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MICROFINANCE ANALYSIS AND BENCHMARKING REPORT

Uzbekistan 2009

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A report from NAMOCU with support from a project of UNDP Uzbekistan
"Support to microfinance sector development" and Microfinance Information Exchange (MIX)

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March 2011

INTRODUCTION

⇨ ***The Uzbek sector is still relatively isolated from global microfinance markets, which results in limited funding, stunts growth and drives interest rates high.***

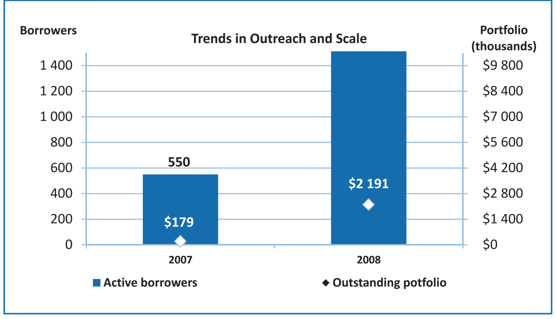
⇨ ***Given the importance of small businesses in Uzbekistan's economy, there is a large unmet demand for microcredit***

⇨ ***Due to a restrictive regulatory environment MFIs have a lot of limitations to their growth and sustainability but the passing of new laws and further improvement of the regulatory base and the growth of number of providers is encouraging.***

The development of microfinance in Uzbekistan started with the government strategy to support development of private entrepreneurship, and small and medium size businesses in the country launched at the end of 1990s. These efforts were accompanied by the pilot projects on microcrediting of the poor households via international microfinance programs implemented by NGOs starting from 1998. These NGO programs were supported by international donors starting in 1998, when the first microcredit program was initiated by the United Nations Development Programme (UNDP) in the Kashkadarya and Karakalpakstan regions.[1] Since then the microfinance sector of Uzbekistan experienced significant growth both in terms of number of institutions and number of borrowers. As of 1st of January 2010 microfinance services were provided by 32 microcredit organizations (MCO), 102 credit unions (CU)[2], specially designated microfinance bank – Mikrokreditbank and a couple of downscaling commercial banks.

The adoption of the laws "On microfinance" and "On microcredit organizations" at the end of 2006 served to the strengthening of legal base of microfinance activities and resulted in the creation of commercial microfinance institutions (MFIs) throughout the country. Similarly after initially slow progress in establishing MCOs, the number of institutions increased twofold in 2008 (up to 26) in comparison with 2007.

Figure 1: Trends in number of active borrowers and loan portfolio of MCOs



However the global financial-economic crisis as well as recent regulatory restrictions in 2009 put new pressures on MCOs' opportunities for attracting external funding, resulting in more commercialization and tension on pursuing their outreach and social missions.

In order to mitigate the consequences of the global financial crisis the government of Uzbekistan adopted at the end of 2008 a

1 Other international donor support included financing for microfinance from the Asian Development Bank, USAID, EBRD, KfW.

2 www.cbu.uz

large-scale anti-crisis program[3]. The program, included substantial public investments, tax preferences to exporting industries and SMEs (small and medium size enterprises), increases in public sector wages, and recapitalization of commercial banks[4].

The undertaken measures helped to secure the macroeconomic stability and stable rates of the economic growth. As result, GDP has further increased and the country's economic growth rates were 9% in 2008[5] and 8.1% in 2009[6]. Over the last six years the number of active small businesses increased 1,9 times to about 400,000 in 2008. Also, inflation has been on a downward trend despite inflationary pressures related to the exchange rate policy of the Central Bank of Uzbekistan.[7]

The share of small businesses in GDP has increased from 45.5% in 2007 to 48.2% in 2008 and 50% in 2009. 76% of total employed population was occupied in this sector. (footnote 5&6)

Figure 2: Number of new jobs created in 2008-2009

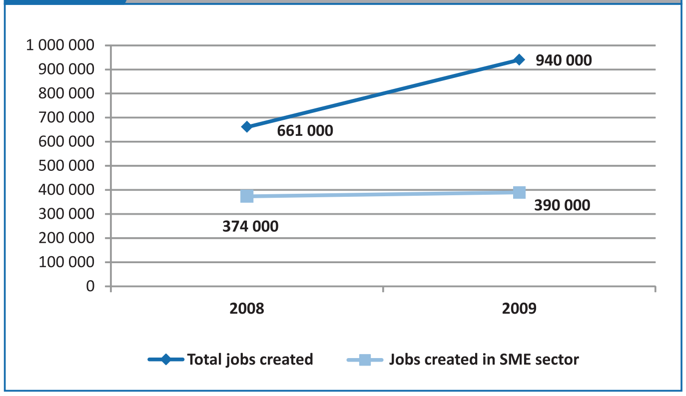


Table 1.	Macroeconomic indicators for Uzbekistan, 2006-2009			
Macroeconomic indicators[8]	2006	2007	2008	2009
GDP (billion USD)	$17,027	$22,307	$ 28,605	$32.816
GDP per capita (USD)	$636.3	$821.1	$1,038.19	$1,175.71
Population (million)	26,312.7	26,663.8	27,296.7	27.911
Inflation rate (end of period)[9]	6.8%[10]	6.8%	7.8%	7.2%
Real GDP growth	7.3%	9.5%	9%	8.1%
Exchange rate Uzbek Soum: USD	1,240	1,291.2	1,393	1,511.4

Source: www.economywatch.com (IMF, World Bank, UN, OECD), www.statistics.uz, Central Bank of Uzbekistan

Given the importance of small businesses in Uzbekistan's economy, there is a large unmet demand for microcredit - overall shortage of microcredits in Uzbekistan might approximate 500 mln.USD[11]. Although MCOs are theoretically in the position to meet the needs of microborrowers, their further development is constrained by external factors such as the negative effects of the global financial crisis (the crisis affected them through reduced repayment capacity of clients) and internal factors such as the lack of access to diversified sources of funding, regulatory complications of opening new branches and restrictions on development of new products as well as underdeveloped infrastructure. These constraints resulted in further impediments for the microfinance sector in Uzbekistan:

Although the number of MCOs has increased 2.3 times in 2009 in comparison with 2006 their assets remained nearly the same in nominal terms as in 2006, and the overall figure is very small ($5 million) in relation to the needs of the micro and small business sector[12];

