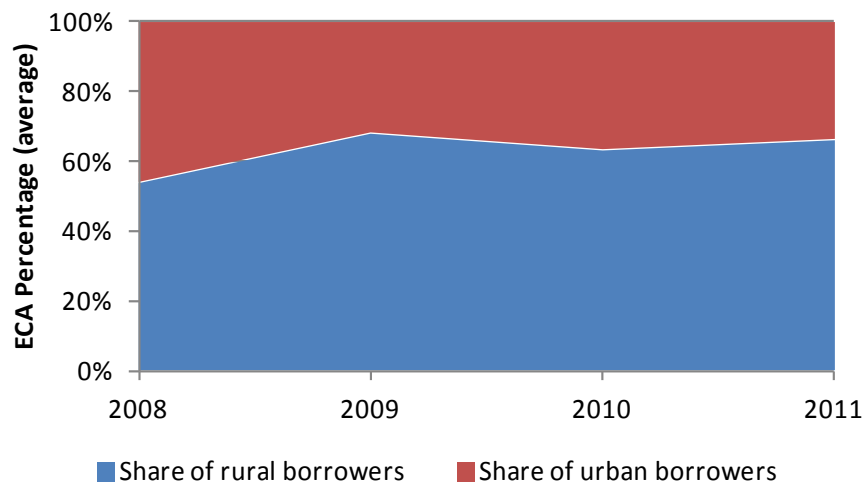
ECA number of loans outstanding



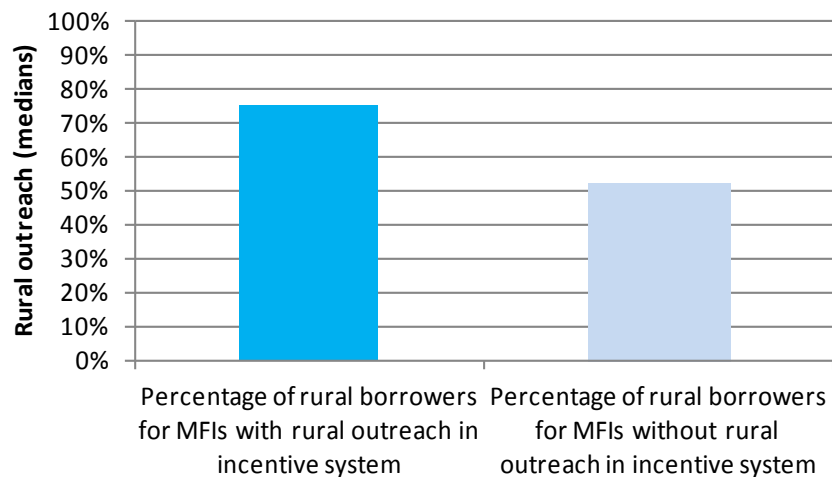
The use of group lending in ECA grew; the share of group loans rose from 19% in 2008 to 23% in 2011 in terms of loans outstanding. However, group loans only account for 5% of the total GLP, signaling lower average balances.

Kyrgyzstan, Kazakhstan, Azerbaijan and Tajikistan are the markets with over 20% of loans in group lending. Kyrgyzstan leads with over 85% of loans through group lending.

Source: MIX Market, 2013. View female outreach data [here](#).



The share of rural borrowers has increased from 54% in 2008 to 66% in 2011, while GLP in rural loans has decreased from 53% in 2008 to 51% in 2011. This signals decreasing average loan balances in rural areas.

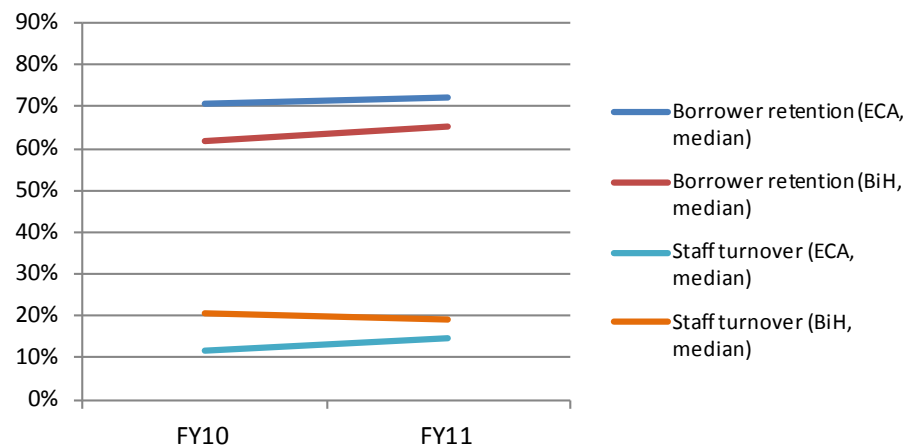


MFIs that offer incentives (bonuses) to loan officers for increasing rural outreach clearly have stronger rural outreach than MFIs that don't offer the same incentive. MFIs with a rural target in their incentive systems have a 22% higher share of active rural clients relative to MFIs without this incentive.

