



MICROFINANCE CENTRE

for Central and Eastern Europe and the New Independent States

CHANGING FACE OF MICROFINANCE: FROM GROUP LENDING TO MOBILE BANKING: REVIEW OF GLOBAL PRACTICE

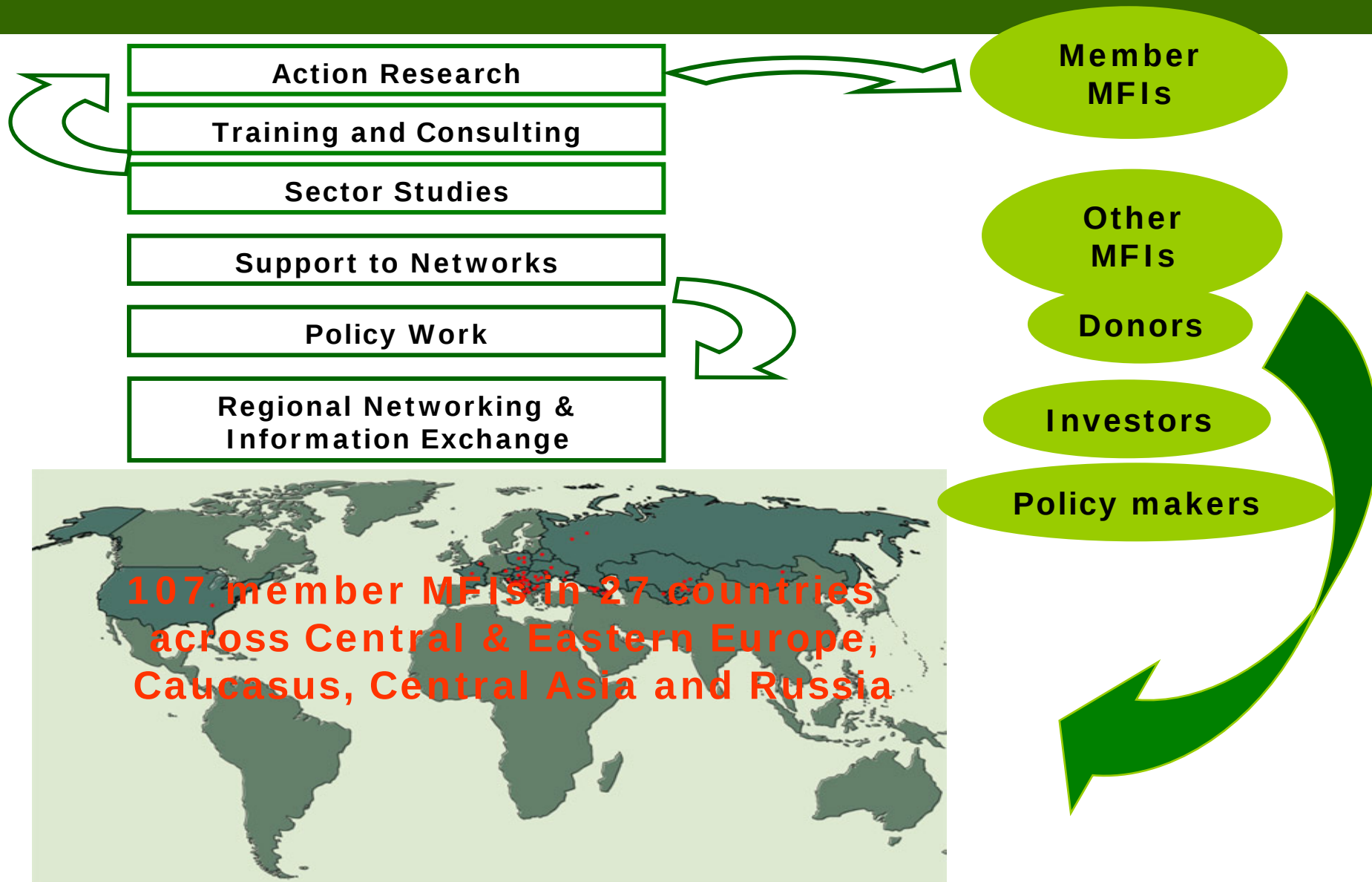
Microfinance Conference

Zagreb

HBOR

March 4, 2010

14 Years of Support to the Sector



What is Microfinance?