The outreach of MCOs also narrowed. In 2009,

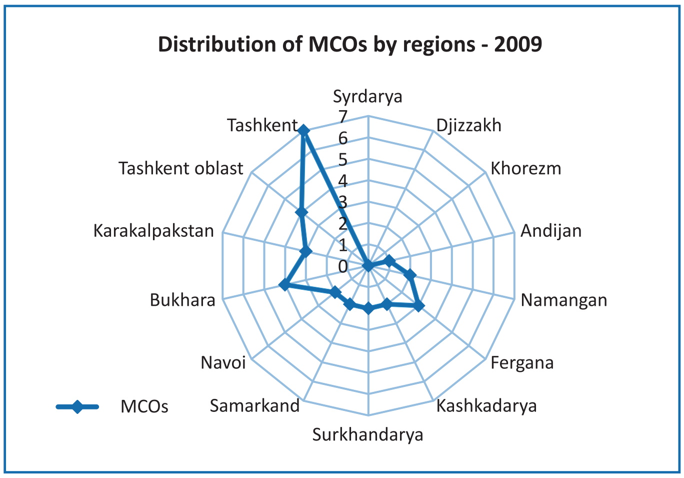
3 I.A.Karimov, «Global financial-economic crisis, ways and measures of its overcoming in the conditions of Uzbekistan"
4 "Macroeconomic and sectoral analysis (Uzbekistan: Second small and microfinance development project)", ADB
5 Report of the President of Uzbekistan at the cabinet meeting on the results of socioeconomic development of the country in 2008 and major priorities of the economic program for 2009.
6 Report of the President of Uzbekistan at the cabinet meeting on the results of socioeconomic development of the country in 2009 and major priorities of the economic program for 2010
7 "Macroeconomic and sectoral analysis (Uzbekistan: Second small and microfinance development project)", ADB

8 www.economywatch.com (IMF, World Bank, UN, OECD, CIA World Factbook), Central Bank of Uzbekistan, www.statistics.uz
9 As per other statistics the inflation rates were 14.2% in 2006, 12.3% in 2007, 12.7% - in 2008 and 14.1% - in 2009, www.economywatch.com
10 Official rate
11 Technical Note of World Bank "Development of microfinance in Uzbekistan", 2007
12 The demand of total credit to micro and small business,—which is not being met—approximates to $5 billion, according to ADB estimates.

the number of active clients was only 35% of its number in 2006;

Legal restriction on the acceptance of deposits by MCO, limitations on attracting external foreign donor funding and investments, an absence of mechanism of interaction of official banking sector with MCOs and the lack of collateral necessary to obtain loans from the local commercial banks, made the interest rate on MCO loans almost the single source for increasing their loan portfolio. As a result, MCOs substantially increased their interest rates on microloans, and the average loan sizes more than doubled between 2006 and 2009. Median portfolio yield for MCOs was at 65.3% in 2009, almost double than that of their peers in Central Asia.

In addition, MCOs are unevenly distributed within the 12 regions of Uzbekistan. Almost 35% of MCOs concentrated their activities in the capital city of Tashkent and Tashkent region due to the concentration of capital here and increasing trend of migration from rural to urban areas.



LEGAL AND REGULATORY ENVIRONMENT

⇨ ***The adoption of the laws "On microfinance" and "On microcredit organizations" inspired continuous founding of new for-profit MCOs throughout the country***

⇨ ***The regulatory environment put limitations on the further strengthening and sustainability of the sector***

⇨ ***Uzbekistan's MFIs will be connected to the national credit bureau***

The decrees of the President of the Republic of Uzbekistan on "Supporting development of private entrepreneurship, small and medium size business and credit lines of the international finance institutions (EBRD, ADB, KfW)" laid the grounds for bank microcrediting. The microcrediting activities of the commercial banks were given further impulse by the Presidential Decree "On measures of further development of private entrepreneurship, small and medium size business" (#UP-1987) in 1998.

The development of the credit unions was initiated by the government of Uzbekistan and implemented by WOCCU with support from Asian Development Bank in 2000. The Law "On credit unions" passed in 2002 allowed the credit unions to provide credits of different types (loans, microcredits, consumer credits and credits of larger size in accordance with the regulatory requirements), mobilize deposits of their members, and provide leasing and information-consulting services. In accordance with the requirements of the legislation the Central Bank of Uzbekistan conducts the state registration and licensing of the credit unions. Based on the legislation, the framework of supervision and regulation of the credit unions' activities was developed, including provisions on procedures of the state registration and licensing, conducting of financial operations, financial reporting and accounting regulations.

The results of implementation of UNDP pilot microfinance projects helped to create the basis of a national legislation - Resolution of the Cabinet of Ministers of Uzbekistan "On measures of microfinance development in Uzbekistan" #309 passed in 2002, after acceptance of which the number of MFIs operating in the country with the help of international NGOs reached 14 in 2006. However the resolution did not govern the creation of commercial MFIs allowing provision of microfinance services only to international NGOs. In addition, the practice of working without the law as well as the legal and regulatory violations in the activities of NGO-MFIs led to the termination of operations of some of them in 2006.

In order to formalize the sector, the new Law "On microfinance" and "On microcredit organizations" was introduced at the end of 2006. In the same year Mikrokreditbank was created by the government by reorganizing the former commercial "Tadbirkor" bank. The Law "On microfinance" defined the expanded legal notion of microfinance, which included provision of microloans, microcredits and microleasing.

№	Notions	Size
1	Microloan	Not exceeding 100 times minimum salary, established by government
2	Microcredit	Not exceeding 1,000 times minimum salary, established by government
3	Microleasing	Not exceeding 2,000 times minimum salary, established by government

The minimum salary at the end of 2009 was 37,680 soum ($29.4)

It also specified the range of organizations allowed to provide microfinance services to include commercial banks, credit unions, microcredit organizations, pawn shops and other credit institutions. As of 2006 the legal base regulating the microfinance activities of credit institutions is as follows:

№	Credit institutions	Laws regulating microfinance activites
1	Microcredit organizations	Law "On microfinance", Law "On microcredit organizations"
2	Credit unions	Law "On microfinance", Law "On credit unions"
3	Commercial banks	Law "On microfinance", Law "On banks and banking activities"

The adoption of the law "On microcredit organizations" inspired the founding of new MCOs funded by domestic private investments and organized as for profit businesses. MCOs are allowed to be organized in any organizational-legal form. After going through the state registration they to the laws and normative are required to obtain a license from the Central Bank of Uzbekistan. MCOs were allowed to provide microloan, microcredit, microleasing, consumer credit, factoring, and information-consulting services related to microfinance activities. In addition, because of contradictions between the Law "On microcredit organizations" and Law "On non-government non-commercial organizations" the non-profit MCO option became not feasible.

A major step in developing the conceptual basis for microfinance in the country was adoption of the Cabinet of Ministers' Resolution number 114 On "Program of microfinance development in Uzbekistan up to 2010" on 8th of June 2007. The main purpose of the program was the implementation of measures on the development of microfinance in order to increase access of wide sections of the population to the microfinance services. Resolution 114 provided for expansion of the MCOs and credit unions network in all regions of the country. However not all the intended goals and planned targets of the program, especially on regional allocation of MCOs and credit unions, were achieved.

Based on the program, the primary regulatory provisions for MCOs were developed, including regulations on licensing their activities, rules on conducting cash operations, requirements for financial reporting and accounting, and qualifications of management as well as changes to the documents regulating activities of the credit unions.