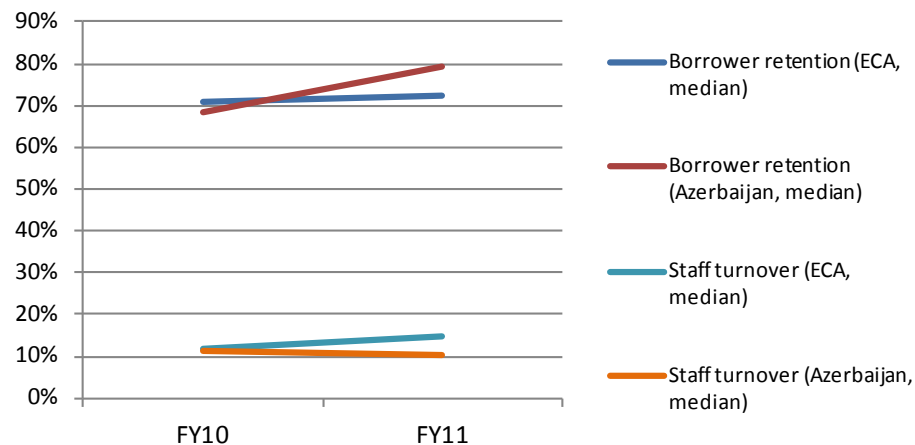
Source: MIX Market, 2013.

Does staff turnover affect client retention rate in ECA markets?

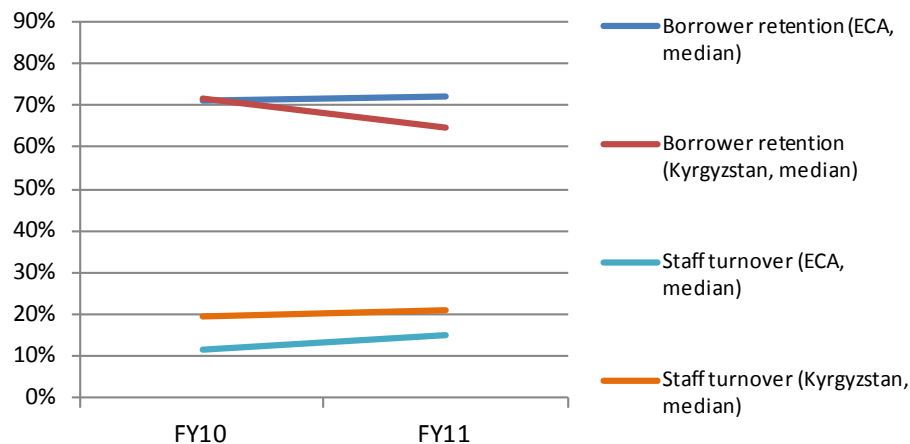
Bosnia and Herzegovina vs ECA



Azerbaijan vs ECA



Kyrgyzstan vs ECA



It is widely believed that lower staff turnover yields a higher client retention rate. Reason? Client loyalty depends on the relationship with staff, and new staff do not always maintain relationships with old clients.

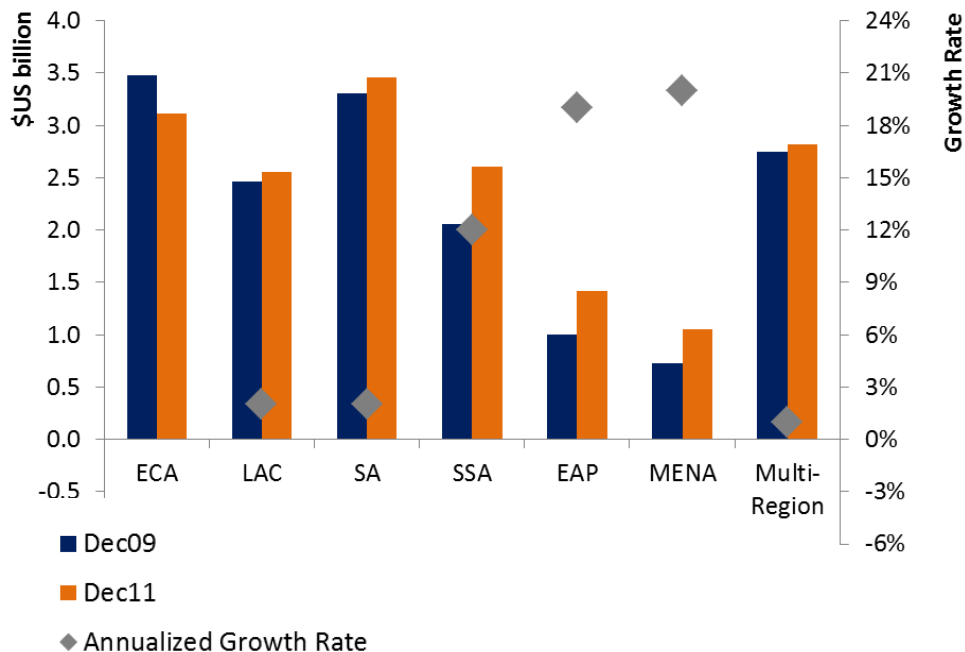
While the broader ECA region does not fit this relationship, the three biggest microfinance markets in the region do. In these markets, a decrease in staff turnover from 2010 to 2011 matched an increase in the client retention rate (Kyrgyzstan demonstrates the inverse relationship).