Microfinance means offering people on low incomes and micro-entrepreneurs basic financial services, such as credit, savings and insurance.

Services are provided by specialised institutions:

Banks (cooperative, commercial, savings banks)

Non-banks (fin coops, non-profit companies, NGOs etc)

Who are microfinance clients?

- ☐ *clients are self-employed without a salary slip or documented income*
- ☐ *usually no bank account so account debit not possible for repayment*
- ☐ *much smaller amounts of money than a SME loan*
- ☐ *collateral is the least important component and is assessed last if at all*
- ☐ *mostly cash flow businesses, informal or semi formal, little information in terms of accounting records*
- ☐ *household and business usually interconnected*

Lending technology has yet to overcome these constraints

Microfinance Trajectory

Micro-
enterprise
Finance

Microcredit

Microfinance

Broad Access
to Finance and
Integration
into Financial
System



1970's

1980's

1990's

2000's

Small loans through
Group lending, village
banking

Various financial
services through
mobile banking, ATMs,
branchless outlets

Microfinance institutions in ECA serve over 6 milion clients

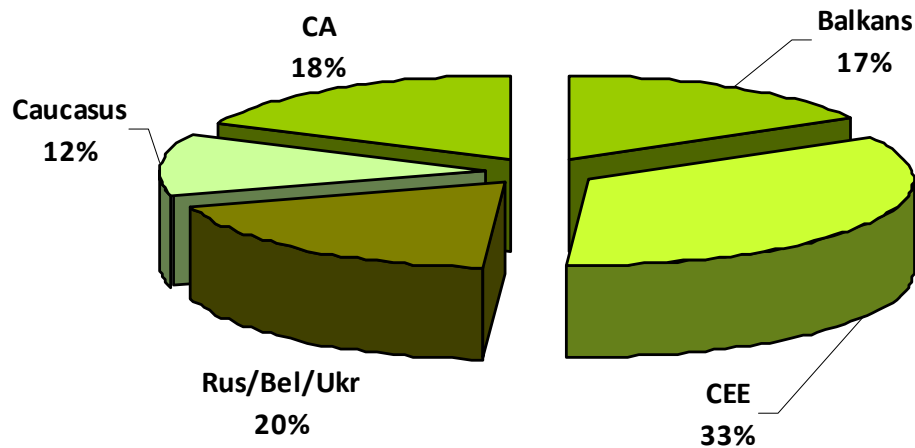
- ❑ **7,311** microfinance institutions
- ❑ **USD 18.5 billion** outstanding loans – **33 %** growth
- ❑ **6 million** active borrowers – **16 %** growth
- ❑ **2.2 %** penetration rate of economically active population aged 16-65

