

# MICROFINANCE SECTOR IN ECA IN 2009

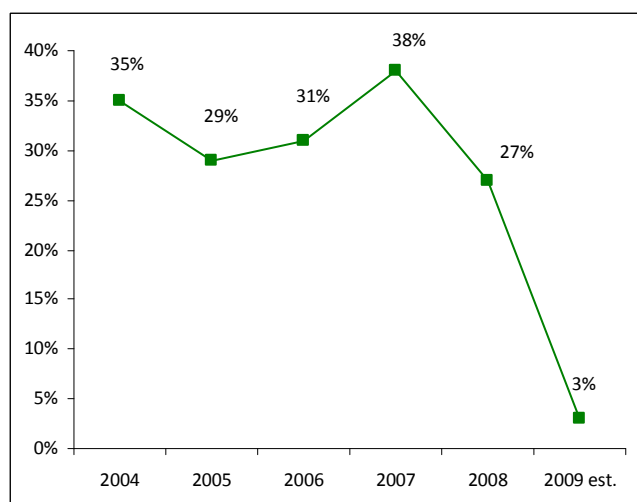
## Preliminary Results

2009 was the second year of the global financial crisis during which the true effect on microfinance started to be seen. This report highlights the development of microfinance in the Europe and Central Asia (ECA) region and offers an outlook for the near future.

### NGOs/NBFIs<sup>1</sup>

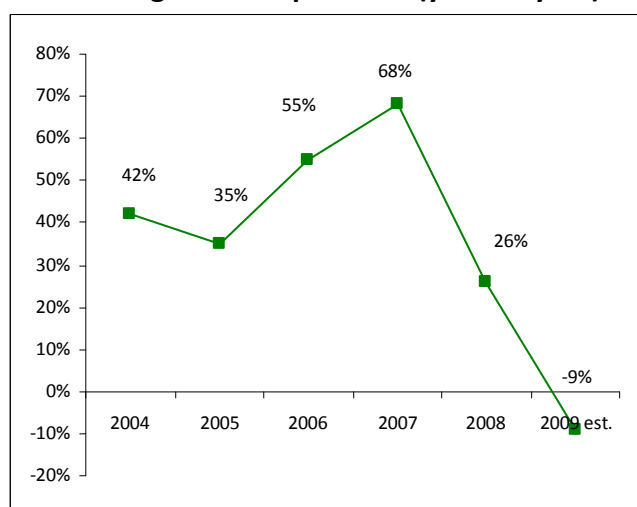
The year 2009 was characterized by smallest growth of the client base in years and an absolute decline of the value of gross loan portfolio. For the first time in the 15-year history of microfinance sector in ECA the majority of NGOs/NBFIs suffered from significant deterioration portfolio quality.

#### Growth of active borrowers (year-to-year)



- The total number of active borrowers of NGOs/NBFIs grew only by 3%.
- More than half of the NGOs/NBFIs were affected by the decline in the number of active clients.
- Countries such as Bosnia and Herzegovina, Bulgaria, Romania, Russia, Ukraine saw the biggest drop in client numbers.

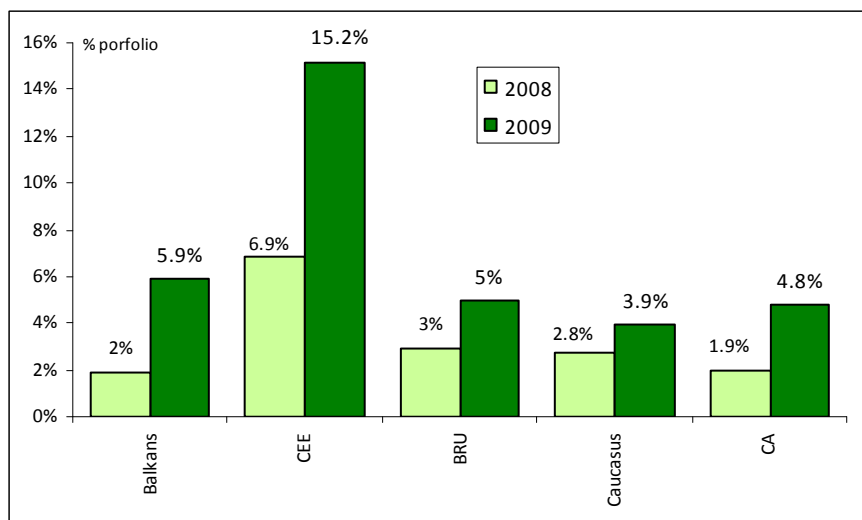
#### Growth of gross loan portfolio (year-to-year)



- The cumulative USD value of the loan portfolio of NGOs/NBFIs was diminished by 9%.
- Half of the institutions were affected by the decrease of the USD value of the loan portfolio.
- Large MFIs more often succeeded in growing their portfolios.
- The largest losses were seen in Russia, Ukraine, Bulgaria and Armenia.