Source: MIX Market, 2013. View client retention and staff turnover data [here](#)

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Regional Allocation of Total Commitments, 2009-2011



Cross-border funding includes funders' commitments for debt financing, equity and grants to all levels of the financial system (retail, market infrastructure and policy).

To see a definition of commitments click [here](#).

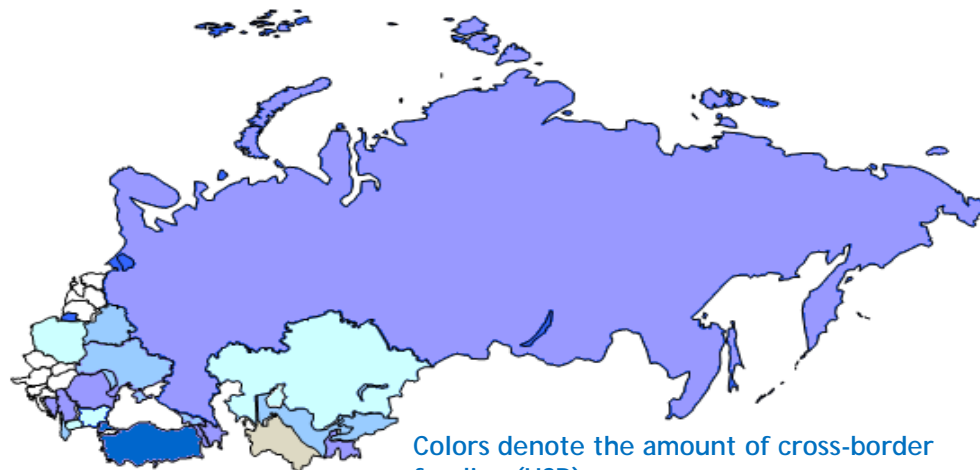
Source: Graph taken from [2012 CGAP Cross-Border Funder Survey](#).

- SA, ECA, and LAC continue to be the regions that receive the highest amounts of cross-border funding (a combined 60% of total commitments).
- Commitments in the ECA region decreased by 5% per year on average between 2009 and 2011 to reach US\$3.1 billion.
- In contrast, commitments to SSA, MENA, and EAP increased during the same period.

Cross-Border funding for microfinance in most ECA countries is decreasing

Commitments by Country* (as of Dec. 2011, and 2009/2011 Trend)

Dec 2011	Country	09/11 Growth	
\$300 - \$499 mln	Turkey	↑	
	Russia	↓	
\$100 - \$299 mln	Serbia	↓	
	Azerbaijan	↓	
	Bosnia	↓	
	Tajikistan	↑	
	Armenia	↓	
	Romania	↓	
	\$50 - \$99 mln	Ukraine	↓
		Kyrgyz Republic	↑
Uzbekistan		↑	
Georgia		↓	
Mongolia		↓	
Belarus		↓	
Albania		↓	
Moldova		↓	
\$2 - \$49 mln	Kazakhstan	↓	
	Bulgaria	↓	
	Poland	↑	
	Montenegro	↓	
	Kosovo	↓	
	Macedonia	↓	
	Turkmenistan	↓	



Colors denote the amount of cross-border funding (USD)