1 / 3 of the ECA loan portfolio managed by credit unions

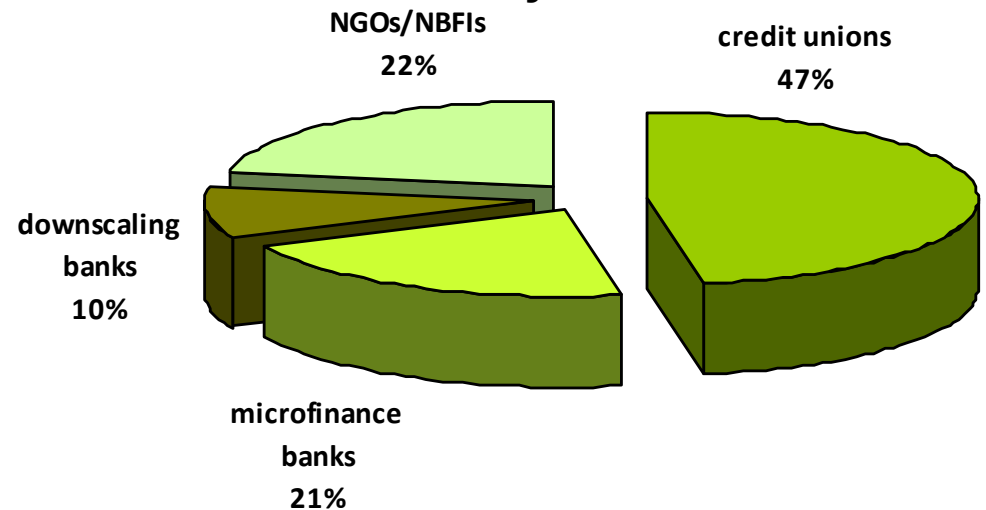
	USD billion
Credit unions	6.1
Downscaling banks	5.1
Microfinance banks	4.9
NGOs/NBFIs	2.3
ECA total	18.5