<sup>1</sup> Based on data from 187 NGOs/NBFIs

## Portfolio at Risk over 30 days



\*PAR>30 weighted by gross loan portfolio

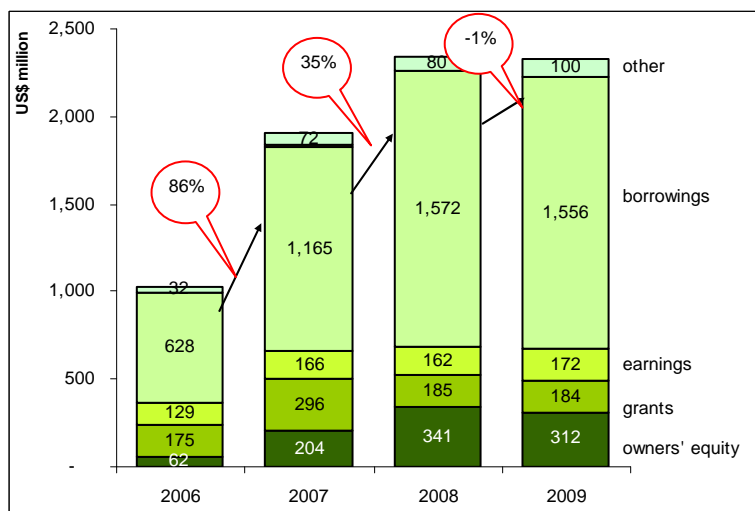
- The cumulative portfolio at risk over 30 days went up to 6.2% from 2.8% at the end of 2008, which is 220% increase.
- For 82% the quality of the loan portfolio deteriorated.
- Central and Eastern Europe was in the worst situation.
- Institutions with high PAR more often observed decreases in the number of clients and the value of loan portfolio.

## Evolution of funding sources

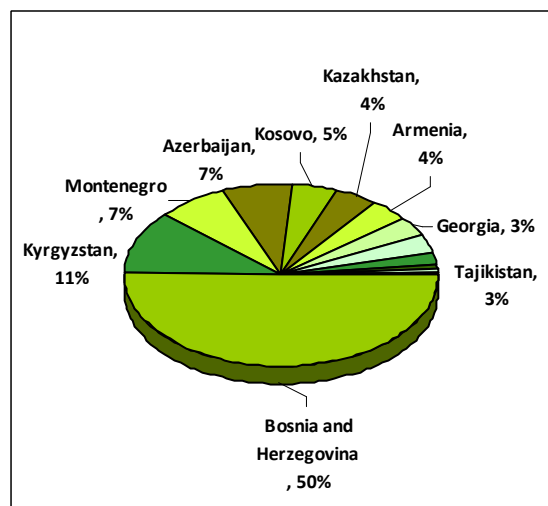
Small changes in the funding structure reflect lack of growth of lending activities. Total borrowings decreased by 1%. Central Asian NGOs/NBFIs were the most dynamic in attracting funds (2.9% growth of the value of borrowed funds), while in Central and Eastern Europe as well as in Russia and Ukraine the amount of borrowed funds decreased the most (-38% and -11% annual growth, respectively).

Borrowings remain geographically concentrated in 4 destination countries – Bosnia and Herzegovina, Kyrgyzstan, Montenegro and Azerbaijan.