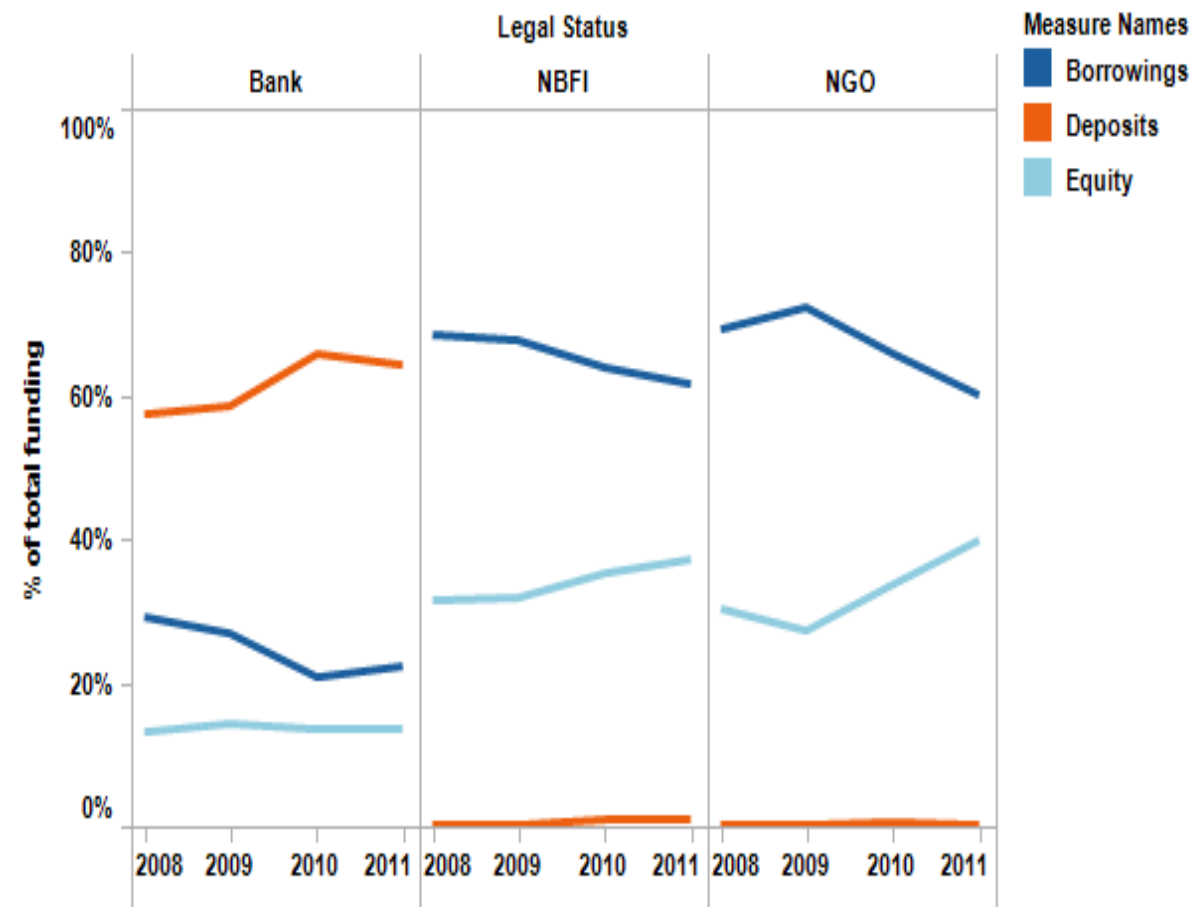


Cross-border commitments decreased in 2/3 of countries in ECA as more projects were closed in 2011 than new projects were started. Cross-border funding is being reallocated to other regions.

* Country allocation is available for 75% of ECA commitments

All data and graphs from the [2012 CGAP Cross-Border Funder Survey](#).

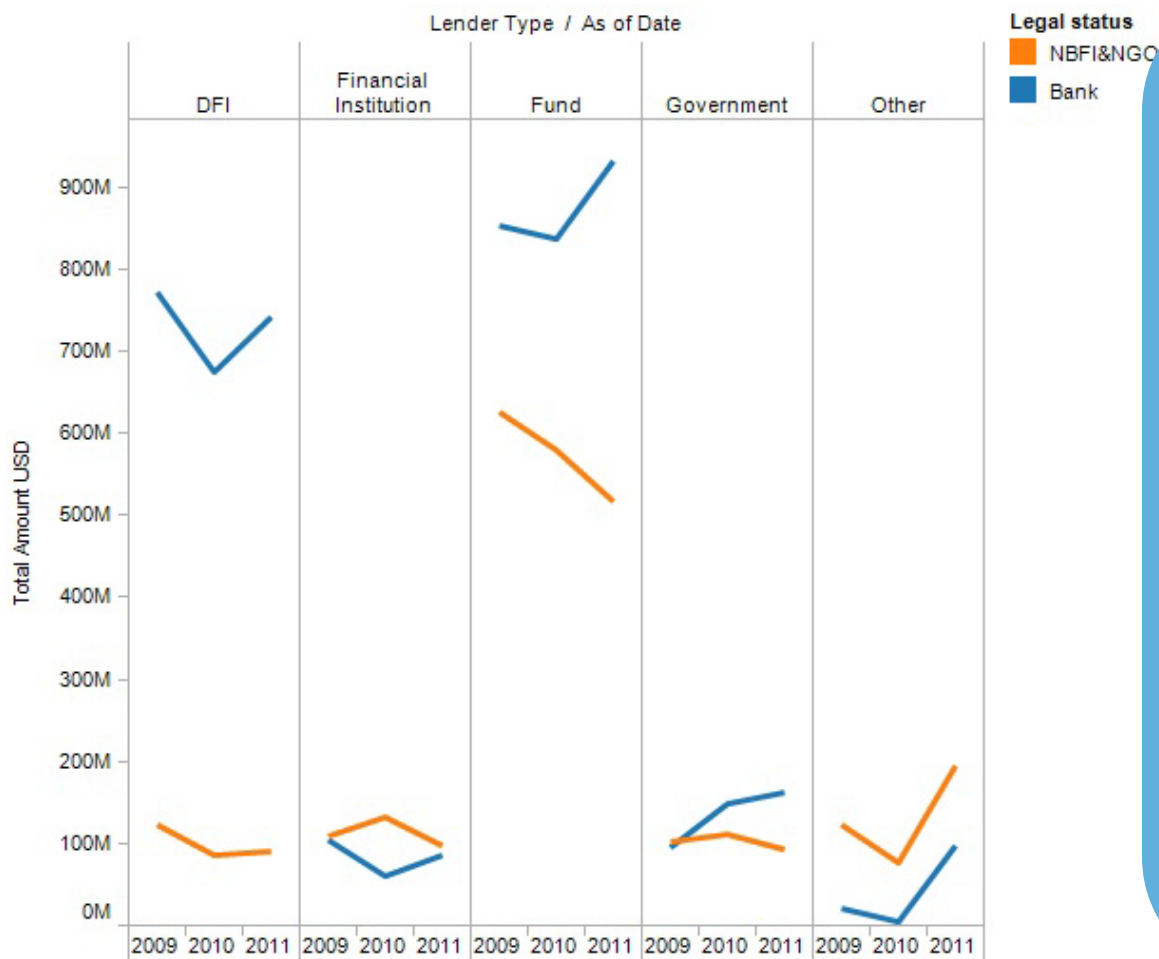
Funding structure for MFIs: Equity investments continue to grow?