However these regulations are limiting the growth of MCOs' sector in the following ways:

Opening a new branch of an existing MCO is as costly as opening a new MCO, due to requirements on cash offices equipment and on conducting 2 years of financially sound (profitable) activities prior to opening a branch;

Monthly reporting and accounting documentation requirements were complicated, and contradictions between the different regulatory acts resulted in high operating costs for MCOs;

Qualification requirements made it difficult to find suitable candidates for the manager positions due to early stage of development of the sector and limited technical assistance availabilities; moreover MCOs were reluctant to change non-performing managers due to required lengthy approval process of the new managers by the Central Bank;

Lack of mechanism for attracting grants and loans from foreign and international organizations directly remains a key constraint, while the allowed mechanism through Mikrokreditbank (Mikrokreditbank was assigned as a single device to attract and reallocate the grants and loans for microfinance to the credit unions and microcredit organizations on competitive basis) is not operational.

The issuance of the CBU Rules "On internal control for anti money laundering and financing terrorism in non-banking credit organizations" at the end of 2009, created new requirements on registration and monitoring of suspicious transactions, making appropriate authentication of clients. This put additional load on non-bank credit organizations (MCOs and credit unions) in terms of internal control staff and on upgrading software for tracking the required information. So this also might add to the level of their operational expenses in future.

While the Uzbek MCOs were willing to attract deposits due scarcity of other realistic financing alternatives, the current legal and regulatory framework did not provide for an option of their transformation into deposit taking institutions. Seeking funding from individuals by MCOs in the absence of other sources led to 'quasi-deposit' situation although the sector is too small to present any system risk via quasi-deposit taking. However, insufficient technical and staff capacity, inappropriate system of risk management and weak financial sustainability evidences that MCOs are not capable to manage deposit-taking activity in a professional manner.

As of 2009 two bureaus of credit information exchange - National Institute of Credit Information (NICI) and Interbank Credit Bureau – were functioning in Uzbekistan; however; MCOs and credit unions were not connected to them. Project ACAFI of IFC launched in 2009 continued efforts on developing and adoption of Law "On activities of credit bureaus and exchange of credit information" while the Financial Sector Development Agency under CBU started work on connecting MCOs and credit unions to NICI with the support from ADB and GIZ.

OUTREACH AND SCALE

⇨ ***The number, outreach and loan portfolio of Uzbek MFIs was on a path of highly positive growth prior to 2006 but in the coming years it has decreased significantly due to scarcity of funding***

⇨ ***Uzbeks MFIs offered the lowest loan balances in USD however depth of outreach was similar to that of peers in the Central Asia region***

⇨ ***Provision of microfinance services concentrated in the capital city and nearby region***

The financial sector of Uzbekistan comprises 30 commercial banks, including specialized Microcreditbank, 102 credit unions (CU), 32 microcredit organizations (MCO), and 48 pawn-shops as of 1st of January 2010[13]. Microfinance services are provided by CUs, MCOs, Mikrokreditbank (specially designated by the government for the provision of microcredits) and a couple of other downscaling banks.

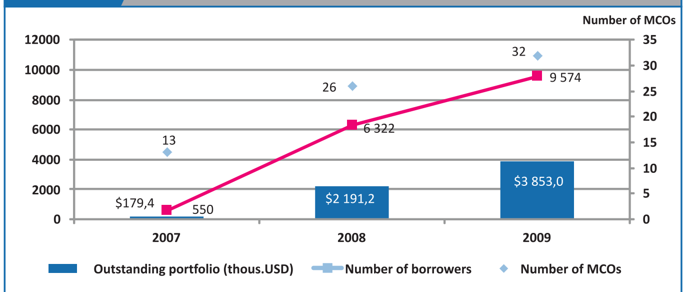
For MCOs and credit unions microfinance is the core business. According to Uzbek laws, MCOs are not allowed to attract deposits and cannot directly receive grants or loans from foreign companies and international organizations.

13 www.cbu.uz

Table 2	Microcredit and Microdeposit services in Uzbekistan as of 1 January 2010								
Micorfinance providers	Profit status	Legal Status	Number of institutions	Number of borrowers	Portfolio in thous USD	Avg. loan balance, USD	Number of depositors	Deposit in thous. USD	Avg. Deposit Balance, USD
Specialized Microfinance Bank	Profit	Bank	1	51 074	165 001	3 231	56 540	85 456	1 511
Downscaling bank	Profit	Bank	2	7 478	37 409	5 003	-	-	-
Microcredit Institution (MCO)	Profit	NBFI	32	9 574	3 853	402	0	0	0
Credit Union	Profit	Credit Union	103	52 965	121 792	2 300	153 063	100 131	654
Total			138	121 091	328 055		209 603	185 587	

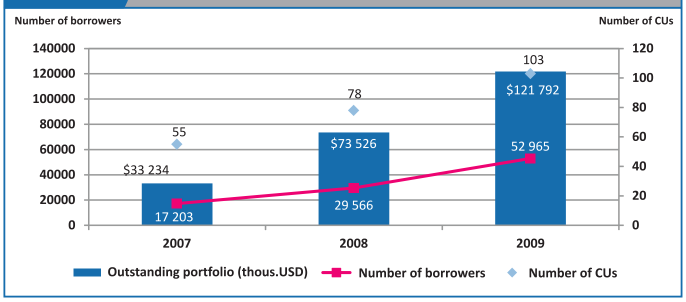
After withdrawal of donor support from the market in 2006, the number of microfinance borrowers in MCOs went down substantially: in 2008 it comprised only one forth of the level reached in 2005[14]. At the same time, the outstanding portfolio diminished by slightly more than half. However, in 2008, the growth in the number of borrowers was 11,5 times and in the loan portfolio 13 times in comparison with 2007, and the number of MCO institutions doubled. In 2009 the growth rate has slowed down – the number of MCOs increased only 1.2 times, number of active borrowers – 1.5 times and outstanding portfolio – 1.9 times in comparison with 2008 because of scarcity of financing. The share of total credit portfolio of MCOs in comparison with the total microfinance portfolio of all microfinance providers in the country is insignificant (around 1%[15]). (See Figure 4)

Figure 4: MCOs' growth trends



In contrast, the development of credit unions continued to be steady due to the legal base for their activities was created taking in account the international practice and under support of WOCCU. The system of the credit unions have demonstrated sustained growth from the very beginning as a result of government support, stable increase of funding base through accepting domestic deposits (higher interest rates on deposits of credit unions in comparison with banks made them more attractive for population), and higher returns in this business attracting more and more domestic investors (see Figure 5)

Figure 5: Cus' growth trends



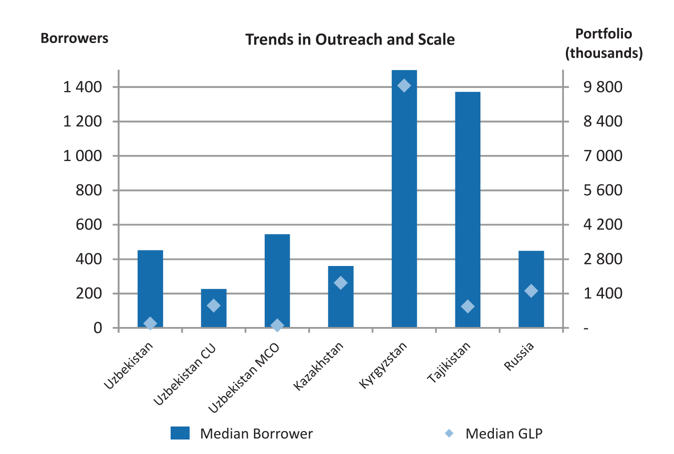
Uzbekistan's MFI sector in the Central Asia region

The Uzbekistan microfinance market is the smallest in Central Asia in terms of both absolute numbers and penetration rate. Uzbekistan is characterized by proliferation of small institutions in the market as the other countries of Central Asia and the Uzbek MFIs represent the smallest institutions in the region with median GLP (gross loan portfolio) at 179,240 USD. In terms of median number of borrowers Uzbek MFIs represented on MIX are most similar to Kazakh and Russian MFIs.