Almost ¼ active clients are served by NBFIs

Clients by sub-regions



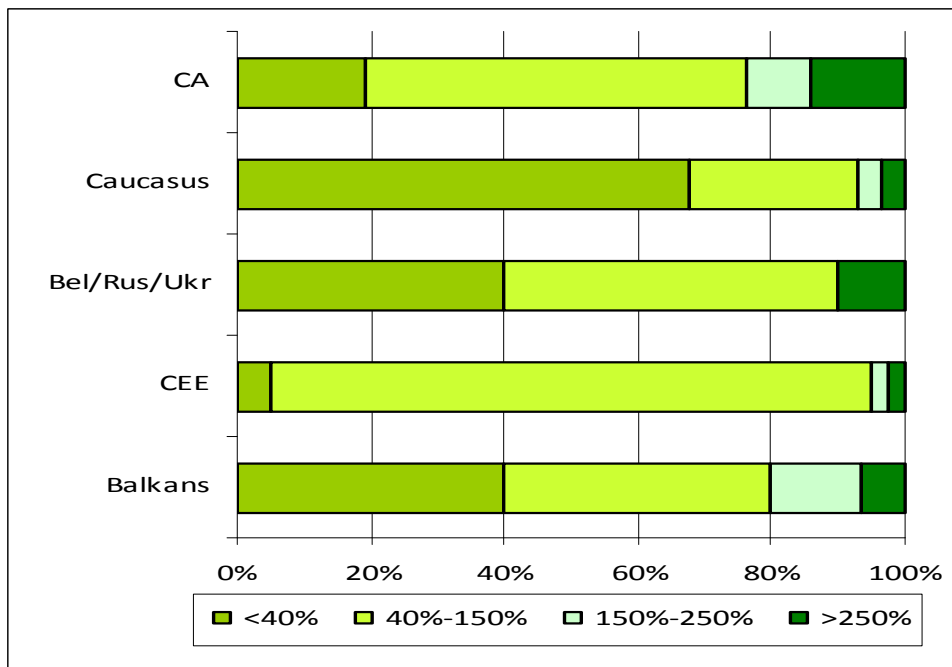
Clients by institutions



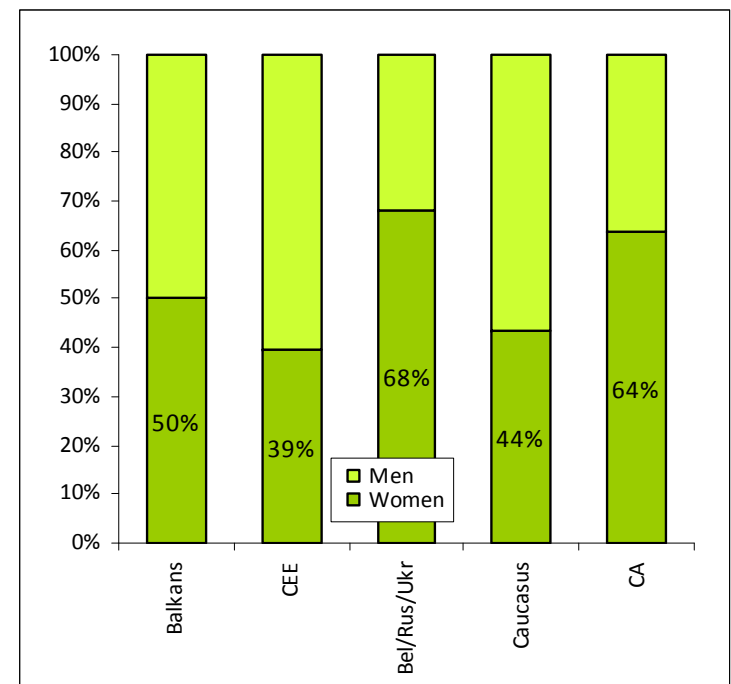
Depth of outreach of NGOs/NBFIs increased in 2008

- Median depth of outreach 66% of GNI per capita
- 53% women clients
- 60% rural clients

Depth of outreach



Women clients



Leading NBFIs remain profitable

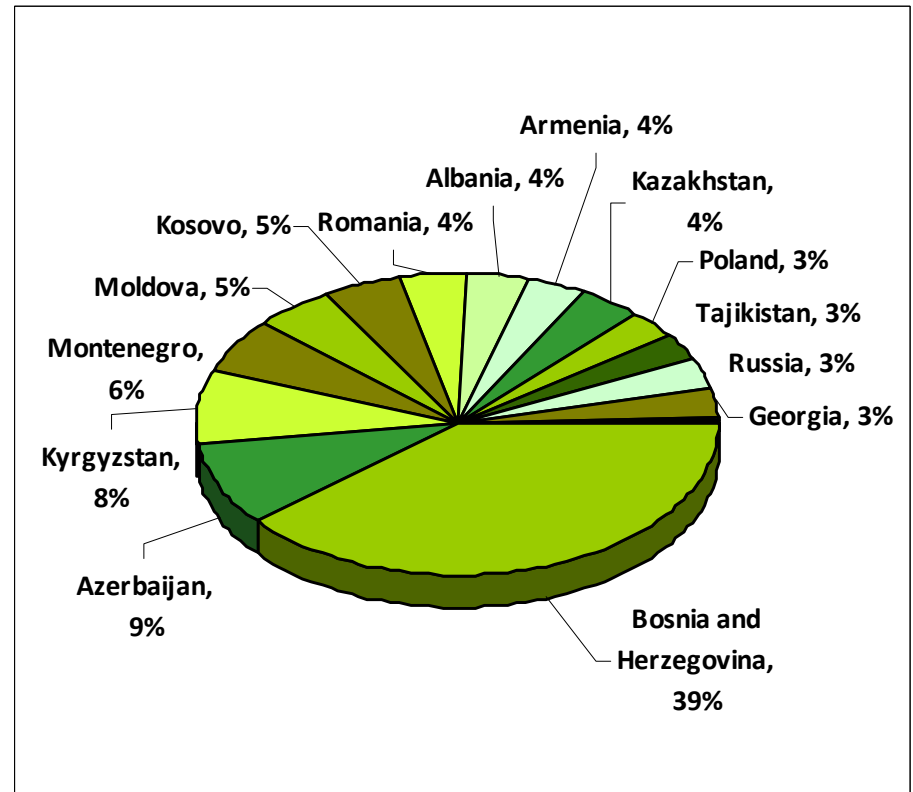
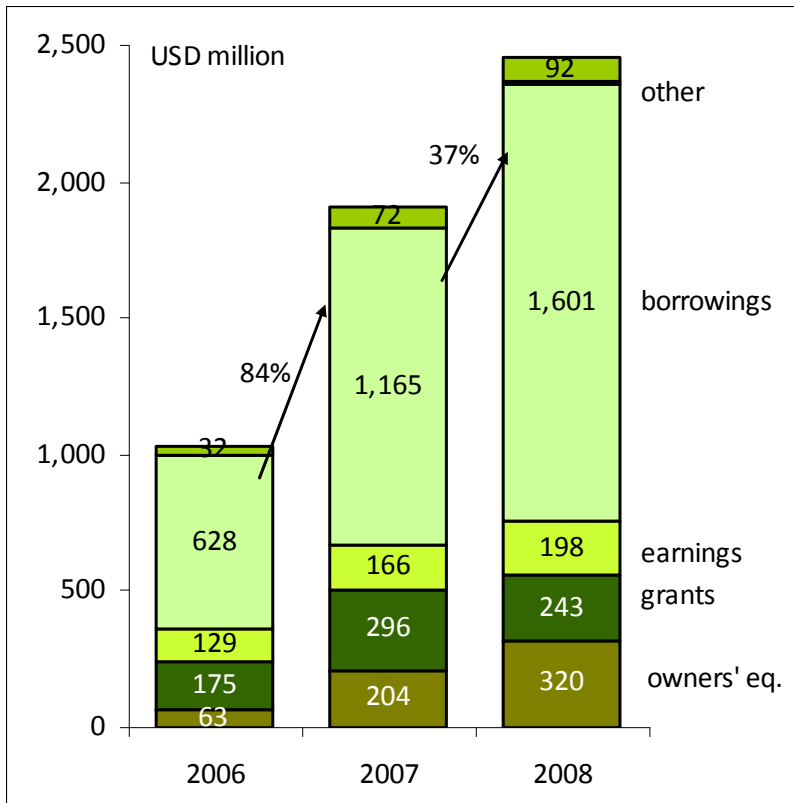
Financial indicators only slightly deteriorated