Reliance on deposits as a funding source by banks decreased in 2011, compensated by a small increase in borrowing. This change is driven by several banks in Central Asia.

Equity levels for NBFIs and NGOs continues to increase sharply since 2009. This was led by increasing retained earnings for Georgian NBFIs and Bosnian NGOs; and sharp increases in paid-in capital for big NBFIs in Kazakhstan and Russia, as well as BaiTushum & Partners (Kyrgyzstan) as it prepares to transition from an NGO to a bank.

Borrowings decreased for both NBFIs and NGOs. Bosnia's microfinance meltdown is the main reason for the decrease in borrowings for NGOs.



Each type of funder increased their debt funding to banks during FY 2011. The trend is heavily driven by funds and DFI investments in Georgia, Armenia and Mongolia.

Financial institutions, governments and funds decreased their presence in NBFIs and NGOs in 2011. The main reason for the trend is the lack of investor confidence in the Bosnian market, whose recovery from the crisis has yet to be confirmed. [Bosnia](#) accounted for over 42% of the [total ECA borrowings](#) in 2008. Currently, the share slipped to 21% of the total regional funding.

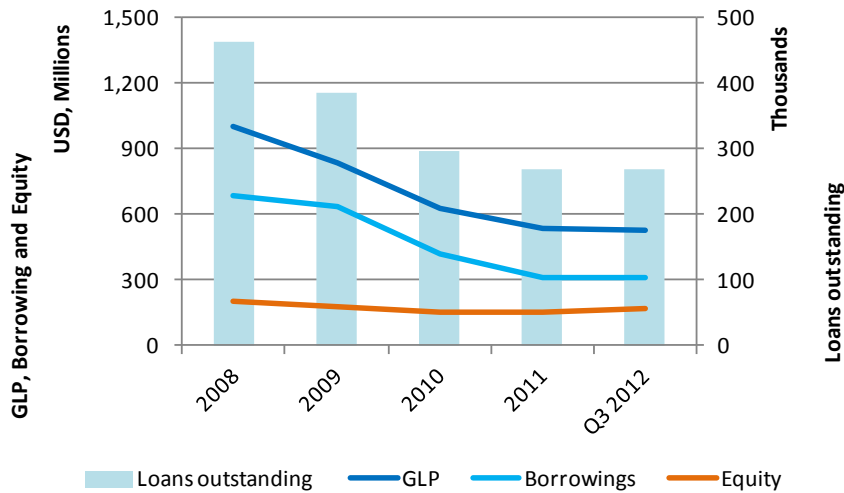
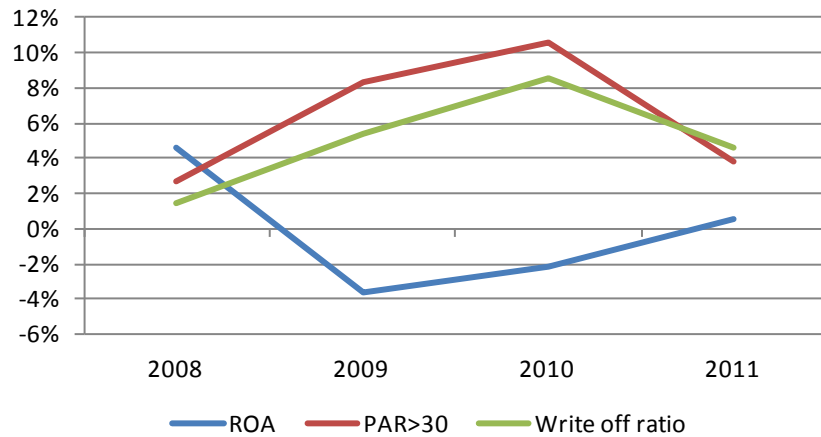
Finally, cross-border debt financing is 90% of all debt financing in ECA, a trend which has not changed for the last three years.