Uzbek MFIs offered the lowest loan balances in USD in the region at $358 for MCOs. However the depth of outreach measured as average loan balance as percentage of GNI per capita was pretty similar with the peers in the region. MCOs offer much smaller loan

14 "Microfinance Development in Uzbekistan", Working Paper 2005/01, UNDP/CER, 2005
15 1.14%

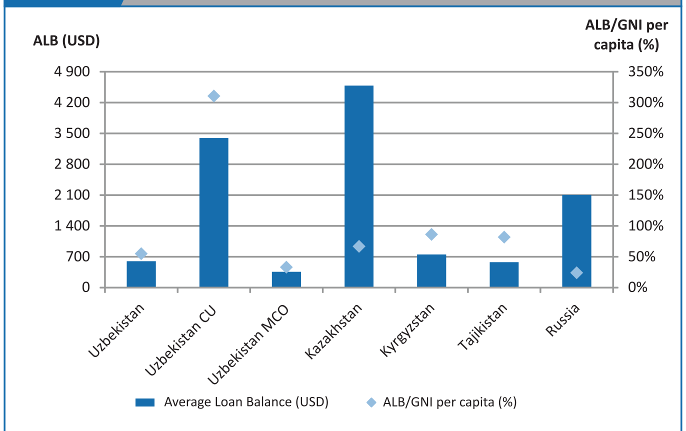
Figure 6: Number of Borrowers and Gross Loan Portfolio for a median MFI in Central Asia and Russia



Source: MIX Market, 2009. Data represent medians.

balances than credit unions in Uzbekistan due to legal restriction on size of microloans and microcredits which can be disbursed by MCOs in comparison with credit unions, which can provide larger credits.

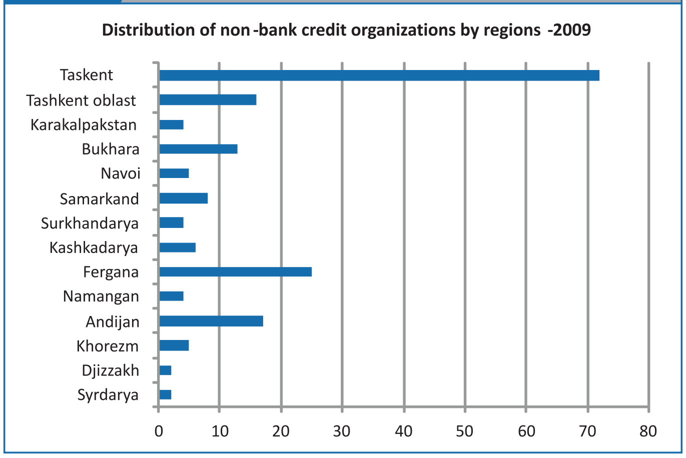
Figure 7: Avergale Loan Balance (USD) and Average Loan Balance as Percentage of GNI per Capita



Source: MIX Market, 2009. Data represent medians.

In 2008 almost 27% of MCOs concentrated their activities in the capital city of Tashkent and Tashkent region and others were working in the regional rural areas with 19% in Fergana Valley (footnote 1), but the weight of MCOs located in Tashkent and Tashkent region increased up to 35% in 2009 due to the concentration of capital here and increasing trend of migration from rural to urban areas—especially to the capital city of Tashkent and narrowed opportunities for external migration because of effects of financial crisis[16]. This is evidenced also by high concentration of credit unions also in Tashkent and Tashkent region 37% in 2009.

Figure 8: Distribution of non-bank credit organizations (MCOs and CUs) by the regions in 2009



FUNDING OF MFIs IN UZBEKISTAN

⇨ ***Shortage of both external and internal funding put the Uzbekistan's MFIs in a strain on expanding their outreach and increasing efficiency in 2009***

⇨ ***Donor and international financial institutions are showing increased interest in the microfinance sector of Uzbekistan***

Commercial banks, which funded provision of microcredits with almost 92% from own funds enjoyed access to funding from state off-budget funds like Employment Assistance Fund, the Fund of support to farms, as well as credit lines of foreign financial institutions (especially from EBRD, ADB, and KfW). According to the Central Bank of Uzbekistan, total loans granted by commercial banks to micro and small businesses amounted to $897.9 million in 2008 and $1.2 billion in 2009.[17] In contrast, the credit unions funded their microfinance services from their local deposits base and from borrowings from the commercial banks, while MCOs from equity funds and loans from local legal and natural entities. Although MCOs are not limited legally to access the

16 In 2009 number of urban population for the first time exceeded the number of rural population, "Uzbekistan anthology", CER, 2010

17 "Macroeconomic and sectoral analysis (Uzbekistan: Second small and microfinance development project)", ADB

above mentioned off-budget funds, the interest rates required by the funds on the credits to be provided are at a subsidized level of 16%-45% of refinancing rate which was 14% annually in 2009, so the MCOs cannot lower their interest rates to levels that would make them eligible to access these funds as lower rates will not sufficient to cover their high operational expenses.. Moreover, borrowers can access such credits at the lower rates from the commercial banks at larger sizes.

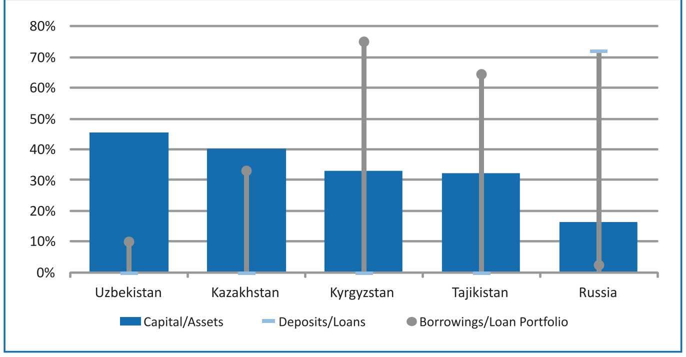
In addition, Mikrokreditbank represented throughout the country received subsidized government funding for provision of microcredits at lower rates of 3-7% per annum in order to stimulate the establishment and development of small and medium business. Mikrokreditbank was assigned as a single device to attract and reallocate the grants and loans for microfinance to the credit unions and microcredit organizations on competitive basis[18]. However the efforts in this direction were not successful: taking in account that Mikrokreditbank was one of the microfinance market players, defining it as an intermediary for reallocation of the donor funds was not accepted by the donor and international financial institutions as a limitation of the competition.