	2007	2008
ROA	3.3%	2.7%
Revenue ratio	29%	30%
Portfolio yield	32%	33%
Financial expense ratio	5.2%	6.4%
Operating expense ratio	17.2%	17.8%
Operating efficiency	21%	22%

Access to funding by NGOs/NBFIs

Funding from international and local investors increased by 37% in 2008

Largest concentration in Bosnia and Herzegovina



The largest non-bank MFIs in the ECA region (2008)

		Active borrowers
FINCA Kyrg	Kyrgyzstan	90,686
FINCA Aze	Azerbaijan	83,817
Komapnion	Bosnia and Herzegovina	70,824
Partner	Bosnia and Herzegovina	63,593
Prizma	Bosnia and Herzegovina	59,095
Mikrofin	Bosnia and Herzegovina	55,681
EKI	Bosnia and Herzegovina	53,685
LOK	Bosnia and Herzegovina	44,385
AgroInvest	Bosnia and Herzegovina	39,275
Microfinancial Center	Russia	33,798
MI-BOSPO	Bosnia and Herzegovina	30,920

The largest non-bank MFIs in the ECA region (2008)

		Gross loan portfolio USD
EKI	Bosnia and Herzegovina	146,881,375
Partner	Bosnia and Herzegovina	130,587,016
Mikrofin	Bosnia and Herzegovina	116,509,615
LOK	Bosnia and Herzegovina	96,519,284
AgroInvest	Serbia, Montenegro	91,861,787
Sunrise	Bosnia and Herzegovina	67,709,247
FINCA Aze	Azerbaijan	66,731,467
KEP	Kosovo	56,432,102
MI-BOSPO	Bosnia and Herzegovina	53,310,665
Prizma	Bosnia and Herzegovina	52,648,651
CAPA Finance	Romania	52,361,138

Polish Credit Union System (SKOK)

	2006	2007	2008	2009
number of CUs	70	68	62	61
number of outlets	1,589	1,663	1,757	1,801
number of members (thousand)	1,551	1,669	1,856	2,026
	11%	21%	28%	26%
Deposits (th. PLN)	5,552,966	6,705,001	8,604,073	10,842,438
	11%	21%	28%	26%
Loans (th. PLN)	4,047,299	5,147,320	6,932,627	8,411,262
	16%	27%	35%	21%