Source: MIX Market, 2013. View the graph data [here](#). Fund lender type category is comprised of local funds and cross-border microfinance intermediaries (MIs).

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In Bosnia, PAR figures and the write-off ratio significantly decreased, thus helping Bosnian MFIs become profitable for the first time since 2009. A [report](#) on the microfinance sector by the Banking Agency of the Federation of Bosnia And Herzegovina, however, argues the validity of presented figures.

Although profitability and risk figures were quite promising, Bosnian MFIs' GLP and outreach continued to drop until 2011. Through the first three quarters of 2012, both figures have remained flat.

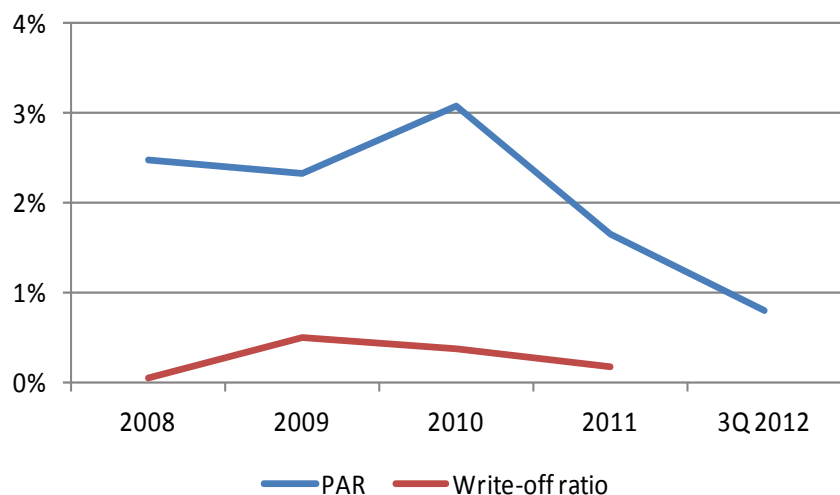
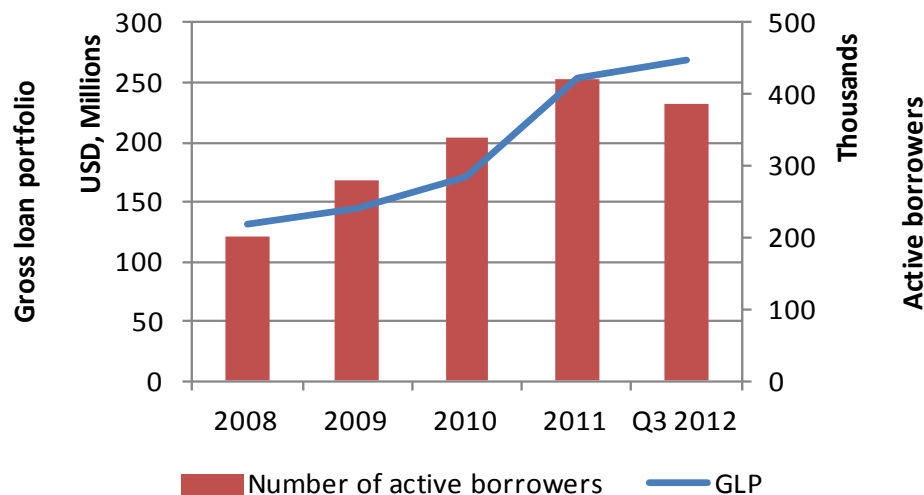
Borrowings have steadily decreased for MFIs in Bosnia & Herzegovina. Meanwhile, equity grew in 2011 and 2012, as profitability positively affected retained earnings.

[Average loan balance per borrower](#) also continued to shrink by 8% in 2011. This proves that the market is taking a conservative approach to lending and using security measures against further over-indebtedness.

Source: MIX Market, 2013. View Bosnia & Herzegovina profitability and portfolio quality data [here](#). View growth data [here](#)