While MFIs across Central Asia enjoyed influx of foreign lending, Uzbekistan's MFIs had limited access to both foreign and domestic borrowings due to regulatory barriers on attracting foreign funding and lack of mechanism of cooperation between the local commercial banks and MCOs.

Uzbekistan's MFIs had the highest capital to assets ratio at 45% in 2009 in comparison with the their peers in Kazakhstan (40%), Kyrgyzstan (33%), Tajikistan (32%), and Russia (16%). However some (5-6) MCOs became close to the edge of the regulatory limit of 10% capital to assets ratio, which may put further pressure on their growth rates. Borrowings made up only 10% of the total loan portfolio of the MFIs

18 Regulation of CBU "On order of reallocation on a competitive basis of the attracted grants and loans for microfinance to the credit unions and microcredit organizations", #1763 (reg. MinJustice), 31.01.2008

Figure 9: Funding Structure of MFIs



Source: MIX Market, 2009. Data represent medians.

in Uzbekistan in comparison with more leveraged MFIs of Kazakhstan (33%), Kyrgyzstan (75%) and Tajikistan (64%).

The shortage of resources prevents Uzbek MFIs from expanding outreach and decreasing interest rates and created pressure to seek funding from individuals in lack of other sources.

In order to solve this issue and increase access of small business to microcredit, Uzbekistan government signed an agreement with ADB the in 2010 to launch a credit line to 3 local commercial banks in 2010. This project envisages also the provision of sub-loans by those banks to the MCOs in future.

FINANCIAL PERFORMANCE

⇨ ***Portfolio yield in Uzbekistan was the highest in the region, almost double than that of peers due to high interest rates***

⇨ ***Uzbek MFIs exhibited greater productivity in 2009***

⇨ ***The differential of 30.49 percentage points between the portfolio yield and operating expenses ratio gave almost twice room for the external borrowings than the peers in the region***

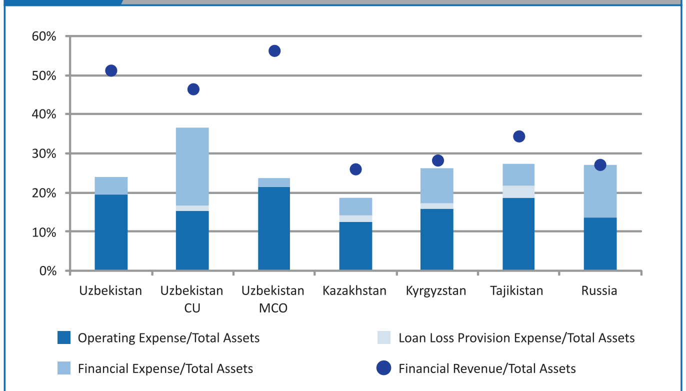
⇨ ***Provisioning practice of MCOs if not regulated may result in unexpected losses***

MFIs in Uzbekistan had the highest revenues in the Central Asia region. The financial revenues to total assets ratio of the MFIs reporting to MIX Market was more than 51% in 2009. High interest rates imposed by MCOs provided for much higher revenues of the

Uzbekistan's MFIs in comparison with their peers in the region since the interest rates represented almost a single source of increasing their loan portfolio. However. average interest rates lowered from 66% in 2007 to 60% per annum in 2009 as the competition grew with the increased number of the credit unions.

Credit unions in Uzbekistan paid very high financial expenses due to interest rates on deposits. The effective rates on deposits in credit unions were historically high and in 2003-2004 reached more than 60%[19] on an effective annual rate and 41.2% nominal. Due to increased competition in the sector, the rates went down gradually to 30% in 2007 and began to rise again to 36% in 2008 and 38% in 2009. Interest rates on credit were also on a downward trend, falling from 76% in 2004 to 52.4% per annum in 2009. The margin on credit and deposit effective interest rates at the beginning of credit unions development exceeded on average 42%, and in 2004 achieved even 59%; it however lowered to the level of 30% in 2008 due to lower operating expenses.

Figure 10: Deconstruction of Return on Assets

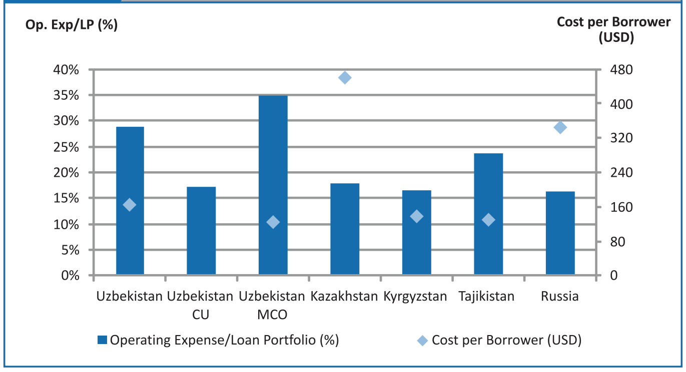


Source: MIX Market, 2009. Data represent medians.

The operating expenses of Uzbek MFIs remained the highest in the region at the level of median 28.7%. Lower efficiency was related to the lower loan balances in the emerging stage of MCOs which incurred high costs on establishment of their activities and coping with changing regulatory requirements, including equipping their cash offices and purchasing software. At the same time, their loan portfolio could not grow fast due to lack of available external and internal funding.

19 D.Tadjibaeva, N.Murodov, "Credit unions: foreign experience and perspectives of their development in Uzbekistan", 2010

Figure 11: Change in Efficiency, Two Perspectives

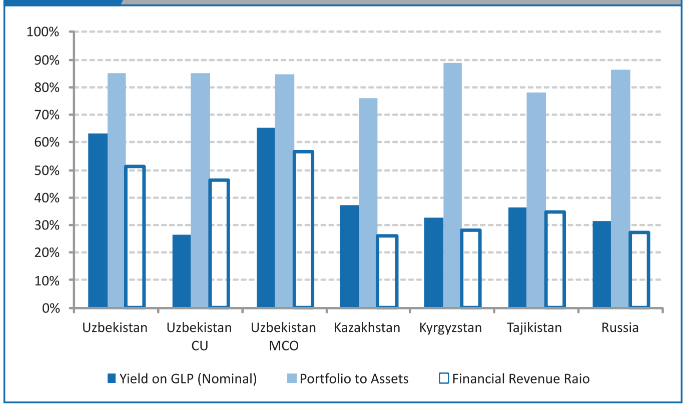


Source: MIX Market, 2009. Data represent medians. Note: Cost per Borrower data for Uzbekistan CU not available.

The other measurement of efficiency – cost per borrower – showed Uzbek MFIs to be as efficient as their peers in Kyrgyzstan and Tajikistan while other peers – in Kazakhstan and Russia – had much higher costs per borrower. The difference was most likely due to higher cost of labor in these countries.

Uzbek MFIs utilized about 85% of their assets for the loan portfolio while the most part of the rest was concentrated in the fixed assets and intangibles (12.4%) due to the regulatory requirements on equipment of cash offices and on maintaining track of loan portfolios and accounting (software). Share of non-earning liquid assets in MCOs made up only 2.2% of total assets.