## Funding structure of NGOs/NBFIs



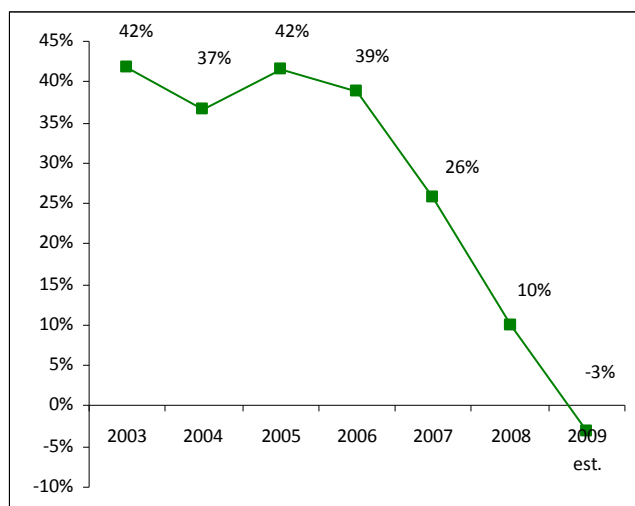
## Distribution of borrowed funds of NGOs/NBFIs



## Microfinance banks<sup>2</sup>

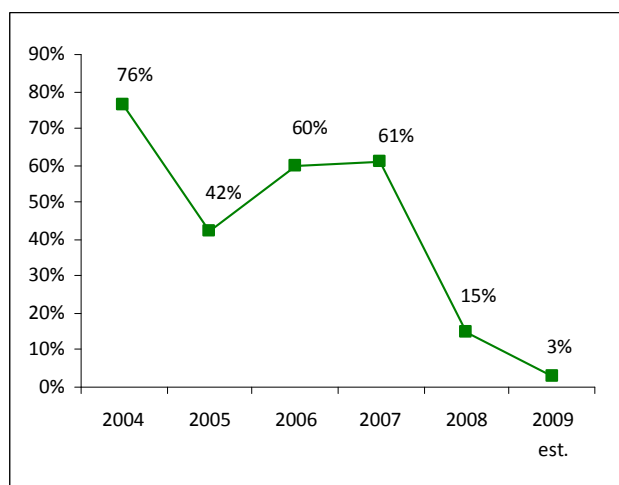
The growth of microfinance banks' operations significantly slowed down for the second year in a row.

### Growth of active borrowers (year-to-year)



- The number of active borrowers diminished by 3% compared to 2008.
- 60% of microfinance banks served fewer clients, some decreased the client base by as much as 40%.
- CEE, Russia, Ukraine were most affected by the declines.
- Microfinance banks in the Caucasus showed the highest growth.

### Growth of gross loan portfolio (year-to-year)



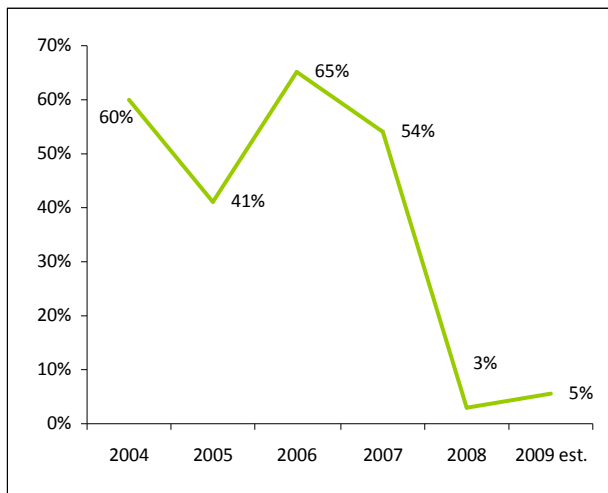
- The USD value of the total gross loan portfolio grew modestly by about 3%.
- Younger banks were more successful in increasing the volume of portfolio as well as the client base.

<sup>2</sup> Based on data from 19 microfinance banks

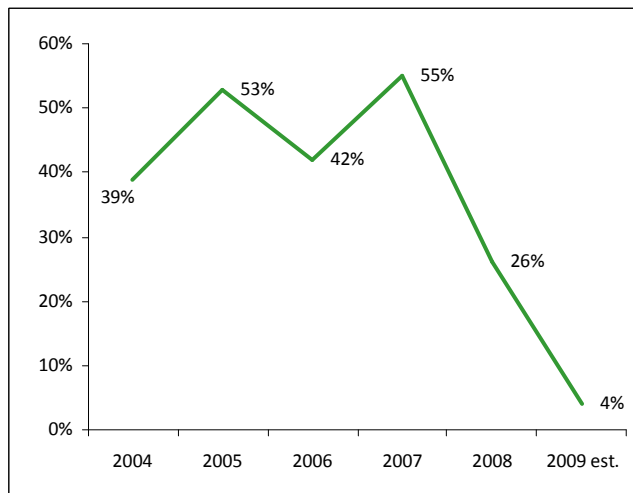
## Deposits

The total value of deposits attracted by microfinance banks grew slightly more than in the previous year. Also, the total number of depositors increased, but the growth rate was much lower than in 2008.