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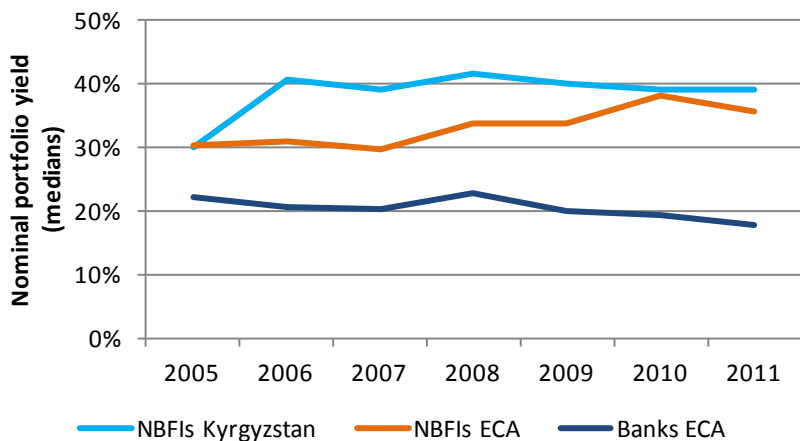
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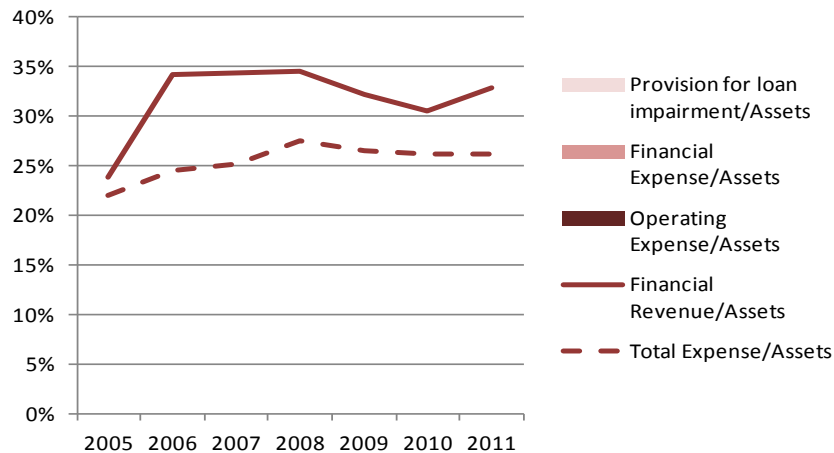
The GLP and number of borrowers in Kyrgyzstan's NBFi market grew steadily in recent years. Despite positive trends in portfolio quality, concerns grew regarding multiple borrowing and potential over-indebtedness risks.

In the first 3 quarters of 2012, the MFI Bai Tushum, who recently received a license to become a bank, experienced a decrease in borrowers but an increase in GLP. They were able to do this by targeting wealthier clients.

Source: MIX Market, 2013. View market growth data [here](#). View portfolio quality data [here](#).



Throughout the past year, NBFIs gained the National Bank's attention over public concerns regarding high interest rates. The NBKR has opted in favor of market-based tools to influence rates instead of setting interest-rate ceilings. Nevertheless, the NBKR also increased loan provisioning standards and limited the fees charged to borrowers for late payments.

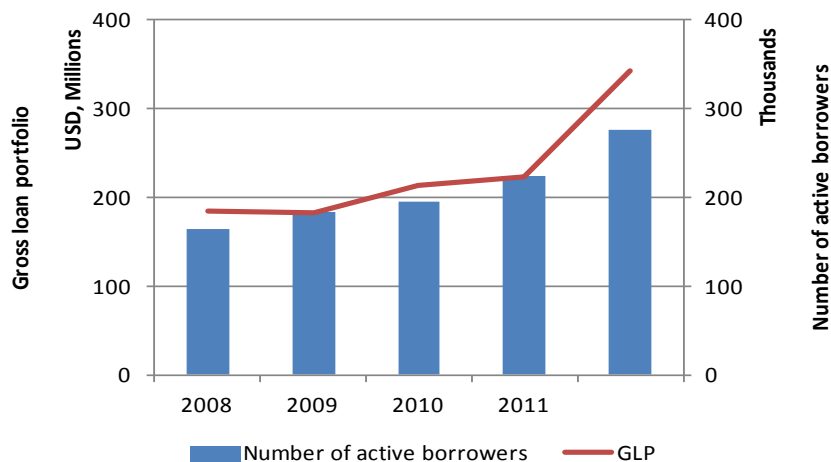


For NBFIs, total expenses as a percentage of total assets have slowly decreased since 2008, mostly resulting from the financial expense-to-assets ratio falling by nearly 1.5%. The driving forces behind this trend has been decreasing funding costs, as Kyrgyzstan has attracted much of its funding from international investors in the past few years. As such, funding costs have gone down.

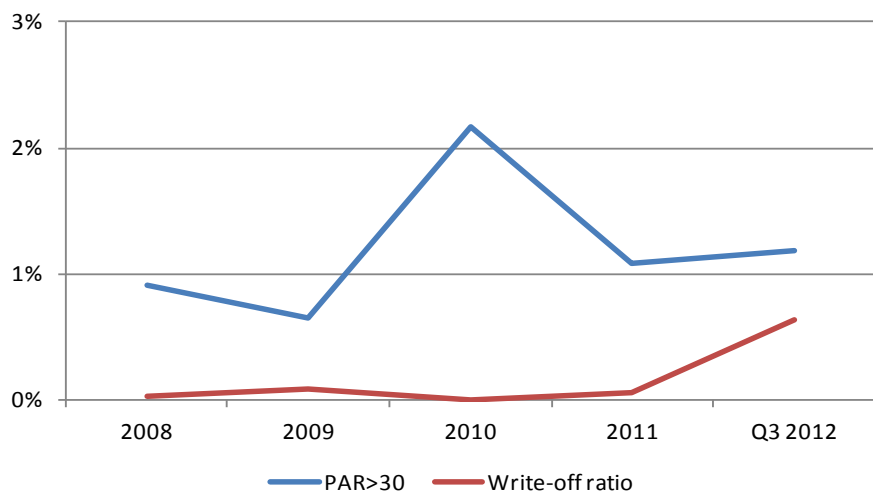
Source: MIX Market, 2013. View the 1st graph data [here](#). View the 2nd graph data [here](#)