Figure 12: Asset Productivity and Returns



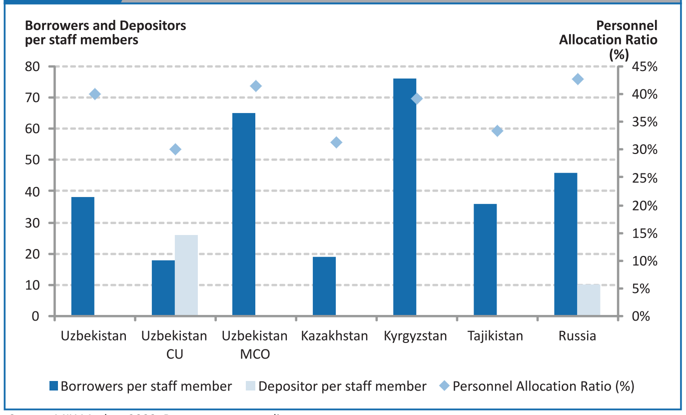
Source: MIX Market, 2009. Data represent medians.

Portfolio yield (a proxy for average interest rate) at median level of 63.4% was the highest in Uzbekistan, almost double that of the regional peers (37.2% in Kazakhstan, 32.66% - in Kyrgizstan, 36.31%

- in Tajikistan and 31.38% - in Russia). This drove upward further the high financial revenue. Still low competition levels and lack of funding availabilities against the background of significant demand led to high yield on GLP in Uzbekistan MCOs .Comparing the differential of 30.49 percentage points between the portfolio yield and operating expenses ratio, MCOs in Uzbekistan have almost twice the room for external borrowings than the peers in Kyrgyzstan, Tajikistan and Russia.

Uzbek MCOs also exhibited greater productivity achieving borrowers per staff member of 65 in comparison with the level of 18 in credit unions, while MCOs reached the productivity levels of the MFIs in the most mature sector of Kyrgyzstan. The allocation of personnel to loan officer activities in Uzbekistan is at the median level of 40%, and is also similar to that of their peers in other countries of the region. Productivity in depositor mobilization was over twice as high for Uzbekistan credit unions than for those from Russia.

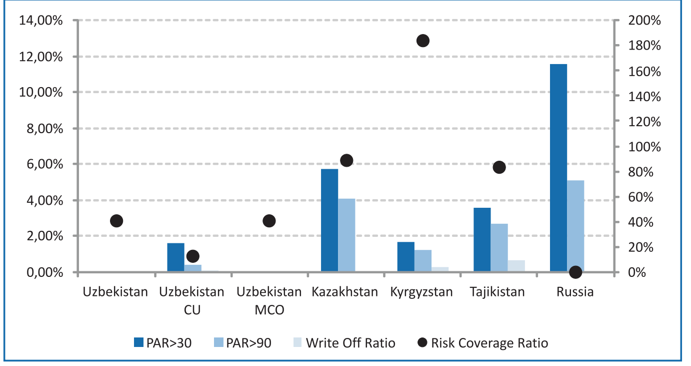
Figure 13: Productivity of Staff



Source: MIX Market, 2009. Data represent medians.

Although PAR levels were on the rise in the region and especially in Kazakhstan and Russia, Uzbekistan showed the lowest indicator of portfolio at risk being relatively spared from the global financial crisis.

Figure 14: Portfolio Quality



Source: MIX Market, 2009. Data represent medians.

The Uzbek MFIs - and especially MCOs - were not provisioning much for loan losses, due to lack of such regulatory requirements from the Central Bank of Uzbekistan and the fact that provisions exceeding the CBU norms were not tax deductible. As a result, the risk coverage ratio was very low signaling that if portfolio at risk was to rise, MFIs would not have adequate provisioning in place to address it.

LOOKING AHEAD

After a spike in the registration of MFIs in 2008, their growth rates slowed down in 2009 and 2010 due to the scarcity of financing sources, and due to regulatory restrictions. Taking in account an absence of dependence of the microfinance sector of Uzbekistan from the international financial markets, in contract to the other markets in the region, was less exposed to the effects of the global financial crisis due to stable macroeconomic indicators and marginal levels of foreign funding received by the sector. However the lack of MFIs' access to external and internal funding, high operating expense ratios, low loan balances, and major regulatory burdens caused the interest rates to be kept at high levels.

This unfavorable trend coupled with the end of the term of "Program of microfinance development in Uzbekistan up to 2010" caused the government to start taking measures on further developing the sector by widening and deepening access to financial services. This includes developing a new mid-term national program and creating more enabling legal and regulatory environments by introducing changes

acts regulating microfinance activities in the country and connecting MFIs to the state credit bureau. At the same time high returns registered in the sector, operational self-sufficiency and high productivity levels were attracting attention of more local and foreign investors.
At the end of 2010 new program of measures on further development of microfinance and non-banking financial sector of the republic for 2011-2015 was adopted by the Resolution of President of Republic of Uzbekistan #1438 (26.11.2010) which defined the following as ones of the primary directions of further reforming and increasing sustainability of the financial-banking sector of the republic:

- Further strengthening of the role and development of the network of non-bank financial institutions, credit unions, leasing, insurance and audit companies, securing their sustainability and efficiency in accordance with international norms and standards, widening of the spectrum of rendered services by them, and strengthening infrastructural institutions of the financial market.

- Stimulating development of the microfinance sector as the most important tool for development of small business and private entrepreneurship, increasing employment and prosperity of the population.

It therefore remains to be seen the results of implementation of these measures aimed at facilitating increased outreach and efficiency, more favorable environment for conducting operations and greater access to both domestic and international funding.

This report is prepared by the specialists of National Association of Microfinance Organizations and Credit Unions of Uzbekistan (NAMOCU) with support from a project of UNDP Uzbekistan "Support to microfinance sector development" and Microfinance Information Exchange (MIX). MIX is the leading business information provider dedicated to strengthening the microfinance sector. The views expressed in this report are those of the authors and do not necessarily represent those of Government of Republic of Uzbekistan or UNDP.

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.

UNDP Uzbekistan project "Support to the microfinance sector development" and National Association of Microfinance Organizations and Credit Unions of Uzbekistan (NAMOCU) aim to increase transparency of the microfinance sector in Uzbekistan and therefore support the MFIs interested in registering with the MIX Market. Sixteen more MFIs provided their information to MIX Market in 2009, and the number of registered Uzbek MFIs on MIX Market now reaches 21.

MIX and UNDP Uzbekistan project "Support to the microfinance sector development" thank all institutions in Uzbekistan for participating in the Industry Benchmarks.