**Growth of the value of deposits**



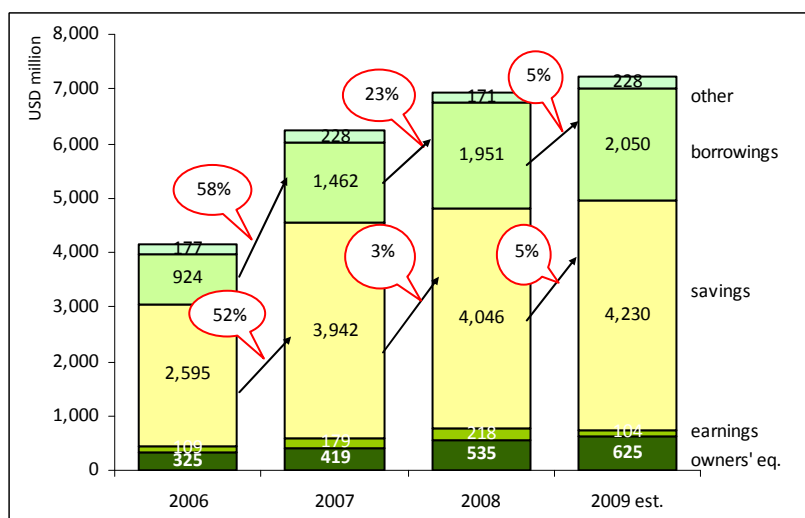
**Growth of the number of depositors**



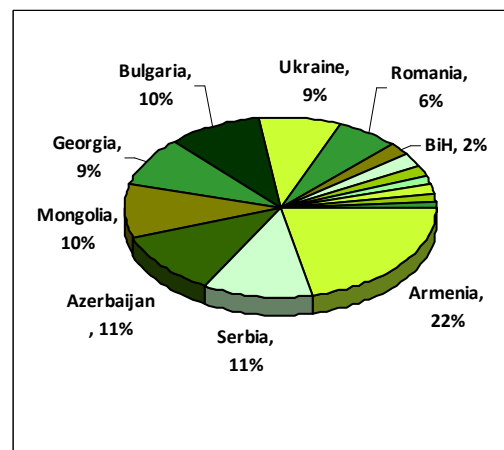
## Evolution of funding sources

Microfinance banks managed to increase deposits and debt from financial institutions by 5%. The largest volumes of borrowings were received by institutions in Armenia, Serbia and Azerbaijan.

**Funding structure of microfinance banks**



**Distribution of borrowed funds of microfinance banks**



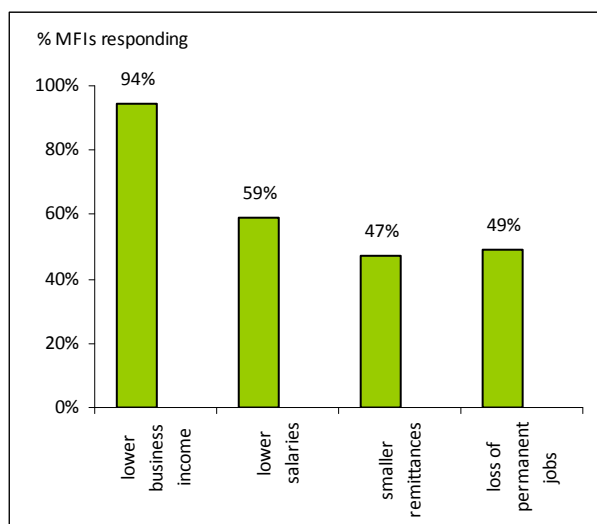
## Results of the MFI survey on the impact of financial crisis<sup>3</sup>