Polish Credit Union System (SKOK)

Products:

- **Current account – personal or business, money transfers**
- **Deposit – term deposit, special purpose deposit account**
- **Credit – long-term, short-term**
- **Card – debit card**
- **Insurance – life, accident, personal and business property, document (ID) loss, job loss (for borrowers)**
- **Investment account - pension plan, investment fund**

Each country's model is different

- Stage of financial sector development

**Mf
banks**

**Fin
coops**

- Existence of infrastructure

**Fin
NGOs**

**Downscaling
banks**

- Population density

- Levels of poverty

**Cooperative
banks**

**Postal
banks**

- Competition

**Savings
banks**

**State
banks**

Most Countries Allow a Variety of Institutions

ALBANIA:

- *Banks*
- *Non-banking financial institutions*
- *Rural credit and savings cooperatives*
- *Credit Unions*
- *NGOs, initial leaders in microfinance, have been discouraged to be involved in lending*

POLAND:

- *Banks (including a microfinance bank)*
- *Cooperative banks*
- *Credit unions*
- *Non-banking financial institutions (companies and foundations)*

Microfinance Policy Regimes in CEE/NIS

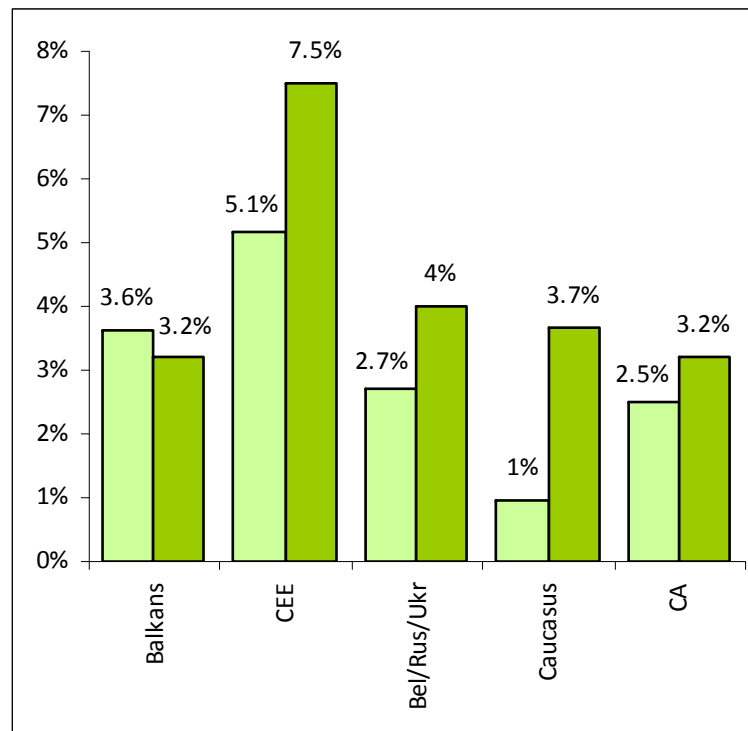
		Policy Environment	
		Enabling	Constraining
Government Support	Strong	“Proactive” Mongolia	“Irrational” Kazakhstan Uzbekistan
	Weak	“Rational” Albania, Armenia, Azerbaijan (NGOs/NBFIs, consumer protection), Bosnia and Herzegovina, Bulgaria (NGOs/NBFIs), Estonia, Georgia, Kosovo, Kyrgyzstan, Latvia, Lithuania, Montenegro, Moldova, Poland, Russia, Tajikistan, Ukraine (credit unions)	“Repressive” Azerbaijan (credit unions), Bulgaria (credit unions), Croatia Hungary (NGOs/NBFIs), Romania (credit unions), Serbia, Ukraine (NGOs/NBFIs) Macedonia