MFI participants
Uzbekistan 2009 (21 MFIs)
Mikrokredit Bank, SABR, ASR, Garant-Invest, Sarbon, Kapital Plus, Ehtirom Plus, Barakat, BV Finans Invest, Kafolatli Sarmoya, Konstanta Kapital, Renesans, Imkon Express Invest, Tadbirkor Invest, Oltin Yulduz Plus, Trust Invest, MCO Zamon, Hilola Invest, Al-Barot, Sherdor, Almaz
Central Asia and Russia 2009 (64 MFIs)
Kazakhstan: Abzal Kredit, ACF, A-Invest, Arnur Credit, Atyrau Valyut, Bereke, FFSA, Kemek, KMF, MCO 'Oral', MCO Sator, Moldir, PF Aktobe, Real-Credit **Kyrgyzstan:** 1st MCC, Agrocredit Plus, Aiyl Bank, Bai Tushum, Bereke-credit, BTA Bank, Chon-Kazyk, CU Tokmok Trust, CU Zakowat, Dirigible, Elet-Capital, FMCC, FNT Credit, Kompanion, Mol Bulak Finance, OXUS – KGS **Tajikistan:** Agroinvestbank, Amlok, ASTI, Bank Eskhata, Borshud, FINCA – TJK, Ehyou kuhiston, FinDom, FMFB – TJK, Furuz, Imkoniyat, Imodi Hutal, IMON, JOVID, Maqsadi dasgiri, MDO Nisor Fom, MLF Chiluchor chashma, MLF Kiropol, MLF Madina, MLF MicroInvest, MLF Nasrin, MLF Vahsh Microfin, MLF ZAR, MLO HUMO, MLO Mehnatobod, MLO 'Saodat Invest', Nov Credit, OXUS – TJK,Sugd Microfin **Uzbekistan:** Mikrokredit Bank, SABR, ASR, Garant-Invest, Sarbon, Kapital Plus, Ehtirom Plus, Barakat, BV Finans Invest, Kafolatli Sarmoya, Konstanta Kapital, Renesans, Imkon Express Invest, Tadbirkor Invest, Oltin Yulduz Plus, Trust Invest, MCO Zamon, Hilola Invest, Al-Barot, Sherdor, Almaz, Mikrokredit Bank, SABR, Umid **Russia:** Alternativa, Alteya, Avantaj, BFSBS, Blago, BRCCC, CEF, Chita FSBS, CMFinance, Doveriye - Volgograd, Doveriye (Amursk), Doveriye-Altay, Edinstvo Yurga, Edinstvo-Volgograd, EKPA, FFECC, FINCA - Russia, FORUS, Galaktika, Gorodskoy, Impuls, Intellekt, KMB, KVK, KVK-Altay, Nadejda, Narodniy Kredit_Kemerov, Neftegaz, Obereg (Vladivostok), Partner Russia, Povoljye, Raduga, Reserv-Altay, Rezerv, Rost, Rus, RWMN, SBS, Sodeystviye, Sodeystviye-2005, Sodruzhestvo, Soglasiye, Soyuz-Khimik, SoyuzKredit, Soyuz-Primoroye, Stanichnik, Tsaritsinskiy passaj, Tsimlyansk, Tverskoy, USFSBS, Vostok Kapital, VRFSBS

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 provisioning for loan impairment and write-offs
Offices	Number, including head office
Personnel	Total number of staff members
FINANCING STRUCTURE	
Capital/ Asset Ratio	Adjusted Total Equity/ Adjusted Total Assets
Debt to Equity	Adjusted Total Liabilities/ Adjusted Total Equity
Deposits to Loans	Deposits/ Adjusted Gross Loan Portfolio
Deposits to Total Assets	Deposits/ Adjusted Total Assets
Portfolio to 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 Depositors	Number of depositors with any type of deposit account
Number of Deposit Accounts	Number of all deposit accounts
Deposits	Total value of all deposit accounts
Average Deposit Balance per Depositor	Deposits/ Number of Depositors
Average Deposit Balance per Depositor / GNI per capita	Average Deposit Balance per Depositor / GNI per capita
Average Deposit Account Balance	Depositors/ Number of Deposit Accounts
Average Deposit Account Balance / GNI per capita	Average Deposit Account Balance / GNI per capita
MACROECONOMIC INDICATORS	
GNI per Capita	Total income generated by a country's residents, irrespective of location / Total number of residents (World Development Indicators)
GDP Growth Rate	Annual growth in the total output of goods and services occurring within the territory of a given country (World Development Indicators)
Deposit Rate	Interest rate offered to resident customers for demand, time, or savings deposits (IMF/International Financial Statistics)
Inflation Rate	Annual change in average consumer prices (IMF/International Financial Statistics)
Financial Depth	Money aggregate including currency, deposits and electronic currency (M3) / GDP, measuring the monetization of the economy (IMF/International Financial Statistics)

OVERALL FINANCIAL PERFORMANCE	
Return on Assets	(Adjusted Net Operating Income - Taxes)/ Adjusted Average Total Assets
Return on Equity	(Adjusted Net Operating Income - Taxes)/ Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/ (Financial Expense + Impairment Losses on Loans + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/ Adjusted (Financial Expense + Impairment Losses on Loans + Operating Expense)
REVENUES	
Financial Revenue/Assets	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/ Assets	Adjusted (Financial Expense + Net Impairment Loss + Operating Expense) / Adjusted Average Total Assets
Financial Expense/Assets	Adjusted Financial Expense / Adjusted Average Total Assets
Provision for Loan Impairment/ Assets	Adjusted Impairment Losses on Loans/ Adjusted Average Total Assets
Operating Expense / Assets	Adjusted Operating Expense/ Adjusted Average Total Assets
Personnel Expense/ Assets	Adjusted Personnel Expense/ Adjusted Average Total Assets
Administrative Expense/ Assets	Adjusted Administrative Expense/ Adjusted Average Total Assets
Adjustment Expense/ Assets	(Unadjusted Net Operating Income - Adjusted 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
Depositors per Staff Member	Number of Depositors/ Number of Personnel
Deposit Accounts per Staff Member	Number of Deposit Accounts/ Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/ Number of Personnel
RISK AND LIQUIDITY	
Portfolio at Risk > 30 Days	Outstanding balance, portfolio overdue> 30 Days + renegotiated portfolio/ Adjusted Gross Loan Portfolio
Portfolio at Risk > 90 Days	Outstanding balance, portfolio overdue> 90 Days + renegotiated portfolio/ Adjusted Gross Loan Portfolio
Write-off Ratio	Adjusted Value of loans written-off/ Adjusted Average Gross Loan Portfolio
Loan Loss Rate	(Adjusted Write-offs - Value of Loans Recovered)/ Adjusted Average Gross Loan Portfolio
Risk Coverage Ratio	Adjusted Impairment Loss Allowance/ PAR > 30 Days
Non-earning Liquid Assets as a % of Total Assets	Adjusted Cash and banks/ Adjusted Total Assets