### Impact on microfinance clients

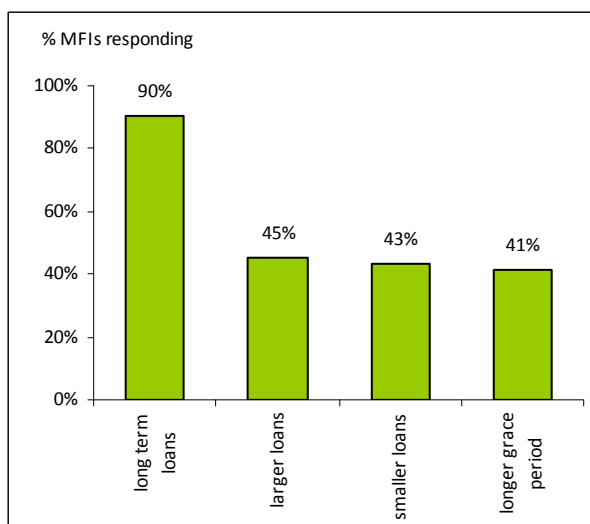
Microfinance institutions observed the deterioration of clients' financial situation due to lower incomes from business, salaries and remittances.

The demand for credit changed mainly in favor of longer loan maturities.

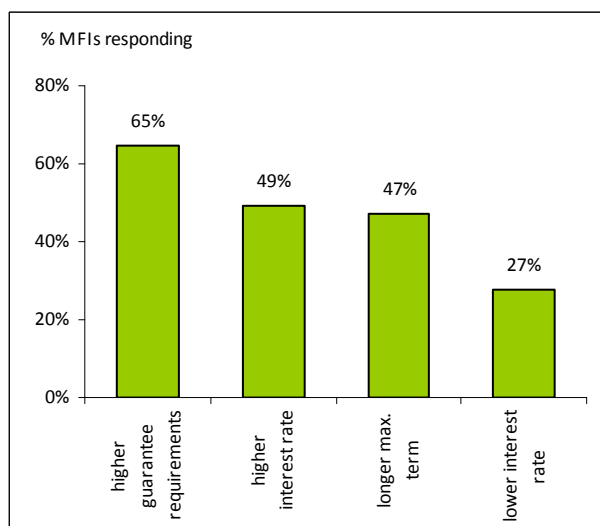
**Impact of crisis on client livelihood**



**Changes in the demand for credit**



**Changes in loan conditions**



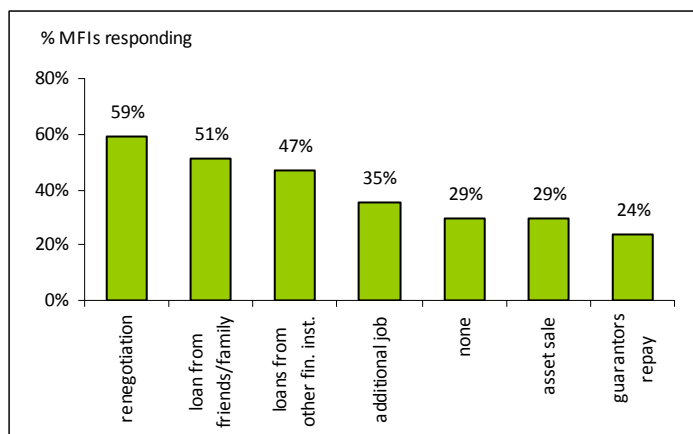
- 84% of MFIs reviewed terms of their loan products.
- Security requirements for loans were increased by many institutions (65%).
- 53% of MFIs increased interest rates while another 27% managed to lower them.

<sup>3</sup> 51 MFIs were surveyed between February and May 2010 (42 NGOs/NBFIs, 4 microfinance banks, 5 credit unions)

## Indebtedness of microfinance clients

One-third of MFIs believe that over a quarter of their clients are overindebted and two-thirds of the institutions think that more and more of their clients become overindebted.

Client behavior in case of repayment problems



- Half of the MFIs think that their clients take multiple loans from several financial institutions. Most often the reason for that is the need to repay outstanding debt with another financial institution.
- In case of repayment problems, borrowers usually try to renegotiate the loan term or take up more debt by borrowing from family/friends or a financial institution.