Microfinance in EE is gradually integrating with the financial sector

- **MFIs transform from non-profit to for-profit forms**
- **Unregulated MFIs report to national credit bureaus**
- **MFIs get rated by international rating agencies**
- **MFIs get audited and comply with IFRS**
- **MFIs access loans from commercial banks (global and local), they also access equity from investors**

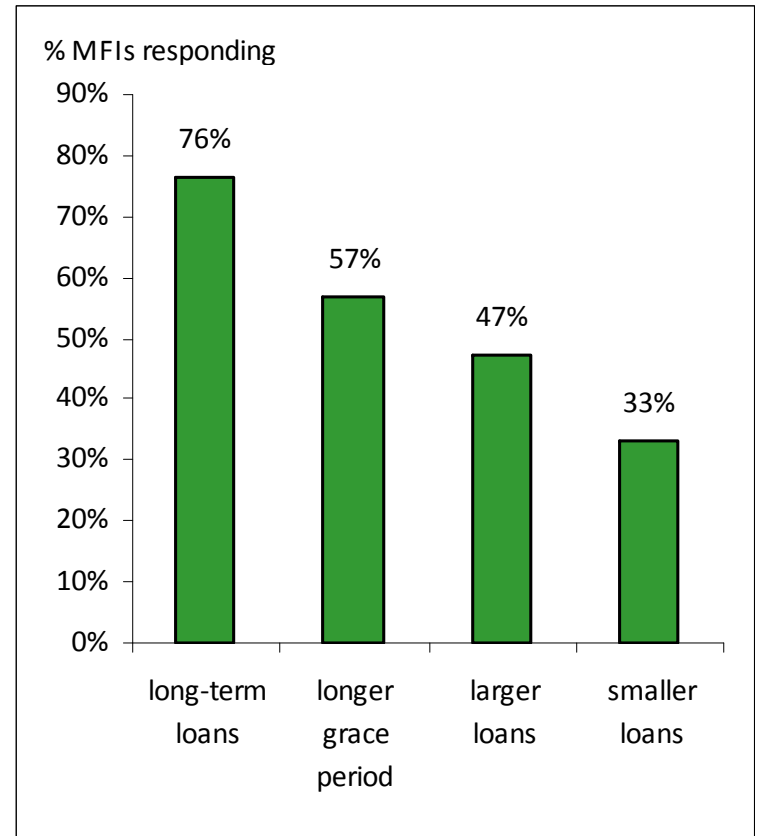
Portfolios quality has deteriorated but remains under control

Average PAR > 30 for NGOs/NBFIs: 3.8 %



Survey of MFIs – demand for credit among borrowers

- 48% of MFIs observed increased demand
- preferred long-term loans and with longer grace period
- new types of clients – former bank clients
- returning work migrants who start businesses at home



Credit unions in the Czech Republic are growing well despite crisis

	31 Dec 2007	31 Dec 2008	31 Mar 2009	30 Jun 2009	30 Sep 2009
Number of credit unions	19	17	17	17	17
Credit union members	44,789	35,942	40,381	40,982	44,036
Membership growth in the period	8,152	-665	4,437	5,041	8,102
Number of employees	247	289	296	319	330
Total own funds (thousand CZK)	1,321,069	1,364,784	1,414,577	1,532,634	1,533,247
Capital adequacy (%)	24.56	17.39	17.00	16.85	15.30
Total Clients Deposits (thousand CZK)	7,032,377	10,290,917	11,818,068	13,290,509	14,918,821
Total profit (thousand CZK)	82,702	50,635	20,963	4,942	12,639



Microfinance in Eastern Europe is going strong but there are more gaps...

- Current knowledge about the degree of access is limited, often based on estimates rather than empirical research
- Poverty levels still pretty high: significant groups of low-income people remain unserved
- Product gaps: most of the non-bank MFIs are credit only
- Financial literacy is a significant issue in the majority of EE countries
- Increasing competition with consumer finance
- Limited customer protection
- Few institutions balance well the social and financial act