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NBFIs in Azerbaijan consistently grew in the past few last years. Portfolio quality significantly improved since 2010, and the write-off ratio remained very low. In 2012, the sharp increase both in active borrowers and GLP confirms the untapped potential of the market.

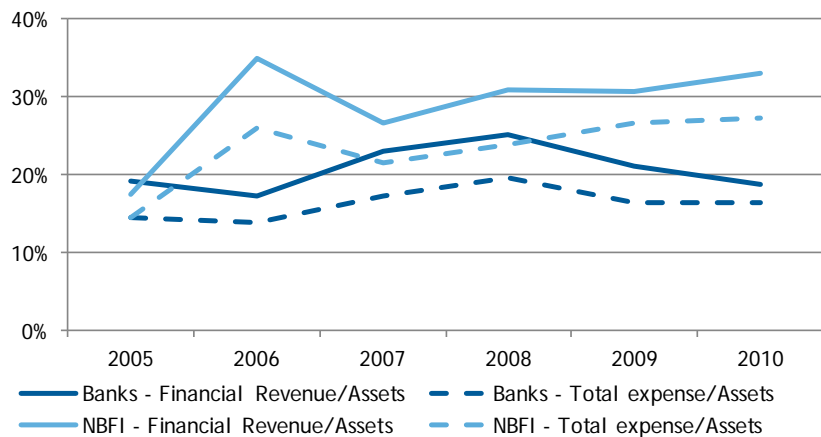
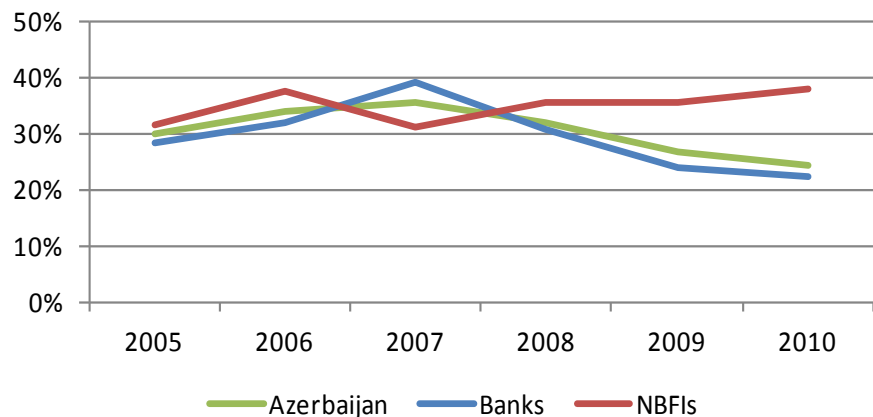


AMFA has been actively working on developing a code of conduct for market players to set practical guidelines for responsible sector behavior.

AMFA requested assistance from MIX on analysis of pricing components.

Source: MIX Market, 2013. View market growth data [here](#). View portfolio quality data [here](#)

Nominal Yield on GLP (weighted averages)



Not all [banks included in the analysis](#) are major players in the microfinance sector and compete with other banks across numerous product lines. This competition has led banks to drop their rates, and in turn their yields, to better compete with their peers. The nominal yield reflects the entire product scope of banks and does not distinguish the microfinance portion. The yield decrease for banks does not necessarily mean lower prices for microfinance clients borrowing from banks.

NBFIs have not had the same pressure to reduce rates and have kept margins steady as expenses continue to increase. The expenses have been increasing ever since NBFIs started paying payroll taxes added by extra costs in 2011 for the use of a centralized credit registry. Margins have been steady because costs have also gone up. Usually, the costs faced by microfinance-focused institutions can vary significantly from the larger banks.

Source: MIX Market, 2013. View the slide data [here](#)

1. Positive trends in portfolio quality and profitability figures along with the growth in borrowers and loan portfolio in ECA signal a regional recovery from the crisis.
2. ECA improved in social performance reporting by representing 21% of global reporting to MIX.
3. MFIs in the ECA region increased outreach in rural areas, as group lending remains a priority methodology in Central Asia.
4. ECA cross-border funding has decreased by average 5% each year since 2009, but equity is growing for both NBFIs and NGOs.
5. The Azerbaijani microfinance sector continues to grow, as the Bosnian market seems to start recovering from the crisis. Ongoing regulatory changes in Kyrgyzstan are expected to bring changes to the sector's performance.

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