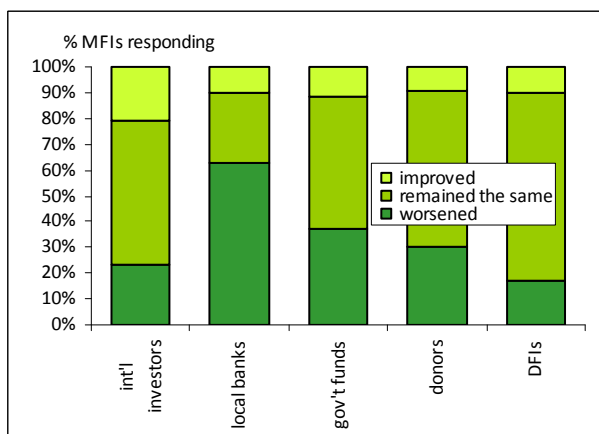
## Credit bureau

- Almost 63% of MFIs check records of their clients in the credit bureau before disbursing a new loan but only 50% of MFIs report information about their clients to credit bureaus in the countries where such bureaus exist.
- A third of MFIs also checks records of family members of a prospective borrower.
- 60% of MFIs consider the information available from the credit bureau as satisfactorily complete, timely and reliable.

## Access to MFI funding

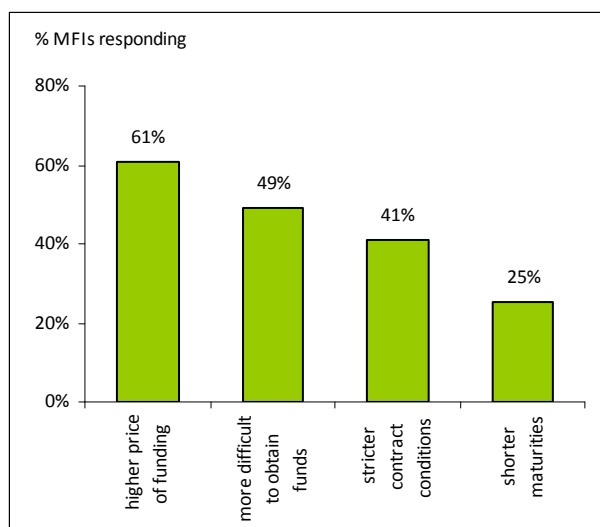
Despite the crisis 36% of MFIs managed to increase the amount of attracted funding. However, 26% borrowed less than in 2008.

Change in the availability of funding from different sources



- 50% of MFIs saw the overall decrease in availability of funds.
- Lower availability of funding from local commercial banks was observed by 59% of MFIs.
- Local currency funding was most difficult to obtain.

### Change in the contract conditions of funding



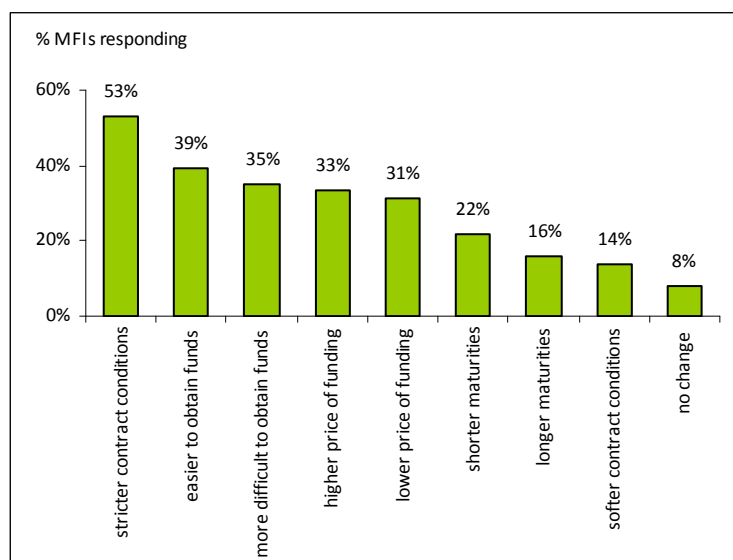
- Increase in price of new funding was the most noticeable change for 61% of MFIs.
- 41% of MFIs saw stricter contract terms and conditions.
- 43% of MFIs experienced problems with meeting the covenants stipulated in loan agreements with investors.
- Almost all MFIs which sought waivers managed to renegotiate the covenants.
- The majority of MFIs use funds denominated in foreign currencies.
- Exchange rate losses were experienced by 58% of MFIs.

### Outlook for 2010

The majority of MFIs believe that in 2010 they will be able to reduce delinquency, increase the number of clients served and grow the volume of their portfolios.

The most important factors influencing business decisions will be the demand for credit, capacity of the personnel and the economic situation in the country.

### Expected changes in contract conditions of borrowings



- 72% of MFIs plan increase the amount of funding in 2010.
- Over half of the MFIs realize that borrowing conditions will become stricter.
- Further exchange rate losses are expected by 42% of MFIs.