Uzbekistan Benchmarks

Institutional characteristics	Uzbekistan	Uzbekistan Credit Union	Uzbekistan NBFI (MCO)	Kazakhstan	Kyrgyzstan	Tajikistan	Russia
Number of MFIs	21	4	14	15	12	22	20
As of date	2009	2009	2009	2009	2009	2009	2009
Currency	USD	USD	USD	USD	USD	USD	USD
Total assets	299,445	1,055,352	175,064	2,974,717	11,821,765	1,010,757	1,977,710
Offices	1	1	1	2	12	2	1
Personnel	8	14	6	19	229	31	9
Financing structure	**All**	**Credit Union / Cooperative**	**NBFI (MCO)**	**All**	**All**	**All**	**All**
Number of MFIs	22	4	15	15	12	23	20
As of date	2009	2009	2009	2009	2009	2009	2009
Capital/asset ratio	45.47%	16.52%	51.57%	40.09%	32.87%	32.41%	16.21%
Debt to equity ratio	1.2	5.06	0.94	1.49	2.04	2.09	4.63
Deposits to loans	0.00%	91.48%	0.00%	0.00%	0.00%	0.00%	72.22%
Deposits to total assets	0.00%	77.81%	0.00%	0.00%	0.00%	0.00%	61.29%
Gross loan portfolio to total assets	85.22%	85.10%	84.77%	76.15%	88.91%	77.93%	86.14%
Outreach indicators	**All**	**Credit Union / Cooperative**	**NBFI (MCO)**	**All**	**All**	**All**	**All**
Number of MFIs	21	4	14	15	12	22	20
As of date	2009	2009	2009	2009	2009	2009	2009
Currency	USD	USD	USD	USD	USD	USD	USD
Number of active borrowers	452	227	545	360	8,039	1,373	449
Percent of women borrowers	62.17%	27.53%	75.83%	54.98%	48.20%	38.76%	63.74%
Number of loans outstanding	488	227	576	360	8,052	1,389	487
Gross loan portfolio	179,240	906,232	105,994	1,831,910	9,861,323	874,977	1,503,699
Average loan balance per borrower	599	3,393	358	4,587	750	575	2,104
Average loan balance per borrower / GNI per capita	54.83%	310.33%	32.76%	66.72%	86.00%	81.63%	23.71%
Average outstanding balance	512	3,393	344	4,587	750	574	2,104
Average outstanding balance / GNI per capita	46.85%	310.33%	31.47%	66.72%	86.00%	81.52%	23.71%
Number of depositors	0	345	0	0	0	0	98
Number of deposit accounts	0	445	0	0	0	0	105
Deposits	0	820,859	0	0	0	0	419,845
Average deposit balance per depositor	1,892	2,423			172	3,184	2,793
Average deposit balance per depositor / GNI per capita	173.00%	221.50%			20.00%	452.00%	31.50%
Average deposit account balance	1,511	2,183			36	3,184	2,909

Average deposit account balance / GNI per capita	1	2			0	5	0
Overall financial performance	**All**	**Credit Union / Cooperative**	**NBFI (MCO)**	**All**	**All**	**All**	**All**
Number of MFIs	22	4	15	15	12	23	20
As of date	2009	2009	2009	2009	2009	2009	2009
Currency	USD	USD	USD	USD	USD	USD	USD
Return on assets	11.03%	4.55%	28.71%	1.56%	2.99%	1.83%	0.68%
Return on equity	46.63%	26.31%	52.26%	2.38%	18.96%	2.88%	5.00%
Operational self sufficiency	166.21%	122.76%	195.61%	107.20%	113.00%	108.88%	105.37%
Revenues	**All**	**Credit Union / Cooperative**	**NBFI (MCO)**	**All**	**All**	**All**	**All**
Number of MFIs	22	4	15	15	12	23	20
As of date	2009	2009	2009	2009	2009	2009	2009
Currency	USD	USD	USD	USD	USD	USD	USD
Financial revenue/ assets	51.21%	46.46%	56.41%	26.17%	28.26%	34.58%	27.11%
Profit margin	39.31%	18.44%	48.88%	6.71%	11.49%	8.15%	4.95%
Yield on gross portfolio (nominal)	63.40%	26.30%	65.30%	37.22%	32.66%	36.31%	31.38%
Yield on gross portfolio (real)	45.19%	12.23%	46.88%	27.88%	24.15%	26.20%	17.66%
Expenses	**All**	**Credit Union / Cooperative**	**NBFI (MCO)**	**All**	**All**	**All**	**All**
Number of MFIs	22	4	15	15	12	23	20
As of date	2009	2009	2009	2009	2009	2009	2009
Currency	USD	USD	USD	USD	USD	USD	USD
Total expense/ assets	32.55%	39.48%	30.59%	21.91%	25.75%	29.25%	30.73%
Financial expense/ assets	4.27%	19.80%	1.97%	4.38%	8.95%	5.60%	13.29%
Provision for loan impairment/ assets	0.06%	1.47%	0.06%	1.90%	1.31%	3.08%	0.00%
Operating expense/ assets	19.52%	15.33%	21.54%	12.39%	15.85%	18.71%	13.66%
Personnel expense/ assets	13.22%	7.66%	14.94%	5.26%	8.53%	10.39%	6.73%
Administrative expense/ assets	5.74%	4.38%	6.67%	5.87%	7.22%	8.30%	5.68%
Efficiency	**All**	**Credit Union / Cooperative**	**NBFI (MCO)**	**All**	**All**	**All**	**All**
Number of MFIs	22	4	15	15	12	23	20
As of date	2009	2009	2009	2009	2009	2009	2009
Currency	USD	USD	USD	USD	USD	USD	USD
Operating expense/ loan portfolio	28.74%	17.15%	34.81%	17.84%	16.61%	23.58%	16.32%
Personnel expense/ loan portfolio	17.12%	8.45%	21.96%	8.19%	8.34%	12.35%	7.27%
Average salary/ GNI per capita	2.86	n/a	3.42	1.08	6.29	5.46	1.22
Cost per borrower	164	n/a	125	459	138	130	345
Cost per loan	158	n/a	125	318	139	128	293
Productivity	**All**	**Credit Union / Cooperative**	**NBFI (MCO)**	**All**	**All**	**All**	**All**
Number of MFIs	22	4	15	15	12	23	20
As of date	2009	2009	2009	2009	2009	2009	2009
Borrowers per staff member	38	18	65	19	76	36	46

Loans per staff member	38	18	65	23	76	37	51
Borrowers per loan officer	78	60	144	70	179	106	119
Loans per loan officer	78	60	144	72	179	111	120
Depositors per staff member	0	26	0	0	0	0	10
Deposit accounts per staff member	0	31	0	0	0	0	13
Personnel allocation ratio	40.00%	30.15%	41.43%	31.25%	39.19%	33.33%	42.63%
Risk and liquidity	**All**	**Credit Union / Cooperative**	**NBFI (MCO)**	**All**	**All**	**All**	**All**
Number of MFIs	22	4	15	15	12	23	20
As of date	2009	2009	2009	2009	2009	2009	2009
Currency	USD	USD	USD	USD	USD	USD	USD
Portfolio at risk > 30 days	0.00%	1.58%	0.00%	5.76%	1.66%	3.58%	11.56%
Portfolio at risk > 90 days	0.00%	0.41%	0.00%	4.09%	1.24%	2.70%	5.09%
Write-off ratio	0.00%	0.06%	0.00%	0.00%	0.25%	0.64%	0.00%
Loan loss rate	0.00%	0.06%	0.00%	0.00%	0.25%	0.63%	0.00%
Risk coverage	40.32%	12.00%	40.32%	88.27%	183.89%	82.79%	0.00%
Non-earning liquid assets as a % of total assets	1.03%	0.46%	2.22%	8.74%	10.22%	16.53%	6.53%

For notes